



Business in Serbia as CFOs view it

TPA Serbia Research

2022

316

\$ 399293

\$ 29998



RESEARCH GOAL



The research aims to obtain information about market trends in the real sector, including the plans for reorganizing legal entities from the perspective of Chief Financial Officers (CFOs). A special aspect is dedicated to the challenges in the financial sector of global and domestic companies, with the purpose of sharing experiences that can be helpful to financial directors and other managers in improving the quality of planning and decision-making processes. The research included fifty CFO respondents.

RESEARCH AREAS

Global and local market circumstances in the Republic of Serbia raise a number of questions:

- What are the most significant economic trends?
- What are the strategic priorities in the business of legal entities?
- What are the predictions regarding the change in the total number of employees in 2023 compared to 2022?
- What are the biggest risks from managers' perspectives?
- In what way does inflation and reference interest rate growth affect business decision-making?
- What do geopolitical tensions mean for business?
- What are the biggest challenges in terms of people management?

The research results will provide a roadmap for improving the planning process with the aim of establishing optimal management of company resources and making the right decisions.

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**Research
results**

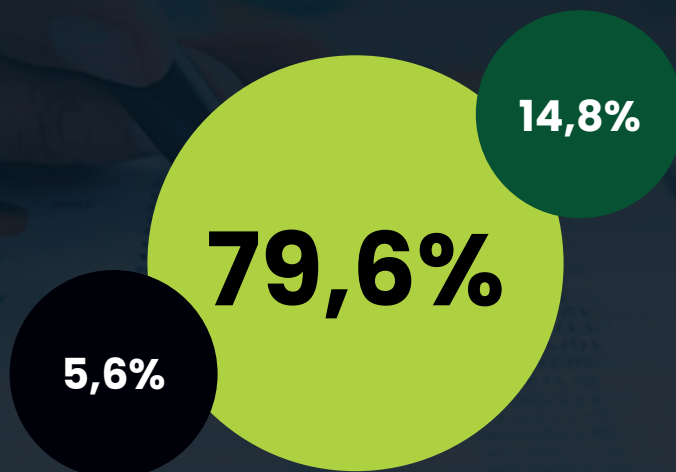


According to your financial statements, did your business record an increase or decrease in revenue during H1 2022 compared to H1 2021?



In previous years, our company experienced continuous revenue growth at significant rates. The trend continued in the first half of this year. However, this year brings specific risks, primarily when it comes to expenses that need to be particularly considered in further financial planning and forecasting.

Bojan Žepinić
Managing Partner,
TPA Serbia



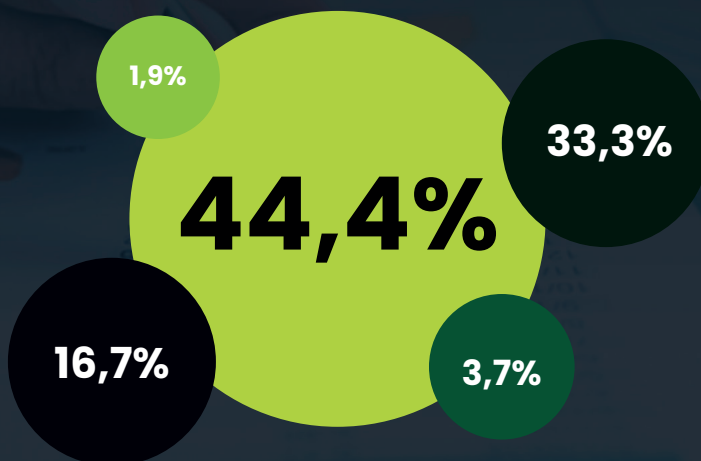
79,6% of the respondents' businesses recorded growth
14,8% of the respondents' businesses recorded stagnation
5,6% of the respondents' businesses recorded decline

What is your prediction regarding the change in the total number of employees in your company in January 2023 compared to January 2022?



I believe that the number of employees in the coming period will grow less compared to the company's business because of both the unsatisfactory labor market situation and the consequences of the automation and robotization process we have started. This trend certainly requires an additional focus on our employees, including a further rise in wages and benefits, which is one of our company's priorities for the coming period.

Bojan Žepinić
Managing Partner,
TPA Serbia



44,4% No significant changes are expected

33,3% It will increase by 5 to 10%

16,7% It will increase by more than 10%

3,7% It will decrease by 5 to 10%

1,9% It will decrease by more than 10%

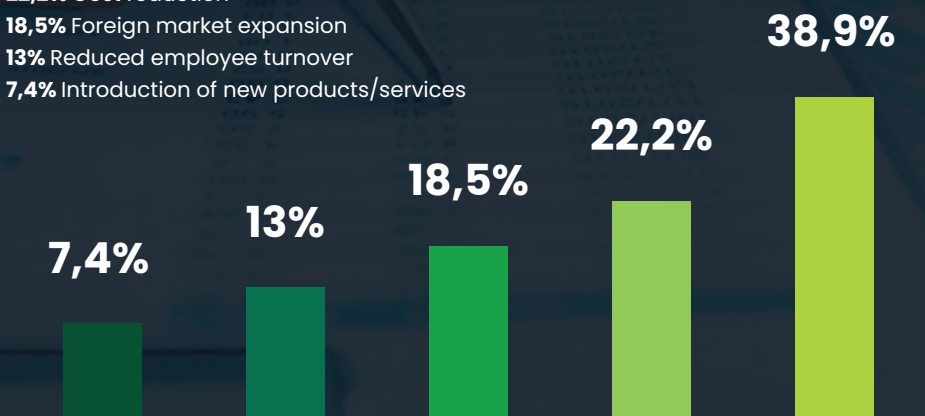
What are your strategic business priorities?

