



Moscow, 6 October 2020

Only one-fourth of European companies in Russia expect to recover by the end of this year

Findings of the AEB Annual Survey "Strategies and Prospects for European Companies in Russia" for 2020

Two-thirds of surveyed European companies in Russia have suffered from the coronavirus pandemic. Only one-fourth of them expect to recover the previous indicators before the end of 2020; the most of them will need a longer period.

For the first time in the last five years, the current indicators of the AEB-GfK Business Barometer, reflecting the condition of the business and sentiments of European companies operating in Russia, left the area of positive expectations, although they still exceed the values of 2014–2015 (Diagram 1).

The reduction was caused by the deterioration of the majority of the index's components reflecting the current macroeconomic environment and short-term expectations related to corporate business and the Russian economy. However, mid-term (3–5 years) and long-term expectations (6–10 years) testify to the positive expectations of European businesses in Russia.

90 companies from countries of the European Union and Russia took part in the survey.

"The AEB survey has showed that the Russian market remains attractive for European businesses, even under the current economic and political circumstances", commented Alexei Dorofeev, CEO of GfK Rus.

"COVID-19 has forced most European companies to urgently review their investment portfolios, focusing on the digitalisation of processes. The subsequent business development strategy depends on the recovery dynamics of the Russian economy and the scope of restrictions which may be imposed in the event of a second wave of coronavirus", noted Tadzio Schilling, CEO of AEB.

AEB-GfK index, Dynamics

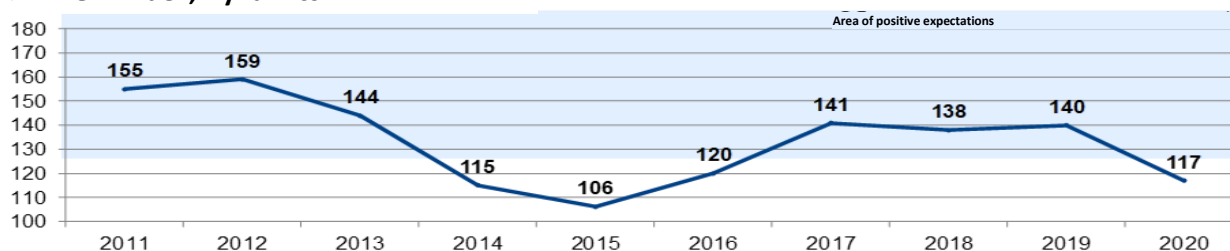


Diagram 1

What's attractive to European companies in Russia

According to the AEB survey, the main reasons for launching on the Russian market are still:

- large market volume (95% of the companies),
- high potential (92% of the companies),
- positive market development (90% of the companies).

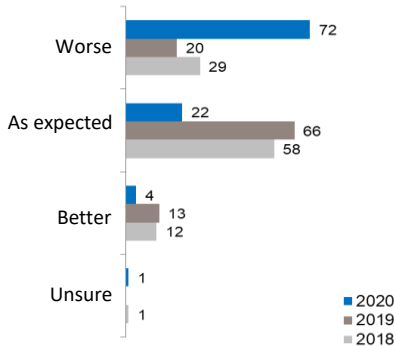
As compared to the previous years, the role of qualified personnel and low salaries increased to 87% and 61%, respectively.

These factors remain the most important amongst the reasons for the current presence in the Russian market.

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Evaluation of the current environment and development prospects



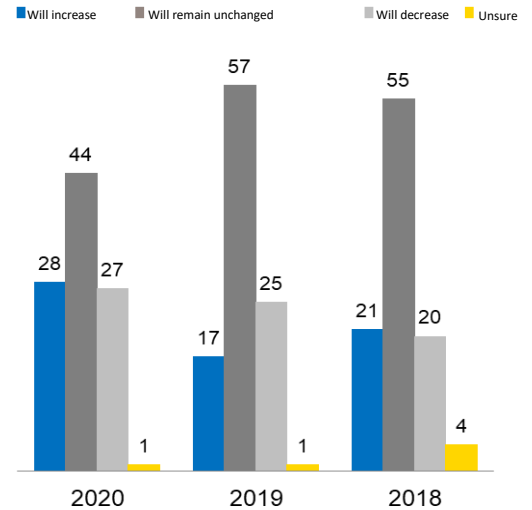
In 2020, evaluation of the current environment and prospects in the economy are preparing us for a decline in the short run. 72% of the companies emphasised that the economy in the first half of 2020 is developing worse than expected, as is their business (56%).

Only 27% of the surveyed companies are expecting growth of Russia's economy in the short run. 24% of companies are expecting an increase in investments in Russia overall in the next 2–3 years.

The forecasts are positive in the mid and long run: 66% of companies are expecting growth of Russia's economy in the nearest 3–5 years, and 79% expect growth in the nearest 6–10 years.

The majority of the surveyed European companies in Russia (61%) reported that, in 2019, their **turnover** had increased as compared to the previous year, which confirms the positive dynamics of the previous years. This year, 56% of companies stated that business was developing worse than expected. But over the next 3 years, 68% of survey participants expect an increase in turnover and 51% expect the growth of profit, *which is indicative of favourable work possibilities for international business in the Russian market, even against the background of the recession.*

As compared to the previous year, the survey participants are more optimistic in terms of expectations for **investments in a company's** business; 28% of companies forecast the growth of investments in its business sector in Russia, while 27% expect a reduction in the next three years (last year: 17% and 25%, respectively). *We assume that the potential for investments is one of the most important factors forming a positive perception of business prospects in Russia.*



Influence of the coronavirus pandemic on European companies in Russia

Almost two-thirds (64%) of the participants stated that their business had suffered from the coronavirus pandemic. One-fourth of those companies expect the recovery of indicators by the end of 2020, while the majority believes that recovery will take more time (during 2021). Few companies (10%) have derived benefit from the pandemic and demonstrated business growth.

