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# Strategies and Prospects for European Companies in Russia

**30 MAY 2019**

# AEB: General information



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## The Association of European Businesses (AEB) is:

- An independent non-commercial organisation founded in 1995.
- Today, the **AEB is the main representative body of foreign investors in the Russian Federation.**
- An active community of **524 members from the EU, the European Free Trade Association (EFTA) and other countries, which do business in the Russian Federation.**
- An advocate of the interests of its members working in **65 industrial and cross-sectoral committees, sub-committees and working groups.**
- Working to improve the business, investment and trade environment in Russia for AEB members through **information support, lobbying and networking activities.**
- Promoting **partnership and economic integration** between the Russian Federation and the European Union.



# AEB Survey: Strategies and Prospects for European Companies in Russia

- Conducted annually, and in 2019 for the **12th** time.
- A highly valuable **source of first-hand information** that gives an overview of the **Russian investment climate's attractiveness** and highlights the **key challenges and strategies of European companies** doing business in Russia.
- Assists in maintaining productive relations with the **Russian authorities** and in facilitating AEB **lobbying activities** aimed at representing and defending the interests of its member companies.
- Support from the International Institute of Market and Social Research GfK-Rus.

# GfK around the world



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Albania  
Algeria  
Argentina  
Australia  
Austria  
Azerbaijan  
Bahrain  
Bangladesh  
Belarus  
Belgium  
Bolivia  
Bulgaria  
Bosnia and Herzegovina  
Botswana  
Brazil  
Great Britain  
Hungary  
Venezuela

Vietnam  
Guatemala  
Germany  
Hong Kong  
Greece  
Georgia  
Denmark  
Egypt  
Israel  
Jordan  
India  
Indonesia  
Iraq  
Iran  
Ireland  
Spain  
Italy  
Yemen

Kazakhstan  
Cambodia  
Canada  
Qatar  
Kenya  
Cyprus  
Kyrgyzstan  
China  
Colombia  
Ivory Coast  
Kuwait  
Latvia  
Lebanon  
Libya  
Lithuania  
Macedonia  
Malaysia  
Morocco

Mexico  
Mozambique  
Nigeria  
Netherlands  
New Zealand  
Norway  
UAE  
Oman  
Pakistan  
Panama  
Paraguay  
Peru  
Poland  
Portugal  
Russia  
Romania  
Saudi Arabia  
Senegal

Serbia  
Singapore  
Syria  
Slovakia  
Slovenia  
Sudan  
USA  
Tajikistan  
Taiwan  
Thailand  
Tanzania  
Tunisia  
Turkmenistan  
Turkey  
Uganda  
Uzbekistan  
Ukraine  
Uruguay

Philippines  
Finland  
France  
Croatia  
Montenegro  
Czech Republic  
Chile  
Sweden  
Switzerland  
Ecuador  
Estonia  
South Africa  
South Korea

## GfK in Russia - since 1991



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5. Financing
6. Perception of the business environment
7. Current economic and political situation
8. AEB-GfK barometer and conclusions



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# Methodology

# Methodology & main research goals



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## Main research goal

- To define the level of comfort in business activities in Russia for AEB member companies and evaluate their perception of the investment climate.

## Methodology

- Online and in-person interviews (CAWI and PAPI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in March-April 2019.

## Sample size

- 104 companies





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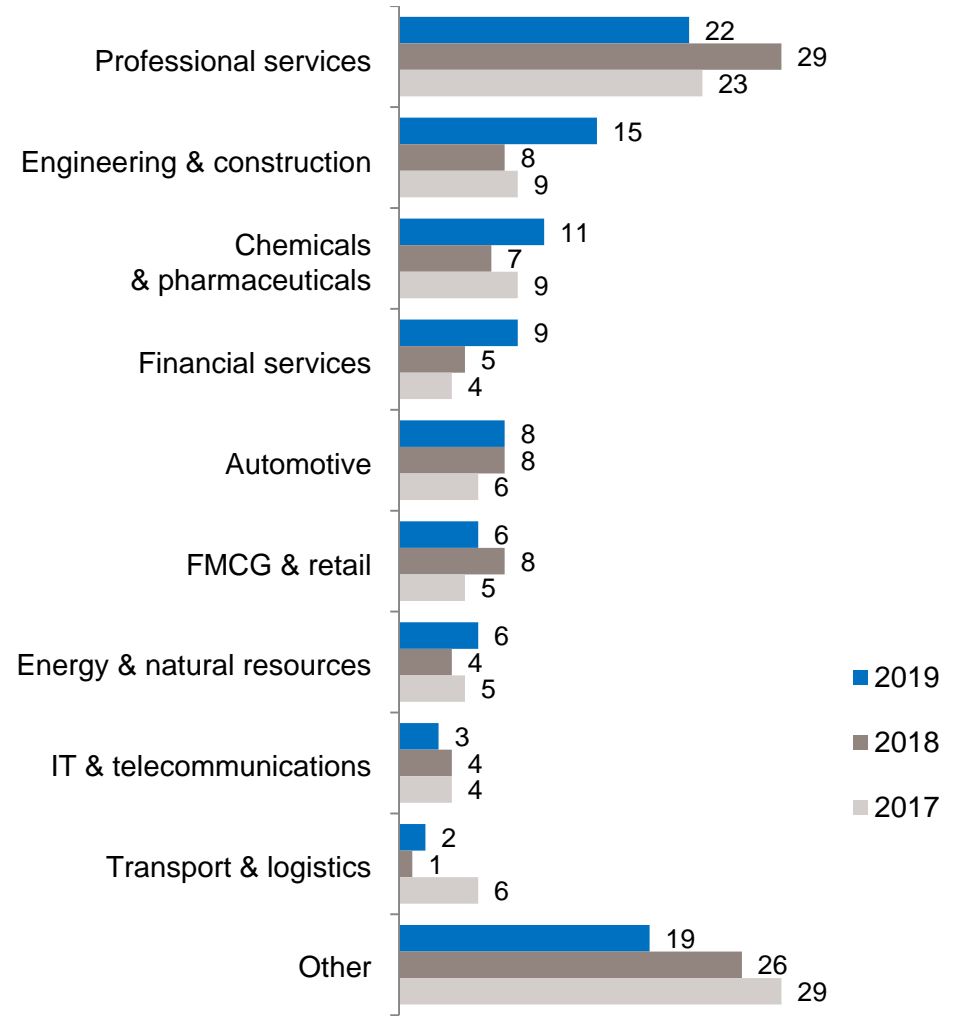
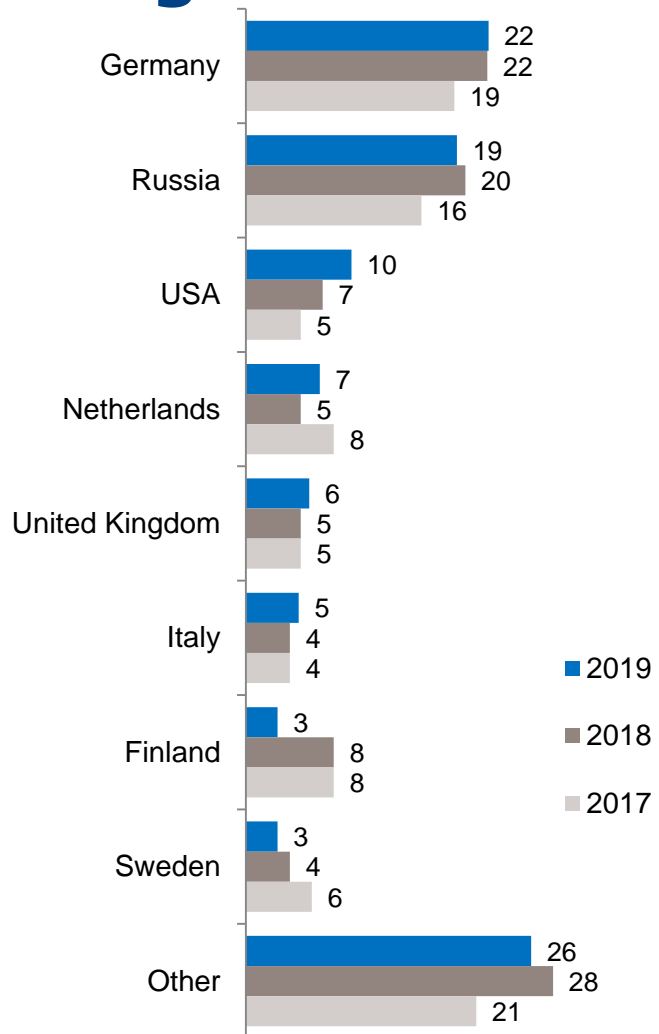


# Company profiles

# Respondents by country of origin and sector, %



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*\*Many Russian AEB member companies have a share of capital in European countries and/or were founded by citizens of European countries*

