



Moscow, 31 May 2024

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 seventeenth time. This survey is a highly valuable source of first-hand information that provides the overview of the current environment and challenges, as well as business expectations in the short-, medium- and long-run. In addition, the sequential nature of the survey makes it possible to analyse and compare year-on-year data.

The current wave of the survey was conducted in April-May 2024. 94 AEB member-companies participated in the survey this year.

Company profiles

The survey involved companies from different countries: Russia (28%), Germany (22%), France (10%), Italy (5%), Switzerland (4%), USA (3%), Netherlands (3%), Sweden (3%), Belgium (3%), Japan (3%), Austria (2%), Hungary (2%), United Kingdom (1%), Finland (1%) and others. It is worth noting that many Russian AEB member-companies have a share of European capital, are founded by European citizens and/or have European roots.

23% of member-companies stated that their main operations are professional services, 16% – chemicals / pharmaceuticals, 10% – FMCG and retail, 5% – financial services, 3% each – automotive, engineering / construction, energy / natural resources, transport / logistics, 2% each – media / entertainment, hospitality industry, 1% – IT & telecommunications and others.

49% of companies indicated that their company employs up to 100 people in Russia. Companies with more than 5,000 employees also took part in the survey, accounting for 3% of all survey participants.

Market entry

The main reasons for entering the Russian market continue to be large size of the market, positive market dynamics and large market potential (respectively 88%, 88% и 86% of the companies noted these reasons as the most important). These factors keep their relevance as the reasons for presence on the Russian market today along with skilled personnel.

Prospects for companies and business environment

In 2023 Russian economy started to recover gradually after the crisis in 2022. Most of the macroeconomic indexes have increased. Almost a half of companies (49%) responded that their turnover increased in 2023 compared to 2022 (43%).

Expectations for Russian economy development in the short-term have improved significantly – 64% of companies answered that they expected the growth of Russian economy over the next 1-2 years (vs 37% in 2023). Mid-term (3-5 years) and long-term (6-10 years) outlook estimates show diverse dynamics: mid-term forecast have improved slightly (60% of companies expect economy growth vs 55% in 2023), long-term forecast have worsened slightly (66% of companies expect economy growth vs 71% in 2023).

Business has been mainly adapted to the current situation, which allows companies to make realistic business development forecasts – more than a half (55%) of survey members stated that their business results in the first 3 months of 2024 were as expected (52% in 2023), 25% – better (28% in 2023) and only 17% – worse (the index remained at the same level as last year). Companies' forecasts for their turnover growth over the next 3 years have improved slightly – 53% of companies expect growth vs 48% in 2023, profit growth forecasts are on the previous year level – 42% of companies expect the growth. Business adaptation to the current situation is also indicated by the significant growth in the share of companies which are planning to increase investments in 2024 – 32% vs 17% in 2023.

The most significant barriers to business in Russia are restrictions due to U.S., EU and other sanctions towards Russia, difficulties with making payments and settlements and refusal of foreign partner companies to do business in Russia.

The top list of negative factors in 2024 includes:

- 80% restrictions due to U.S., EU and other sanctions towards Russia
- 50% difficulties with making payments and settlements
- 44% refusal of foreign partner companies to do business in Russia
- 43% lack of workers and/or qualified personnel
- 40% difficulties with using foreign software
- 39% restrictions due to Russia's countermeasures
- 36% the economic crisis and uncertainty of development of the situation in Russia
- 35% regulatory restrictions
- 34% FX rate volatility
- 32% difficulties with logistics, supplies, incl. lack of materials and component parts
- 30% reputational risks for businesses from working in Russia

Financing

52% of companies went to court to recover debt (vs 51% in the previous year), and most of the cases were successful. The share of companies who have never had bad debts has decreased slightly – 35% vs 43% in 2023.

The main obstacles to financing in 2024 are the U.S., EU and other sanctions towards Russia (56% vs 69% in 2023), high interest rates (44% vs 17% in 2023) and Russia's countermeasures (27% vs 41% in 2023).

Perception of business environment

The assessment of the business culture of counterparties in Russia is relatively stable – the experience of companies interacting with most counterparties in 2023 has remained almost unchanged compared to the previous year. There has been a slight improvement in the perception of interaction with tax, judicial and legislative authorities.

Business expectations for improvements in some operational blocks over the next 2 years have improved slightly:

- infrastructure (20% don't expect any improvements in this area over the next two years vs 31% in 2023);
- bureaucracy (54% don't expect any improvements in this area over the next two years vs 60% in 2023);
- corruption (57% don't expect any improvements in this area over the next two years vs 66% in 2023);
- reliability of supply chain partners (27% don't expect any improvements in this area over the next two years vs 32% in 2023).