Five main negative consequences of coronavirus for European businesses in Russia in 2020

- 1 For 56%, sales dropped;
- 2 33% had to cut advertising costs;
- 3 21% had to reduce budgets for marketing studies;
- 4 20% suspended the launch of new products;
- 5 14% had to reduce the salary of employees.

Source: GfK-AEB Survey, 2020 "Strategies and Prospects for European Companies in Russia"

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What's hindering business

Despite the stability of European companies in the Russian market, the survey participants outlined a set of factors, which exert the most negative impact not only on their companies, but on Russia's economy in general.

1. 77% of participants noted that rouble volatility has a negative impact on the performance of their companies;
2. 73% noted the negative impact of sanctions imposed on Russia;
3. 64% stated that their businesses contracted in response to the spread of the coronavirus pandemic;
4. 56% noted that the US policy towards Russia had a negative impact on their businesses, although, as compared to the previous year, the impact decreased (75% noted that factor in 2019);
5. As compared to 2019, the negative impact of oil prices significantly increased (51% of companies in 2020 as compared to 26% in 2019).

Evaluation of the business environment in Russia by European companies

European companies give rather low marks to the business culture and business environment in Russia. When evaluating the experience of interaction with legislative, tax, customs and other public authorities, the share of negative evaluations is greater than the share of positive ones.

Expectations of improvement of the environment in different operating functions during the next two years, %

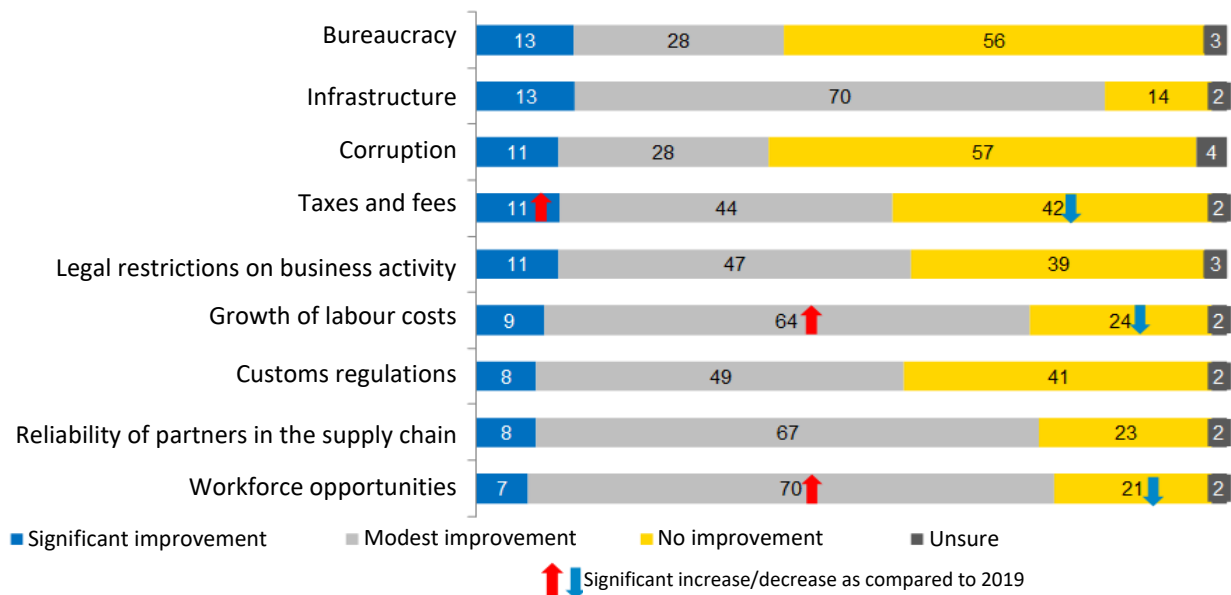


Diagram 2

The majority of AEB members do not expect any improvements with respect to bureaucracy and corruption (56% and 57% of the companies, respectively, do not expect any improvements during the next two years).

Moderate or substantial improvements are expected in labour costs and workforce opportunities (73% and 77%, respectively) (Diagram 2).

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About the survey

The survey entitled "Strategies and Prospects of European Companies in Russia" is conducted by the International Institute of Marketing and Social Research GfK Rus and commissioned by the Association of European Businesses. The survey provides a glimpse of Russia's attractiveness for foreign investments and outlines key problems and strategies of European companies which work in Russia.

This was the thirteenth year that this survey has been conducted. In July—August 2020, top managers of AEB member companies working in Russia provided their feedback through online surveys.

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Association of European Businesses

Celebrating its 25th anniversary in 2020, the Association of European Businesses (AEB) is an independent non-profit organisation representing over 500 companies from Europe and Russia. AEB members are multinational corporations and small and medium-sized enterprises. They all share a commitment to boosting cooperation between the EU and Russia, as well as the desire to improve the investment climate of the Russian Federation.

The AEB includes over 60 committees, subcommittees and working groups that are engaged in lobbying on a wide range of issues in various business areas, including energy, transport and customs, agriculture, air travel, passenger car and commercial vehicle manufacturing, legislation, taxation, banking, real estate, crop protection products and many others. These committees work closely with European and Russian authorities and provide comments and suggest changes to the draft laws of the Russian Federation.

For more information, please visit the AEB official website at www.aebrus.ru

International Institute of Marketing and Social Research GfK Rus

GfK ranks amongst the largest survey companies in Russia and worldwide. GfK is a trusted source of relevant market and consumer information. By using innovative technologies and data sciences, GfK turns huge amounts of data into understandable and useful information, which some of the most successful companies in the world use as a basis of their business decisions.

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