Q1. Please indicate your company's market sector

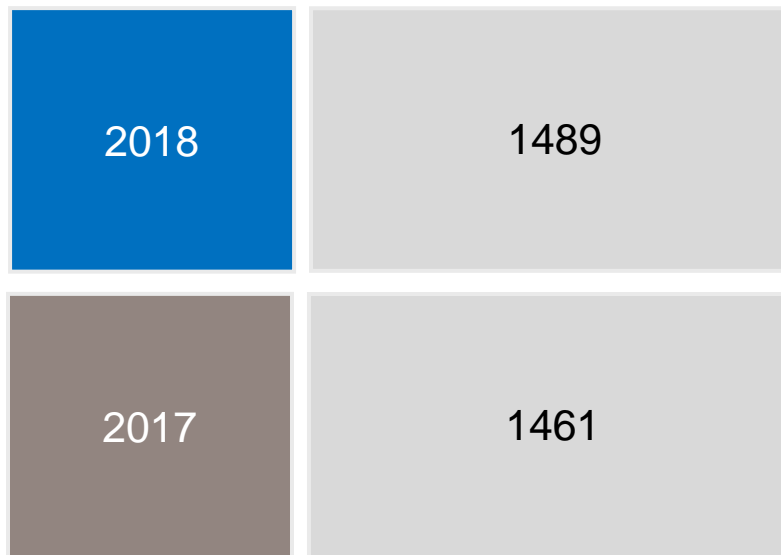
# Employees



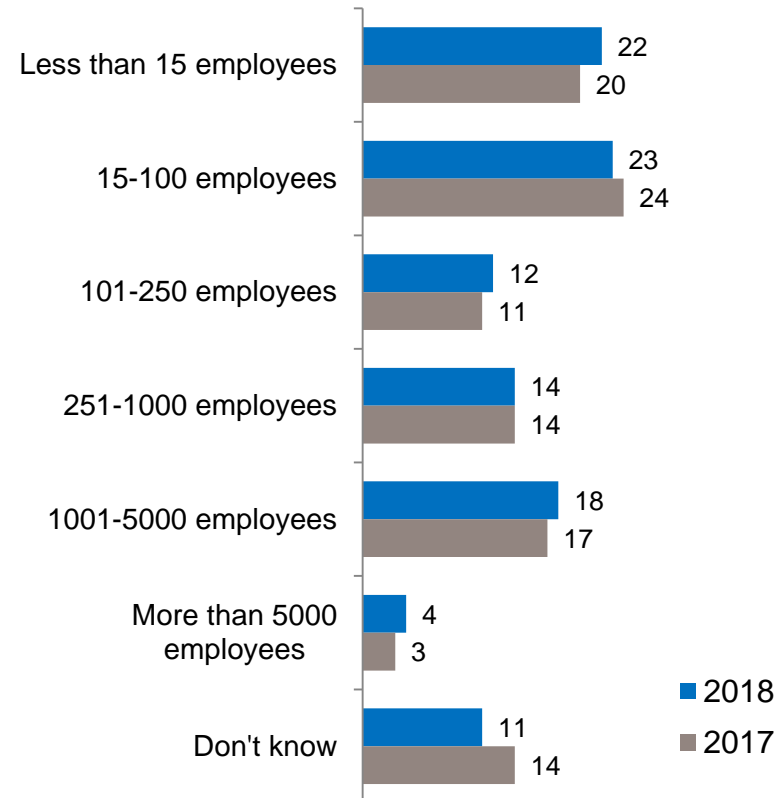
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## Average number of employees per company



## Company size





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# Market entry

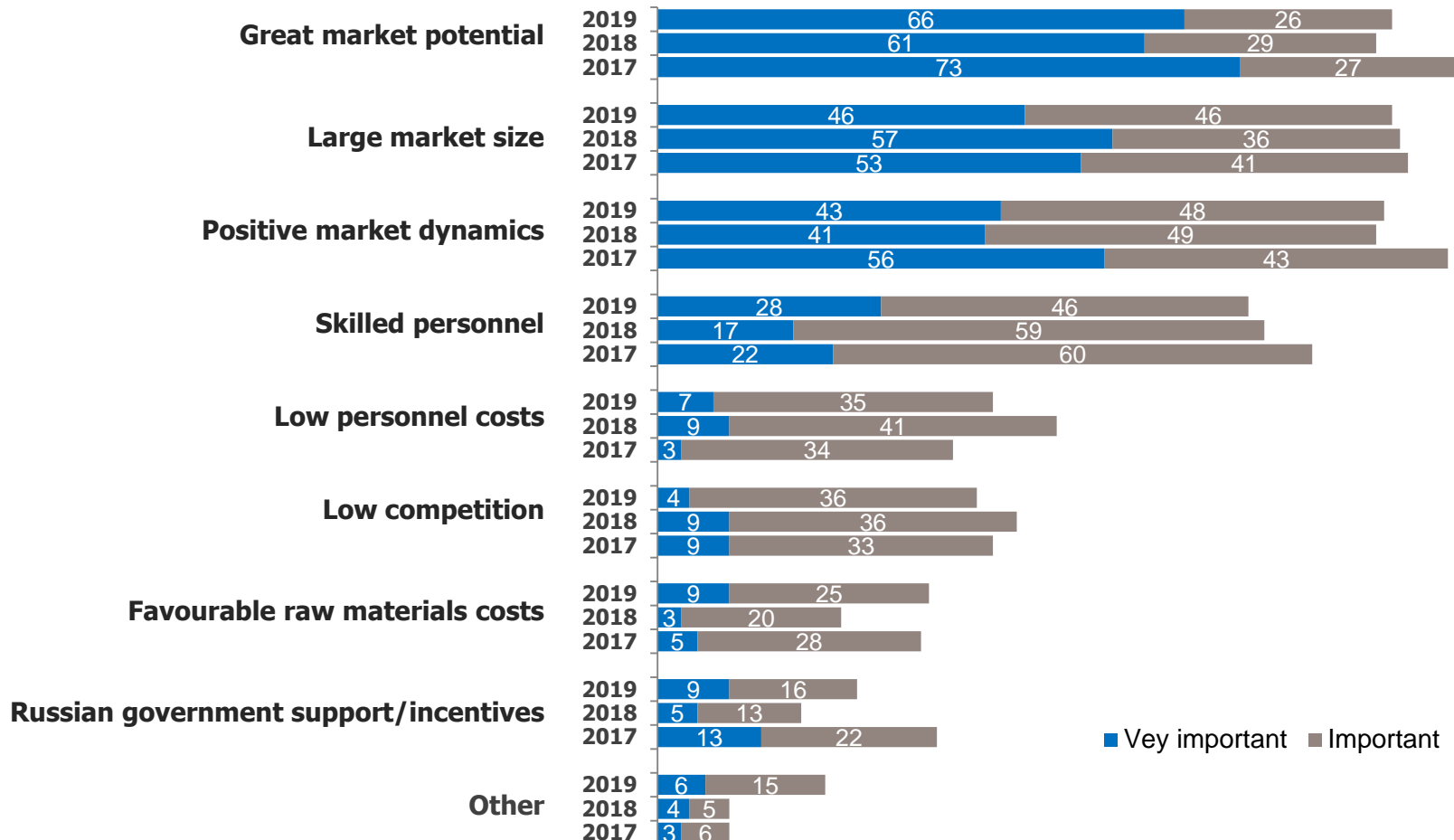
# Reasons for entering the Russian market, %



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## Reasons



■ Very important ■ Important

Q5. How important were the following reasons for your entry into the Russian market?

Base = 104 AEB members (2019)

76 AEB members (2018)

79 AEB members (2017) 13



# Prospects for companies and the business environment

# Main macroeconomic indicators in Russia, %



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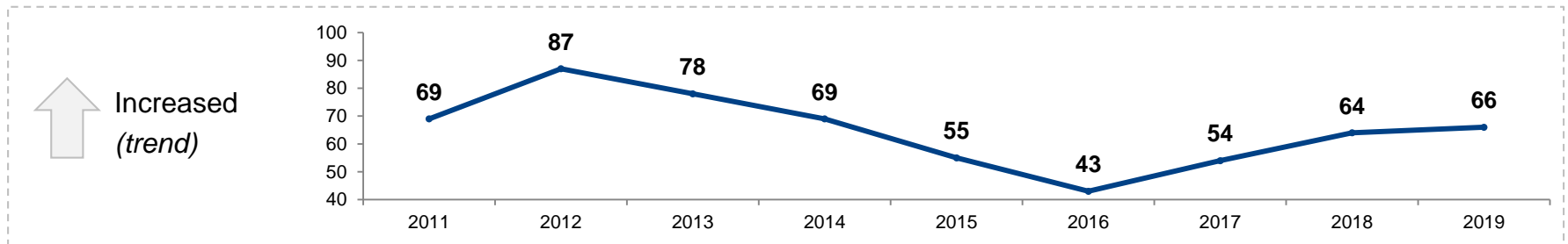
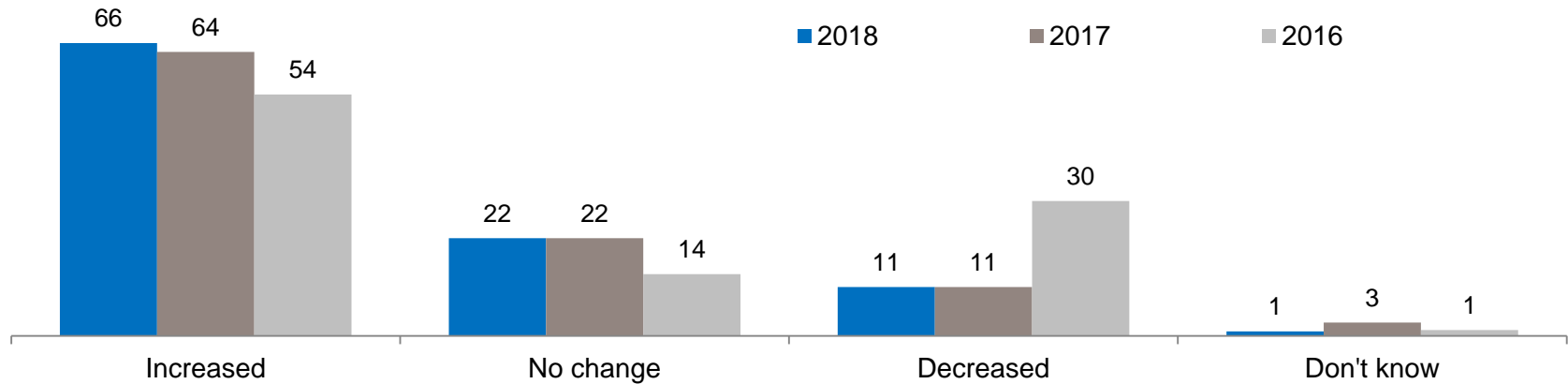
	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)
Gross domestic product	4.3	3.4	1.3	0.6	-3.7	-0.2	1.4	2.3
Industrial production index	5.3	3.0	0.4	1.7	-3.4	-0.1	1.0	2.9
Retail trade revenue	7.0	6.3	3.9	2.7	-1.6	-4.8	1.6	2.6
Per capita income, real	1.2	5.8	3.7	-0.8	-4.0	-5.9	0.8	0.3
Unemployment	5.0	4.7	4.1	5.2	5.6	5.6	5.2	4.8
Inflation	6.1	6.6	6.5	11.4	12.9	5.4	2.5	4.3

Source: Rosstat

# Company turnover in 2018, %



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Q4. How did company turnover in 2017 compare to 2016?