Negative dynamic of the expectations is noted in the following operational blocks:

- customs regulations (50% don't expect any improvements in this area over the next two years vs 45% in 2023);
- taxes and duties (67% don't expect any improvements in this area over the next two years vs 59% in 2023);
- labor force capabilities (57% don't expect any improvements in this area over the next two years vs 44% in 2023).

Sanctions towards Russia and Russian countermeasures

80% of companies were negatively affected by the sanctions and Russian countermeasures. The most negative impact on business was caused by sanctions targeting Russian financial organizations (47% of companies marked it), export and import restrictions towards Russia (43%), software restrictions (37%), transport restrictions (35%) и difficulties in payment of dividends and intra-group loans (34%).

The current situation has caused certain HR difficulties such as necessity of salary increase for employee keeping (59% of companies faced this problem) and lack of workers (54%). As a solution most companies, which have the lack of staff, increase salaries (77%) and attract young specialists (65%).

Most of AEB members see new opportunities for their business development in Russia, at first it is growth of company market share (42%) and business extension in Russia (33%), opportunity to attract new consumer segments (33%) and occupy new product niches (25%).

More than a half of survey members (51%) responded that a sustainable development strategy was developed and approved in their company. Also 10% of companies are planning to develop a sustainable development strategy in the nearest future.

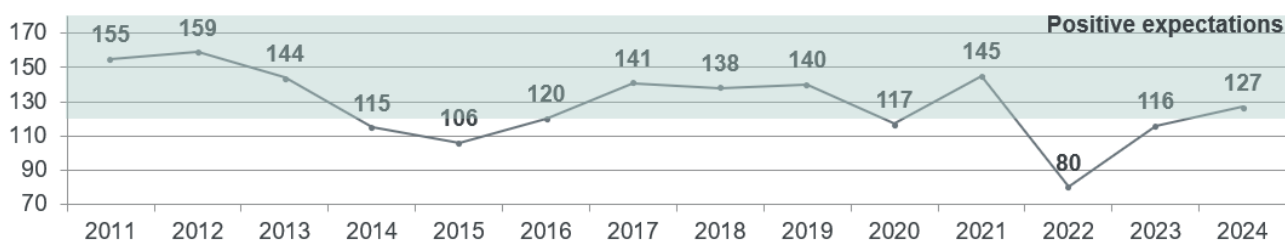
Almost every third company (32%) had to change its management structure due to the sanctions and Russia's countermeasures, primarily it was management buy-out or sale to a Russian investor (financial or strategic).

About third of AEB members (31%) transferred dividends to their headquarters after 24 February 2022, 38% - didn't do it and are not planning to.

Despite the difficulties of doing business, most of companies don't consider the option of closing their business in Russia (66% assess the risk of closing the business in the next 12 months as low vs 58% in 2023).

AEB Barometer

AEB index, Dynamics



The comprehensive AEB Index continues to grow – it is 127 points out of possible 200, which is 11 points higher compared to the previous year. In 2023 the Index returned to the positive area. The most of comprehensive AEB Index components have increased, excluding Current Macroeconomic Situation Index, Business Development Index and Long-Term Expectations Index, which were decreased compared to the previous year.

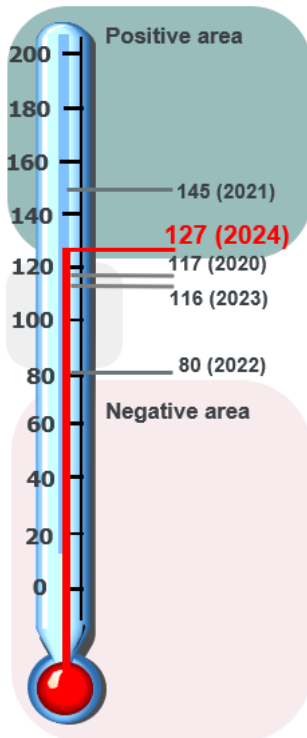
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Association of European Businesses
Russia, 127055 Moscow,
Butyrsky Val St. 68/70, bld. 1

Tel.: +7 (495) 234 27 64
E-mail: info@aebrus.ru
www.aebrus.ru

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Association of European Businesses
Russia, 127055 Moscow,
Butyrsky Val St. 68/70, bld. 1

Tel.: +7 (495) 234 27 64
E-mail: info@aebrus.ru
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