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German companies suffer losses in Russia

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The Federal Statistical Office announced on 24 March that German exports to Russia fell in January this year by 35% year-on-year; this being the largest monthly fall since October 2009. The German Chamber of Industry and Commerce expected a fall of only 15%. Foreign investors in Russia have been affected by the significant deterioration of the market situation. Opel, which is controlled by General Motors and imports part of its components from German factories, has decided to withdraw from the Russian market. Volkswagen has also decided to temporarily reduce the output of its Russian factories. The company's based its arguments for this decision on falling sales on the Russian market and the significant weakening of the Russian rouble. Between January and February this year, the output of the automotive industry in Russia was reduced by 32%. The machine-building sector is another German branch of industry affected by the economic crisis in Russia. According to questionnaires received from companies from this sector, half of the companies need to deal with problems linked to their contractors backing out of contracts and to mounting bureaucratic barriers. The sanctions imposed by the European Union on Russia have resulted in higher loan costs and are also making it more difficult to do business.

Commentary

- More and more German companies can see that Berlin's political problems in contacts with Moscow will adversely affect economic co-operation not only in the medium but also in the long term. Doing business in Russia was not easy for German companies even before the Russian-Ukrainian war due to the numerous systemic dysfunctions of the Russian economy. However, the scale of the problems is currently increasing, especially given the significant fall in sales and the complete unpredictability of the political and economic situation in Russia. Over the past few months, firms on many occasions were unable to keep pace with raising their prices in response to the weakening of the Russian currency. They have also lost hope that the economic situation will improve, given the dwindling incomes of consumers in Russia resulting partly from the fall of global oil prices.
- Many German companies are considering the option of reducing their business activity on the Russian market. Such decisions have so far been made only by German small and medium-sized companies, around 100 of which have withdrawn from Russia over the past few months. However, large corporations can no longer disregard the fact that their sales in Russia are deteriorating, while their business in many other parts of the world, for

example China, is developing stably.

- If the forecasts for this year prove to be correct, German exports to Russia will be reduced by up to a third and economic co-operation between the two countries may deteriorate for longer. German firms will find it very difficult to maintain their activity in Russia if another year fails to offer a chance for a significant improvement of the market situation, especially given the fact that Chinese companies, attempting to take over German orders, have benefited from the political tension in relations between Berlin and Moscow. If trade falls to a significant extent another year in a row, it will be very difficult to reconstruct the network of distribution of German goods on the Russian market. Already last year, Russia was placed only twelfth on the list of German trade partners, and Germany's deficit in bilateral trade grew. Therefore, it cannot be ruled out that German companies will place stronger pressure on the German government to ease the EU sanctions imposed on Russia.