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76 AEB members (2018)

79 AEB members (2017) 16



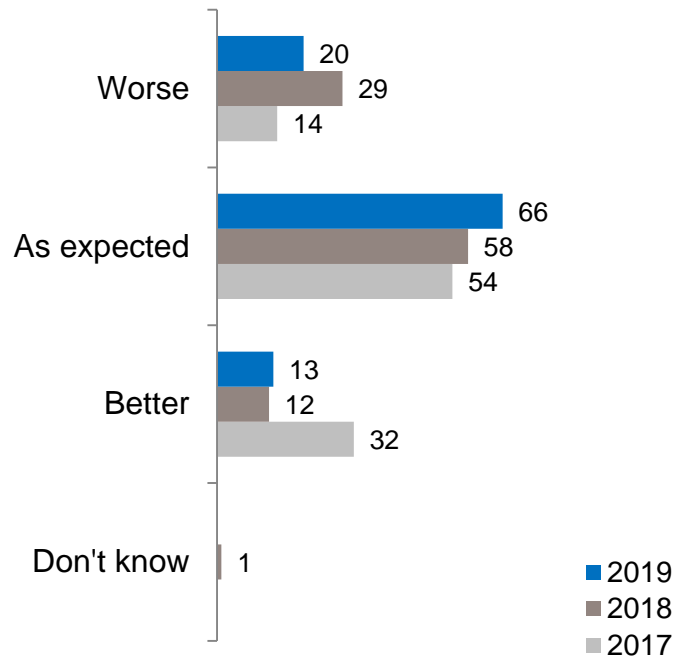
# Growth of the economy and business in the first 3 months, %



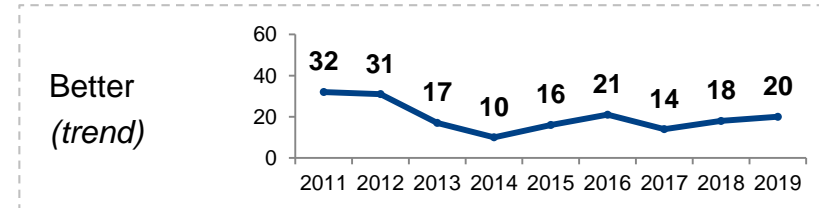
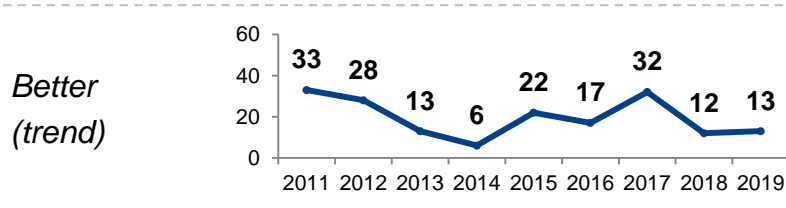
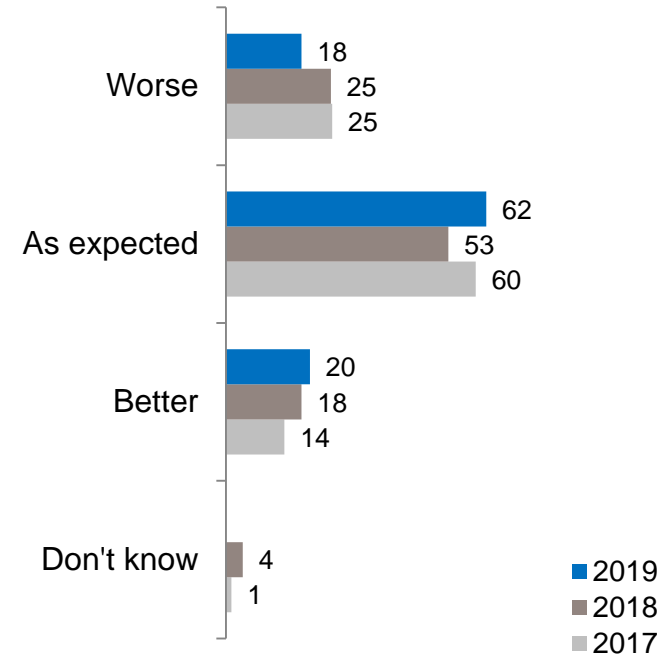
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## Expectations for the economy



## Expectations for business growth



Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?  
 Q19. How do business results in the first 3 months compare to targets?

Base = 104 AEB members (2019)

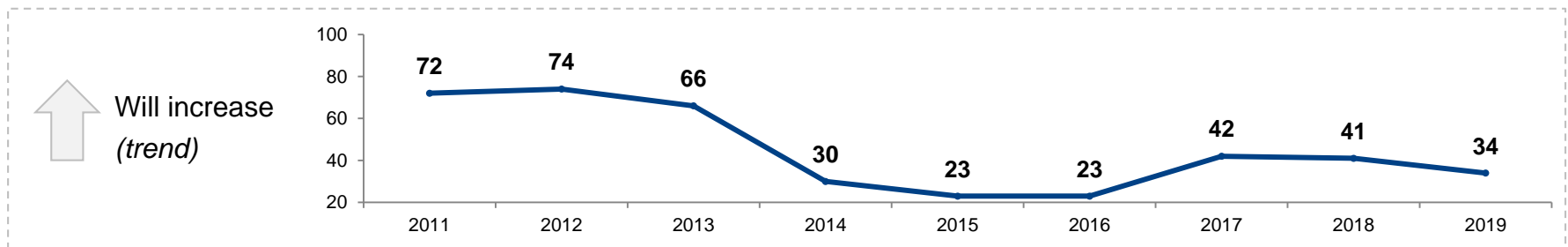
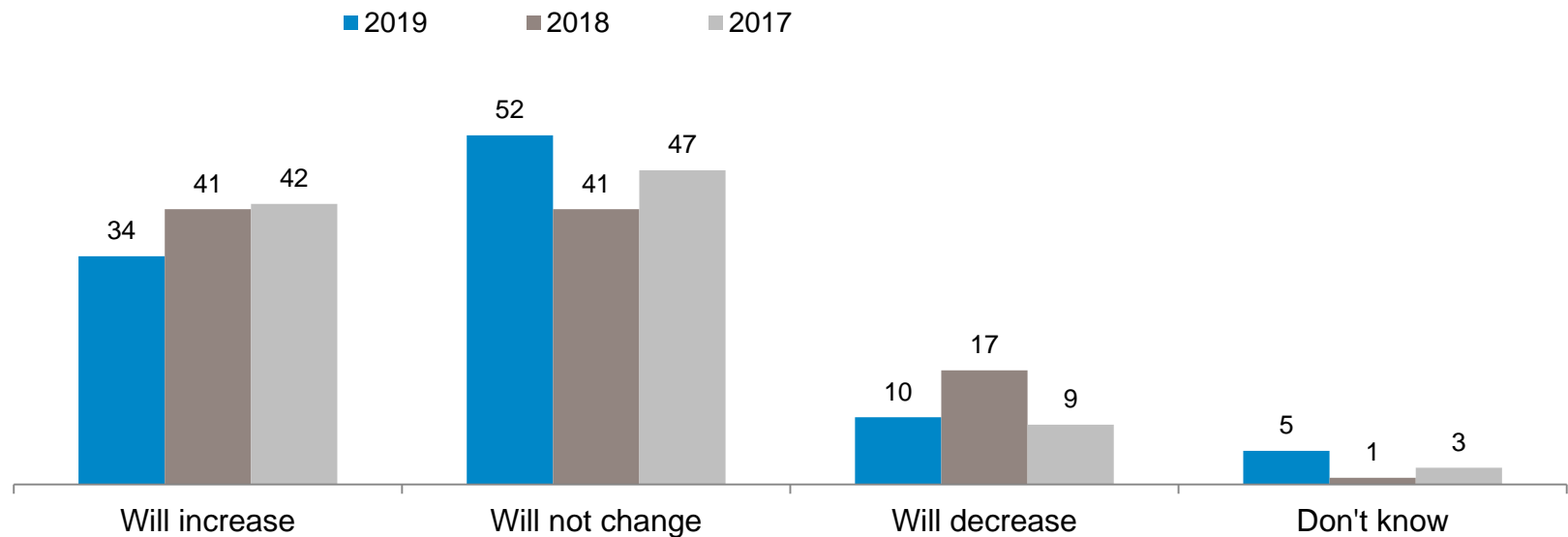
76 AEB members (2018)

79 AEB members (2017)

# Investments, %



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Q13. How do you expect your investments to change in 2018 vs. 2017?

Base = 104 AEB members (2019)

76 AEB members (2018)

79 AEB members (2017) 18

# Turnover and profit in the coming 3 years, %



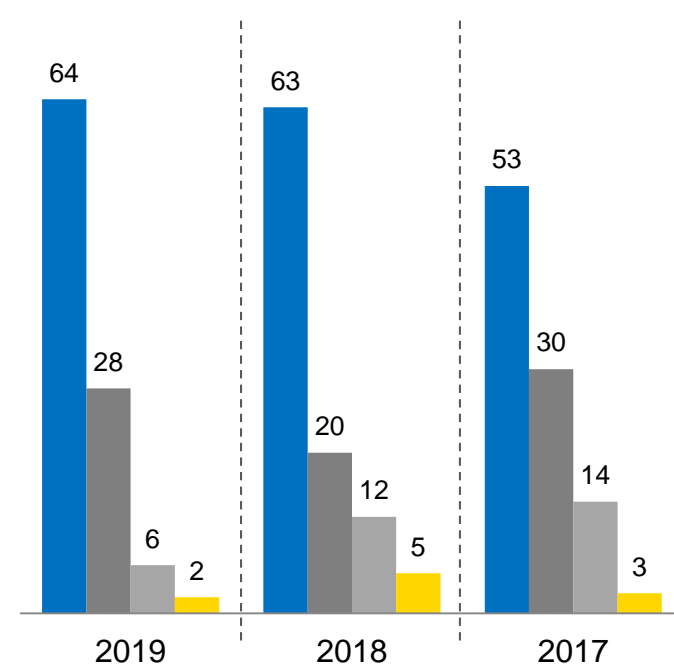
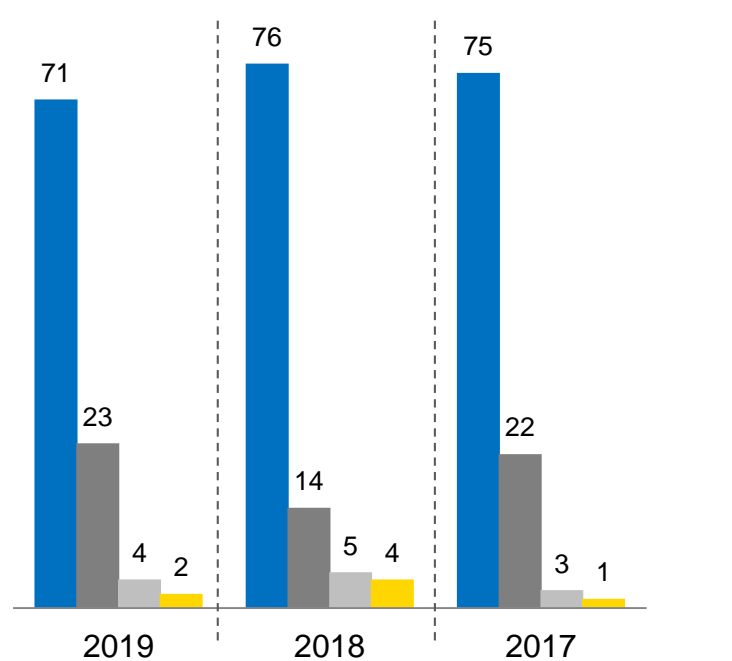
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## Revenue

## Profit

■ Will increase ■ Will not change ■ Will decrease ■ Don't know



Q20. What is your 3-year forecast for your company's business in Russia?

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Base = 104 AEB members (2019)  
76 AEB members (2018)  
79 AEB members (2017) 19

# Investment in the sectors and in Russia overall in the next 2-3 years, %



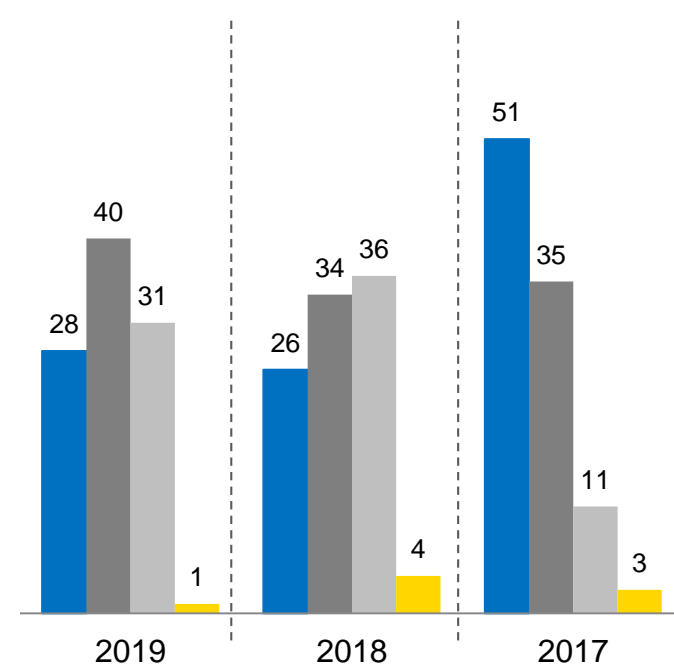
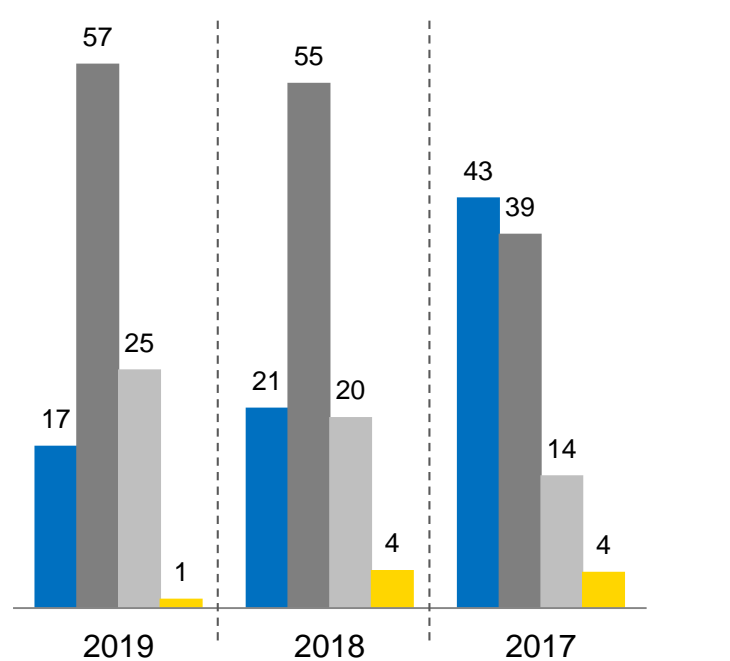
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## In your sector

## In Russia as a whole

■ Will increase ■ Will not change ■ Will decrease ■ Don't know



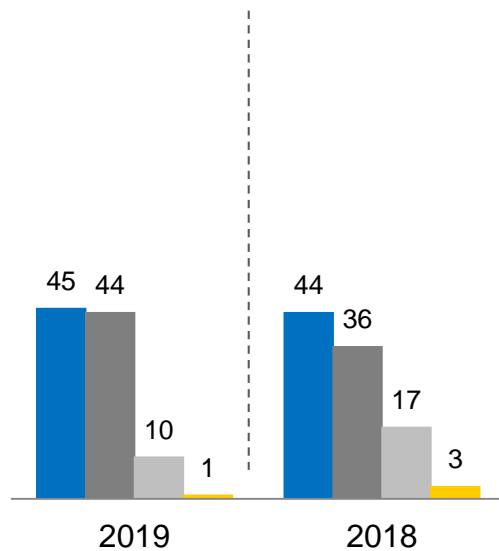
Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years

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Base = 104 AEB members (2019)  
76 AEB members (2018)  
79 AEB members (2017) 20

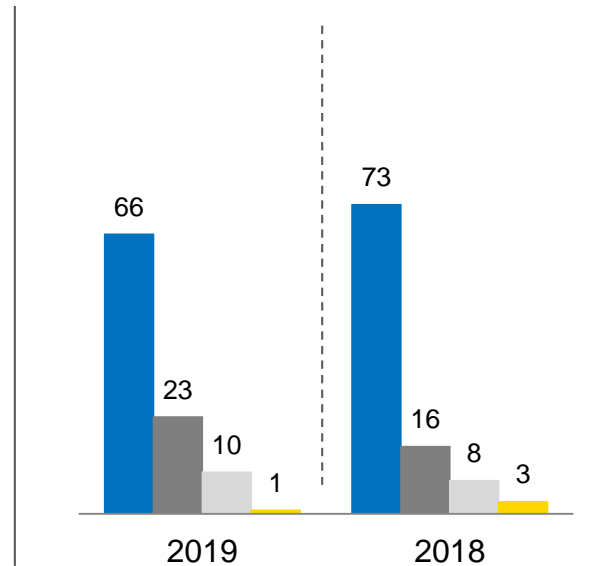
# Economic outlook for Russia in the coming 10 years, %

### Short term (1-2 years)

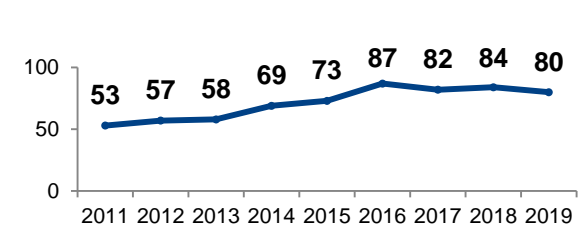
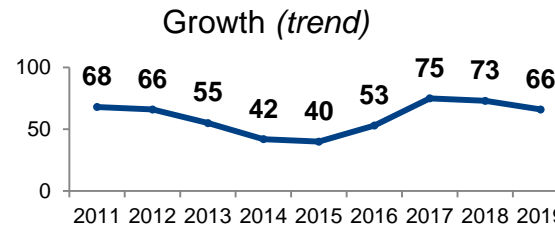
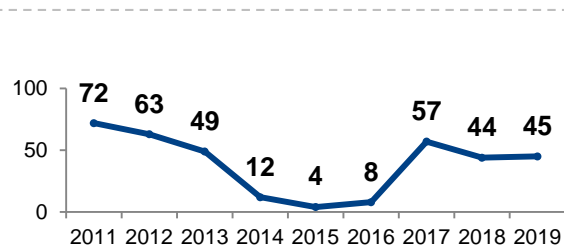
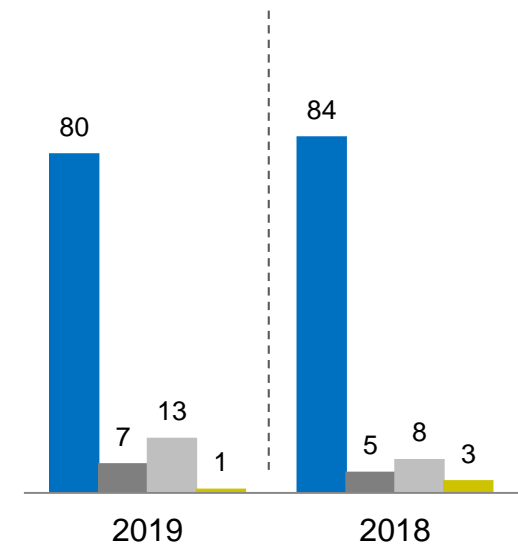


### Medium term (3-5 years)

■ Growth ■ Stagnation ■ Decline ■ Don't know



### Long term (6-10 years)



Base = 104 AEB members (2019)  
76 AEB members (2018)  
79 AEB members (2017) 21



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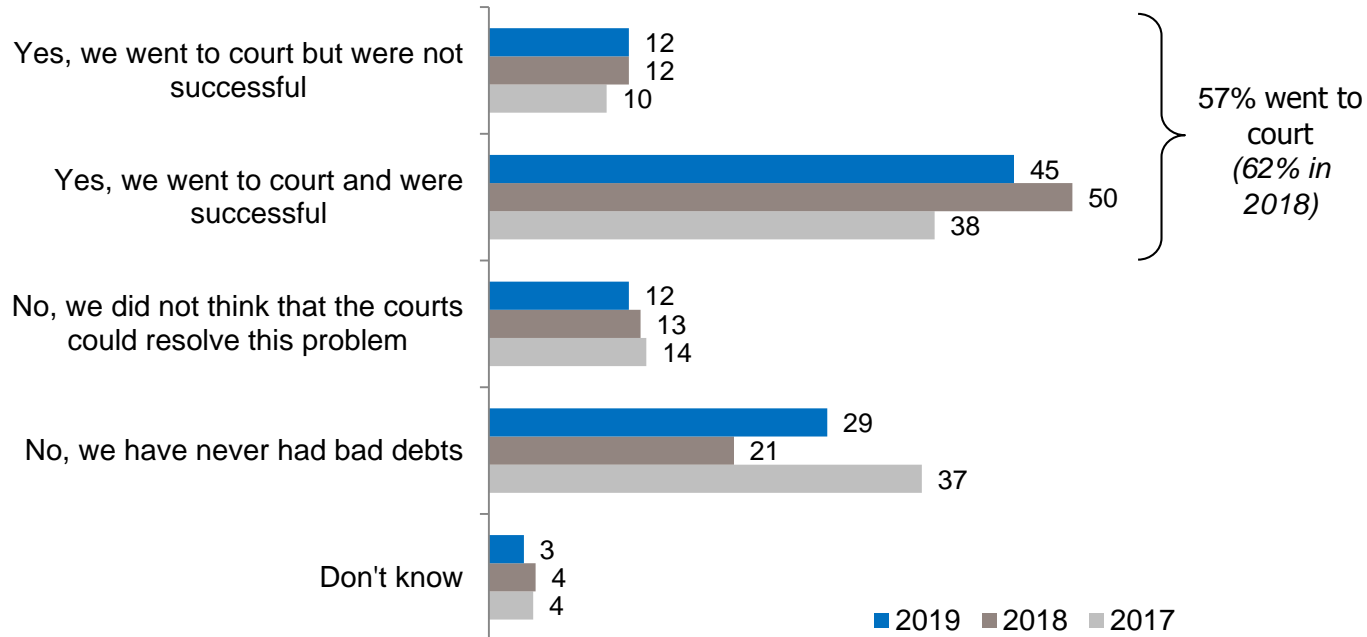


# Financing

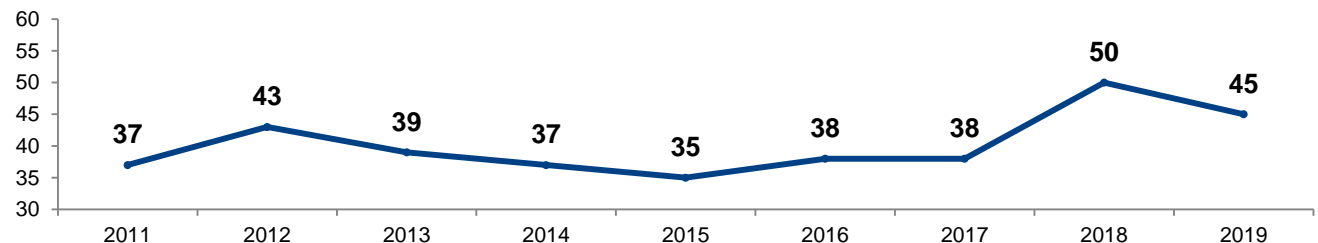
# Delayed payments, %



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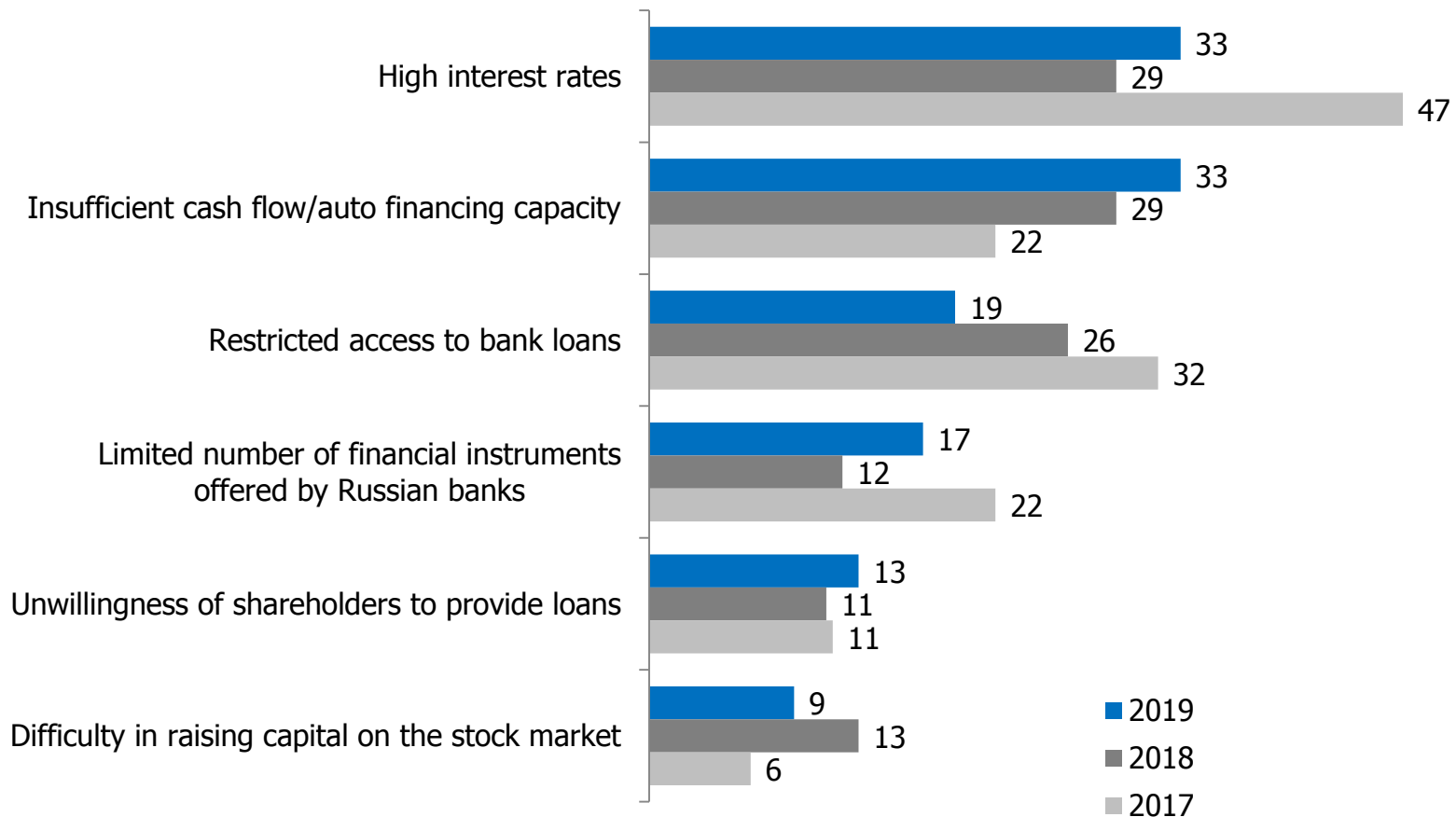
Yes, we went to court and were successful  
(trend)



Base = 104 AEB members (2019)  
76 AEB members (2018)  
79 AEB members (2017) 23

Q10. Have you ever resorted to court action to recover debts?

# Most significant barriers to financing, %



Q14. What do you expect to be the most significant barriers to financing in 2018?  
The answer total may exceed 100%, as multiple answers are possible.





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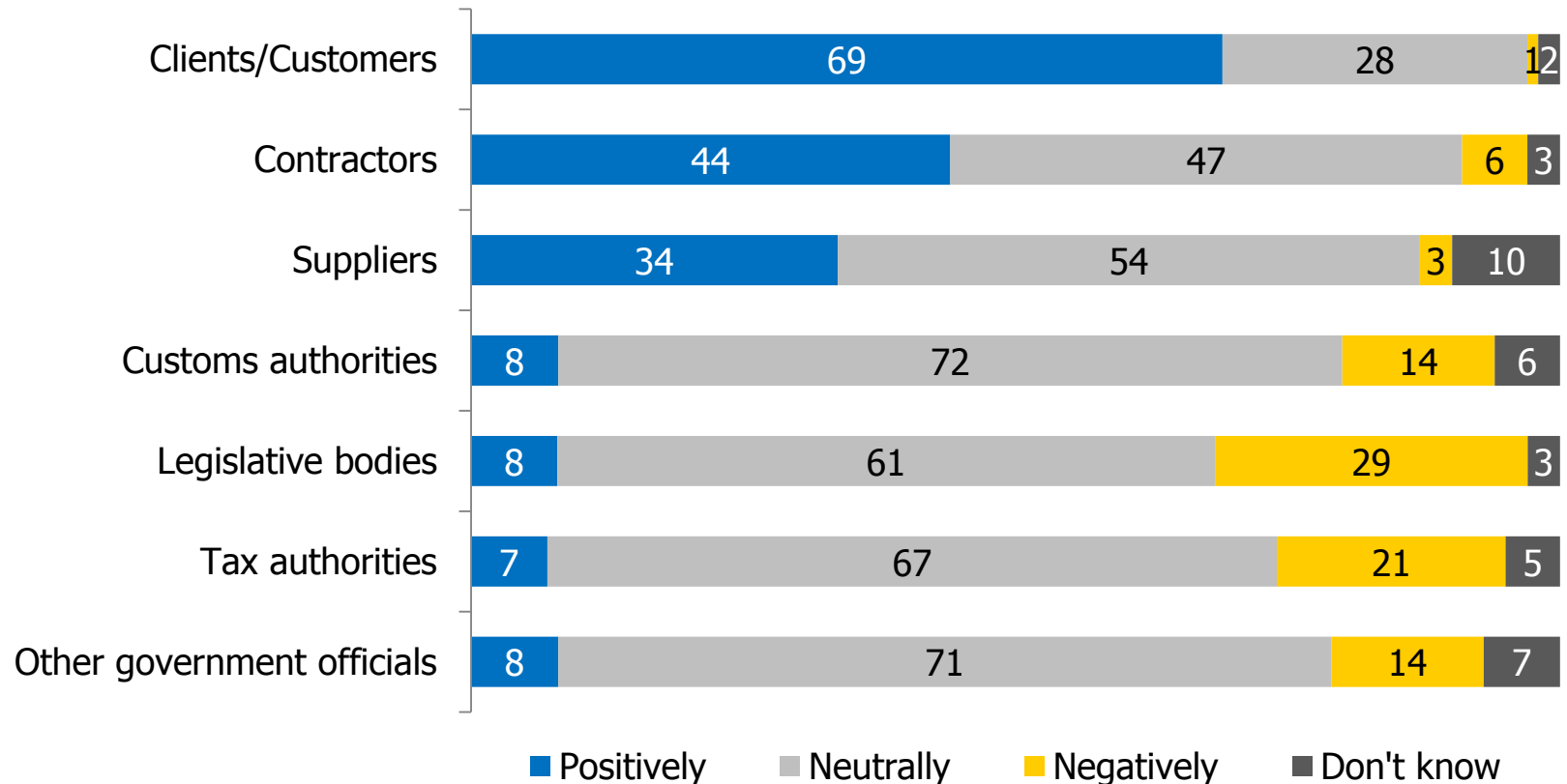


# Perception of the business environment

# Business culture of counterparts, %

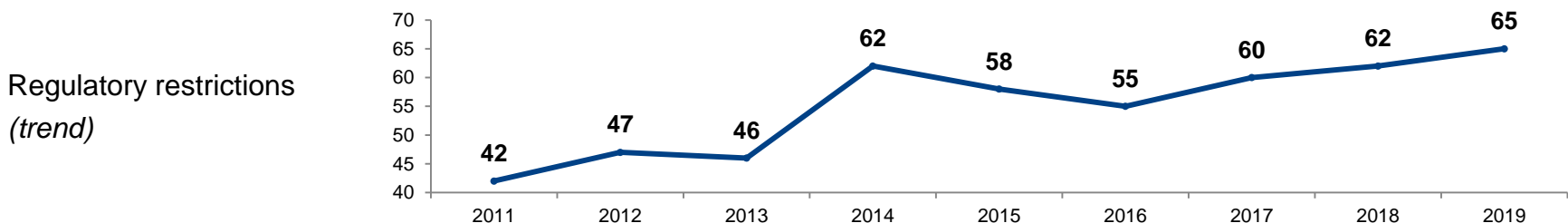
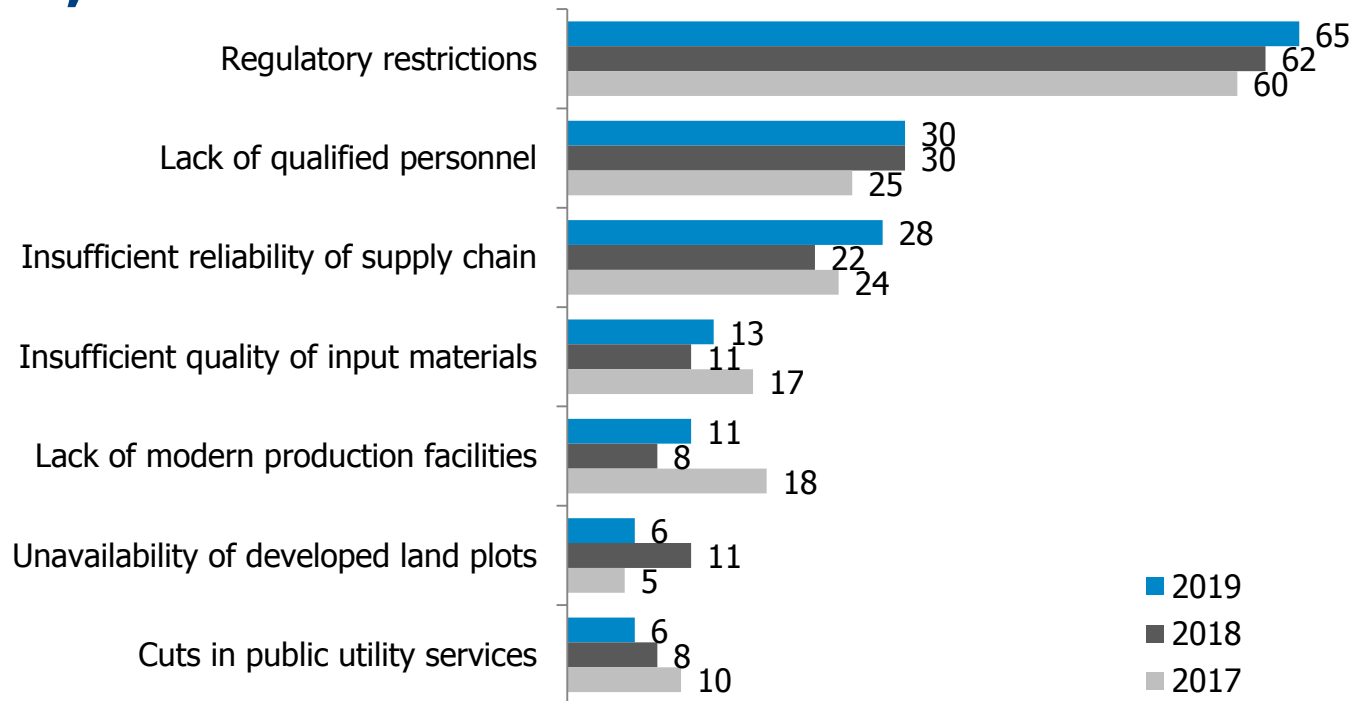


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Q7. How would you evaluate the level of business interaction in Russia?

# Most significant barriers to business in Russia, %



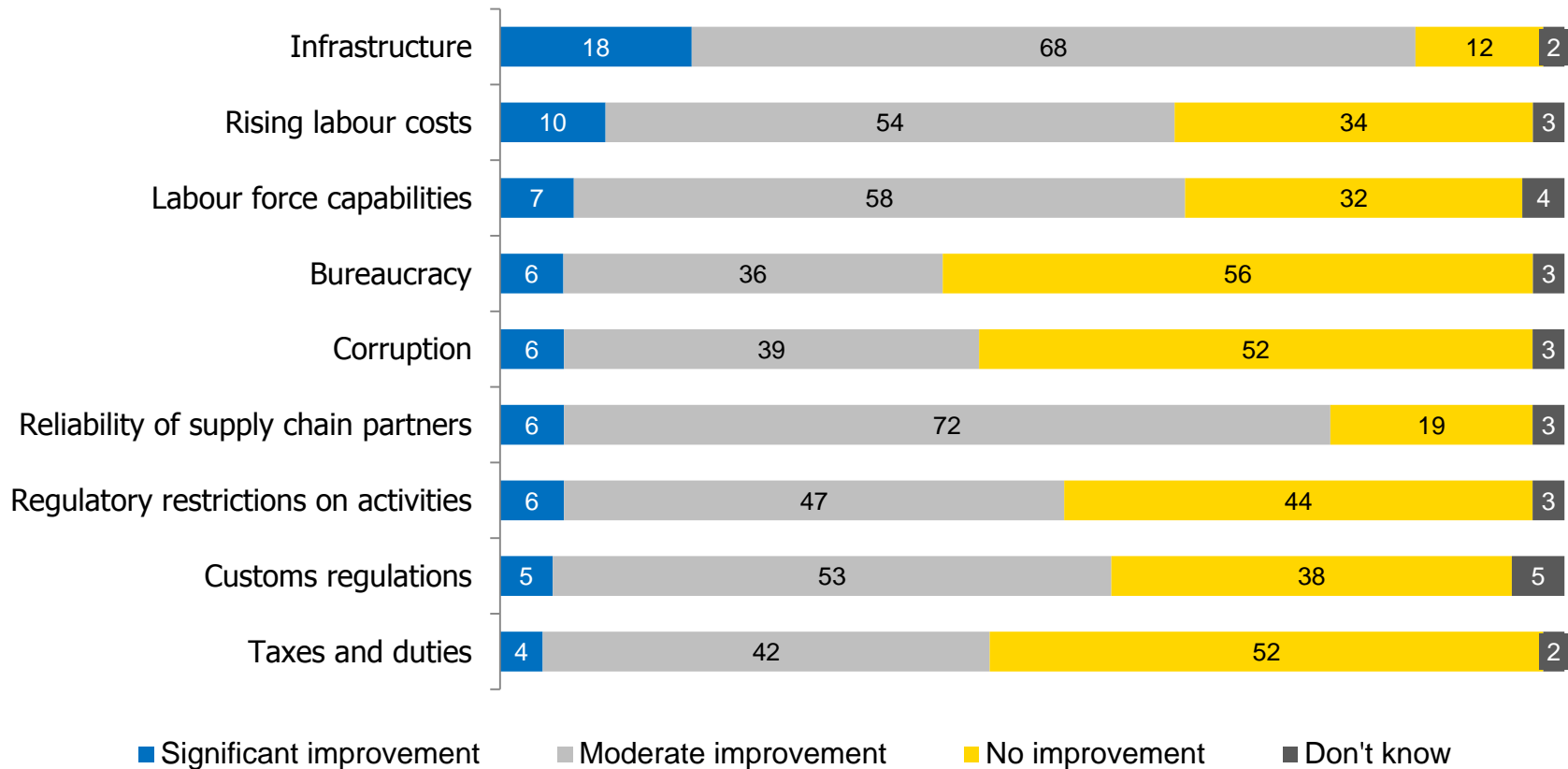
Q9. What are the most significant barriers to business (production operations/service provision)?  
The answer total may exceed 100%, as multiple answers are possible.

Base = 104 AEB members (2019)  
76 AEB members (2018)  
79 AEB members (2017) 27

# Expectations for improvement in different operating units over the next 2 years, %



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Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?



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# Current economic and political situation

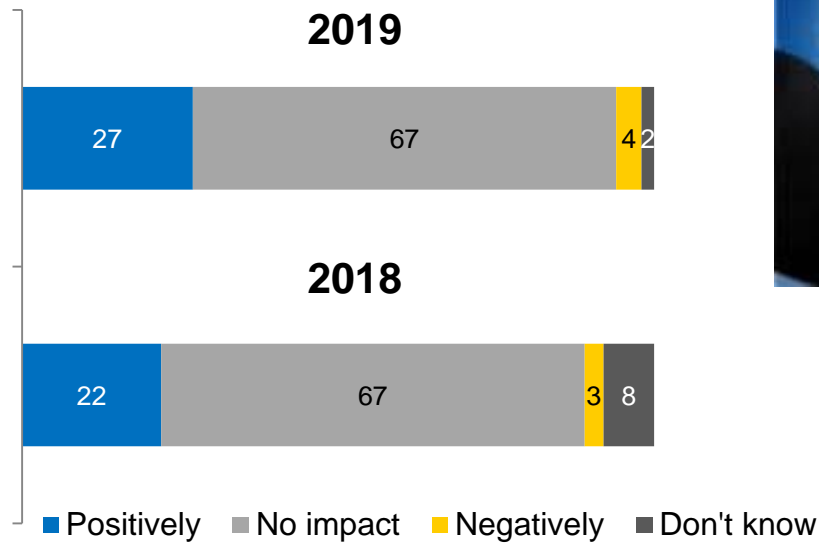
# Russia's accession to the WTO, %



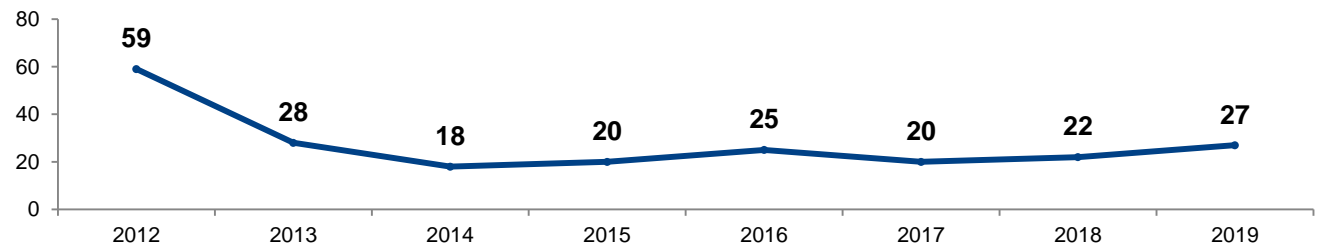
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## Impact of WTO accession on the company



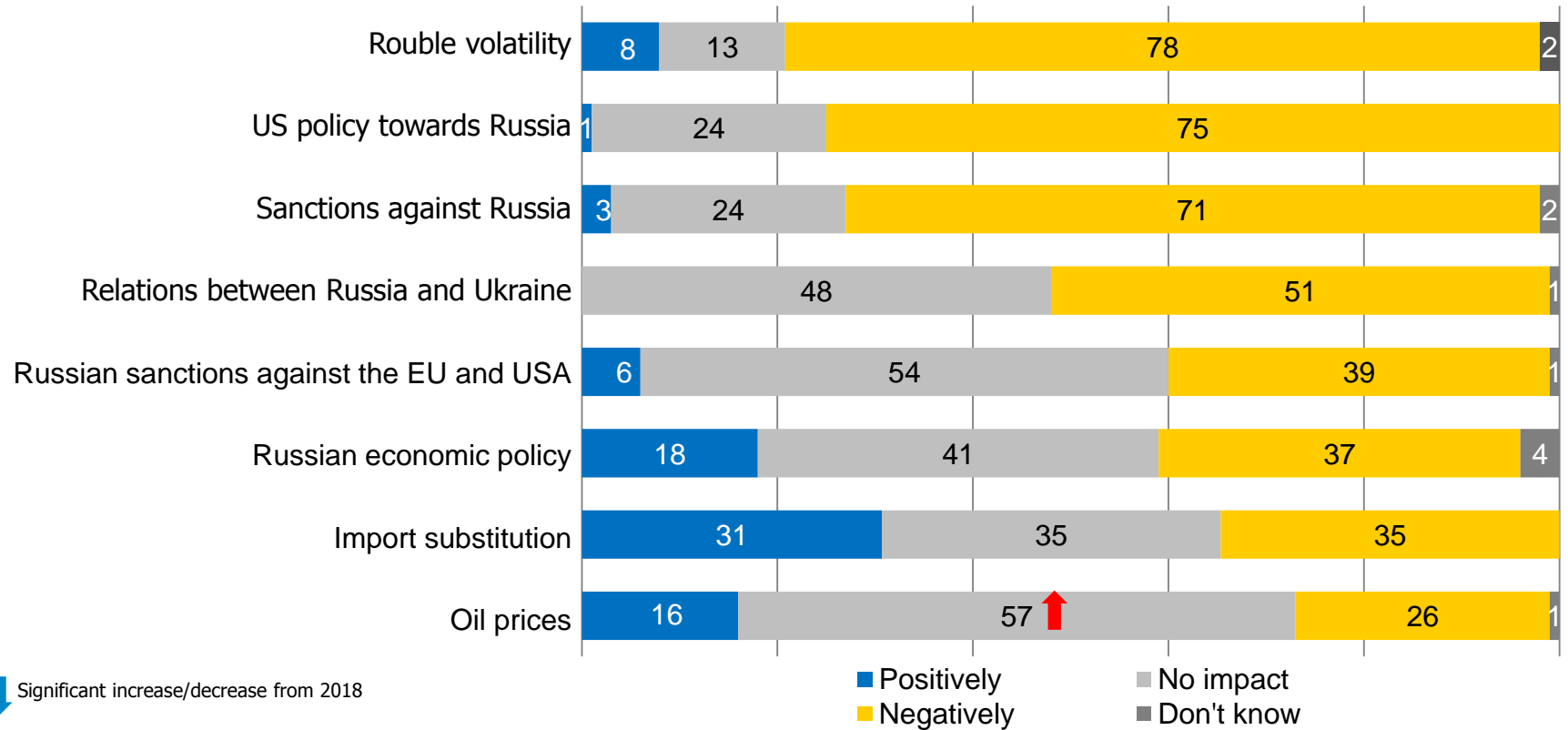
Positively  
(trend)



# Impact of various factors on company business

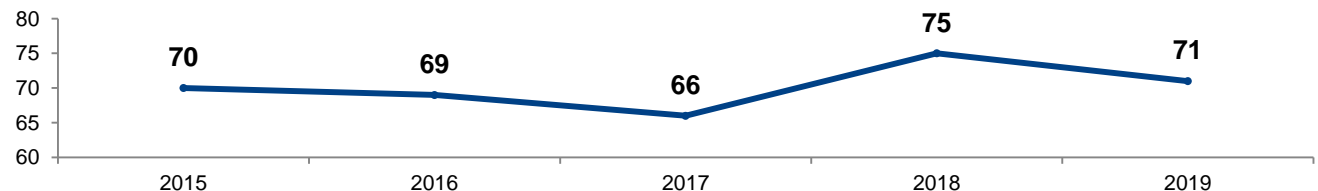


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↑ ↓ Significant increase/decrease from 2018

Sanctions against Russia (negatively) (trend)

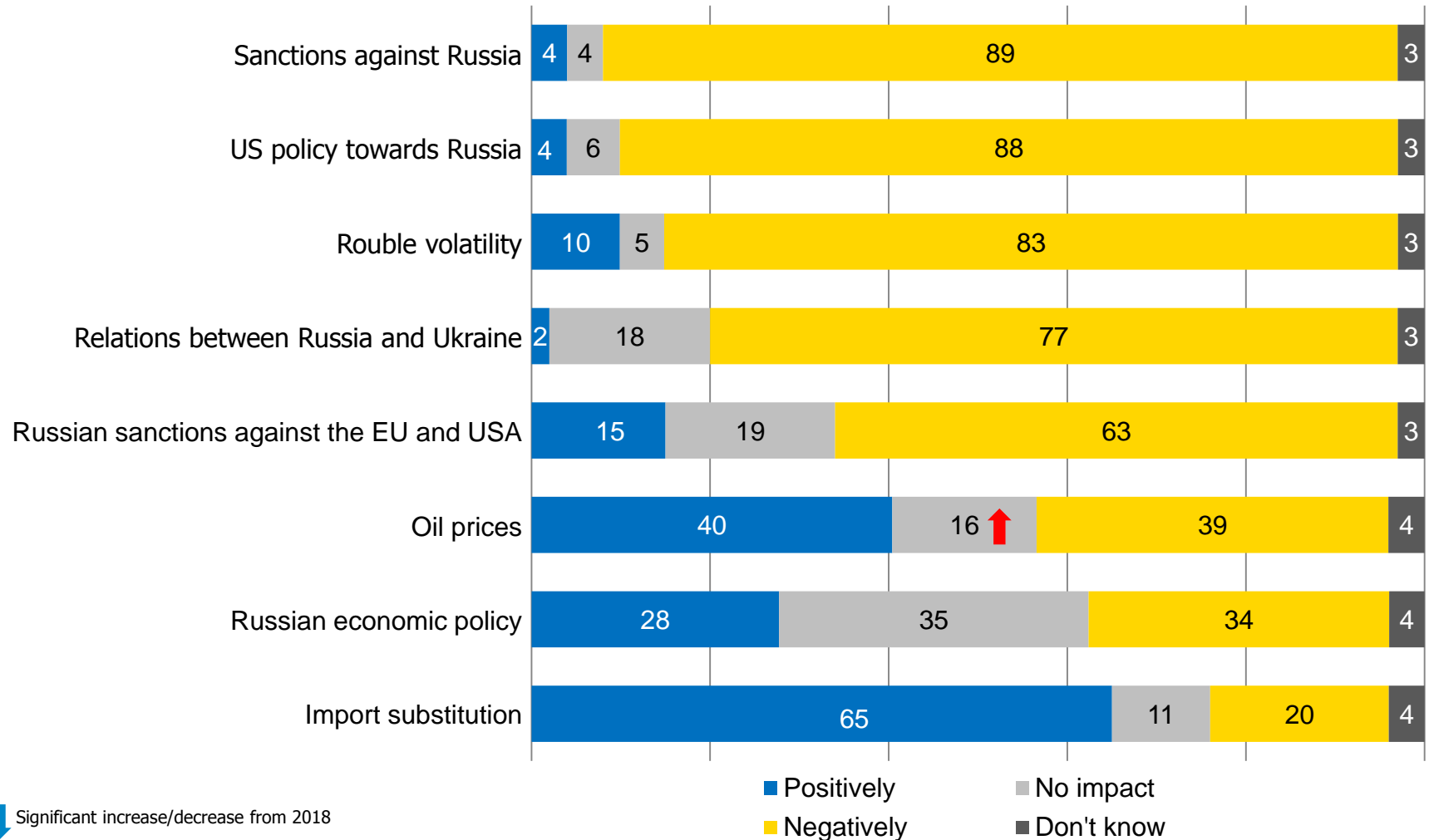


Q22. How do the following factors impact your company?

# Impact of various factors on the Russian economy



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Q23. How do the following factors impact the Russian economy?





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# AEB-GfK barometer and conclusions

# AEB-GfK barometer: Business expectations in Russia



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Integrated index

Current business  
state index  
117  
(2018 - 110)

Single indexes

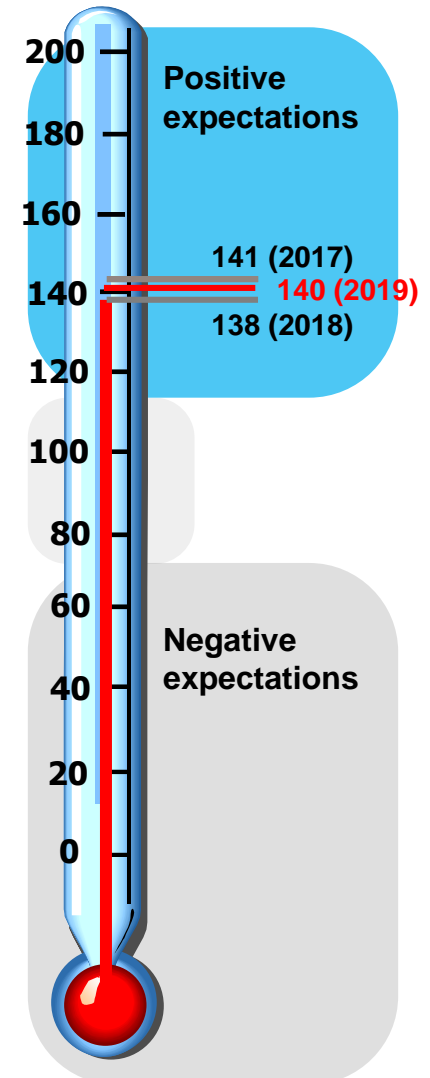
- Current business situation (I=155) ▲
- Current macroeconomic situation (I=93) ▲
- Business development index (I=102) ▲

Business  
expectations index  
151  
(2018 - 152)

Single indexes

- Business expectations (I=124)
- Short-term expectations index (I=135) ▲
- Medium-term expectations index (I=156) ▼
- Long-term expectations index (I=167) ▼
- Expected revenues index (I=167) ▼
- Expected profits index (I=158) ▲

AEB-GfK index, 2019



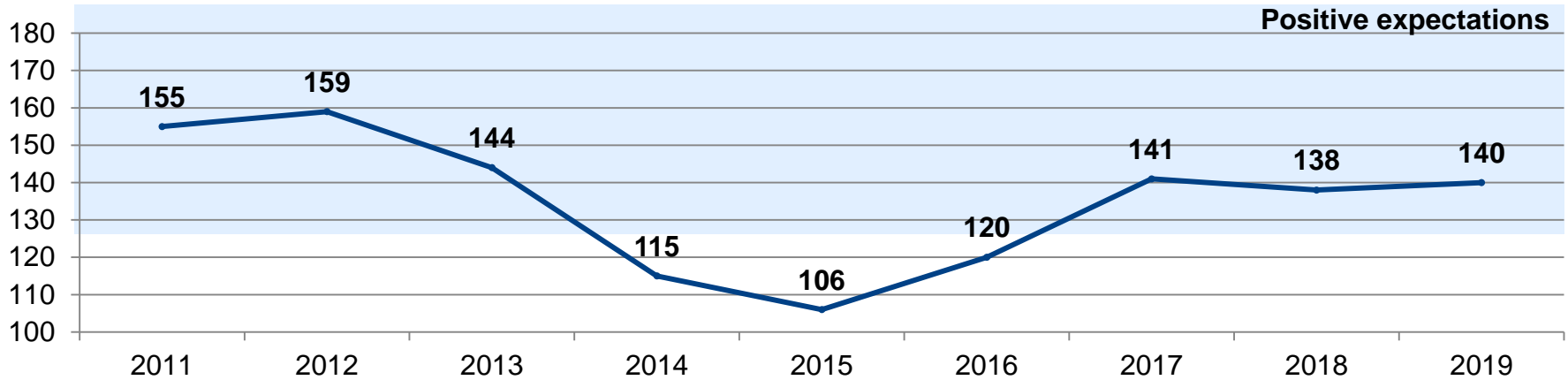
# AEB-GfK barometer: business expectations in Russia



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## AEB-GfK index



## Integrated index

Current business  
state index  
117

Business  
expectations index  
151

### Single indexes

- Current business situation (I=155) ▲
- Current macroeconomic situation (I=93) ▲
- Business development index (I=102) ▲

### Single indexes

- Business expectations (I=124)
- Short-term expectations index (I=135) ▲
- Medium-term expectations index (I=156) ▼
- Long-term expectations index (I=167) ▼
- Expected revenues index (I=167) ▼
- Expected profits index (I=158) ▲

# Main conclusions



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1. Most macroeconomic indicators show positive dynamics. Long-term (6-10 years) and medium-term (3-5 years) economic prospects remain at a high level. In the short-term (1-2 years), most companies expect either growth or stagnation in the Russian economy.
2. The comprehensive AEB-GfK index increased by 2 points from the previous year to 1400 points out of a possible 200. The main contribution to growth was made by the assessment of the macroeconomic situation, business development and short-term expectations regarding the Russian economy. The index shows positive expectations and is on the level of 2018, 2017, and 2013.
3. The financial conditions AEB members operate in are acceptable. The main barriers to financing are high interest rates and lack of cash flow/self-financing capacity.
4. AEB members assess cooperation with partners, contractors and buyers as neutral to positive, and with legislative, tax, customs and other bodies as neutral to negative. The main obstacles to business are regulatory constraints, lack of skilled labour and the low reliability of the supply chain.
5. Over the next few years, AEB members do not expect an improvement in the situation with corruption, bureaucracy or taxation.
6. The factors having the most negative impact on the performance of AEB member companies in Russia are rouble volatility, the US policy towards Russia and sanctions against Russia.



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# Thank you for your time!



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