Considering the economic forecasts for 2023, which are unfortunately not promising, with constant inflation, rising interest rates, and slowing economic growth, companies are opting for savings and alternative markets. By reducing operating costs, companies will try to stay strong and resilient during the economic downturn to resist the fear overwhelming the market. Thus, due to supply chain issues caused by the pandemic and the war in Ukraine, companies will try to make use of the opportunities brought by changes and turn to the domestic market. Due to the migrations we have witnessed in previous years and the growing qualified labor supply-demand gap, there is almost no industry that is not burdened by labor shortage.



Monika Andrić Vučićević
Partner,
TPA Serbia

- 38,9%** Growth on the domestic market
- 22,2%** Cost reduction
- 18,5%** Foreign market expansion
- 13%** Reduced employee turnover
- 7,4%** Introduction of new products/services



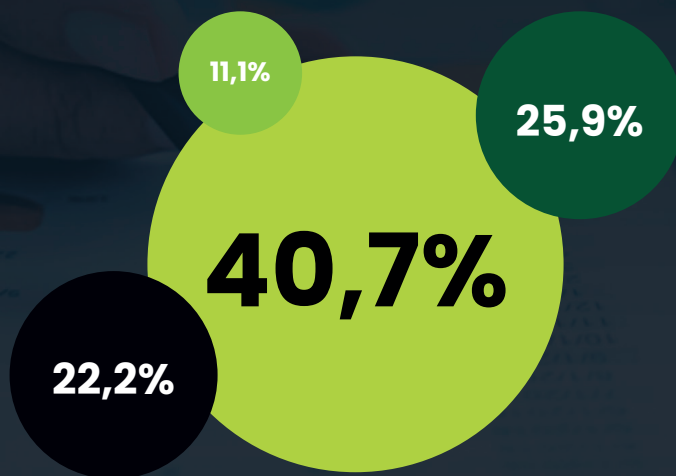
Which of the following factors do you think will pose the greatest risk to your business in 2023?



As a company that trades more than 97% of its production on foreign markets in more than 40 countries across all five continents, we see the biggest risk in the decrease in global demand that is expected due to rising inflation and consequential reduced purchasing power of the population as the end users of our products.

Miloš Đukanović

Head of Finance
Serbia & Bosnia and Herzegovina,
Henkel



40,7% Lack of qualified labor

25,9% Decrease in demand

22,2% Geopolitical risks

11,1% Supply chain continuity challenges

Did you allocate more resources for digital transformation in 2022 compared to 2021?

This is understandable, considering that we expect continued technological innovation and development in the coming period. Everything is changing rapidly, and in order for companies to stay afloat and improve, they must digitally transform and incorporate new technologies into their work processes and methods. Hybrid work, remote work, e-marketing, effective communication with clients, etc., is impossible without digital transformation.



Monika Andrić Vučićević

Partner,
TPA Srbija



53,7% Yes

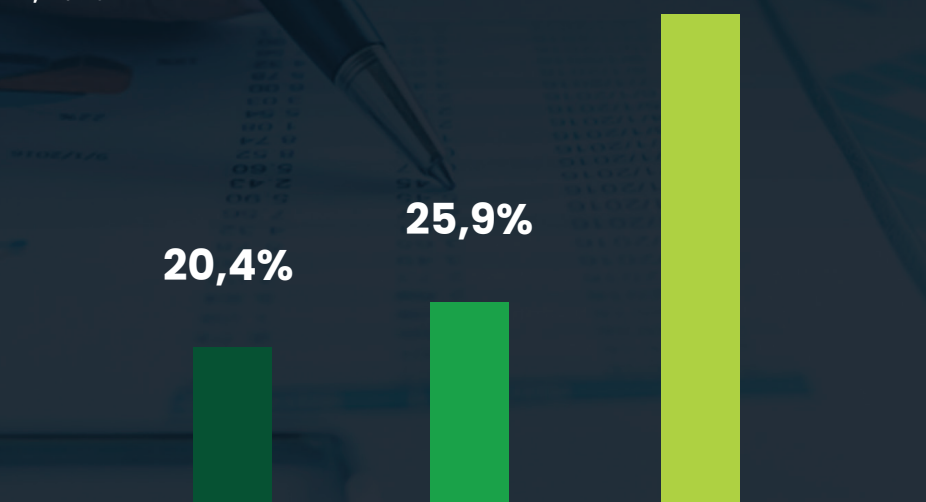
25,9% We allocated a similar amount in 2021 and 2022

20,4% No

53,7%

25,9%

20,4%

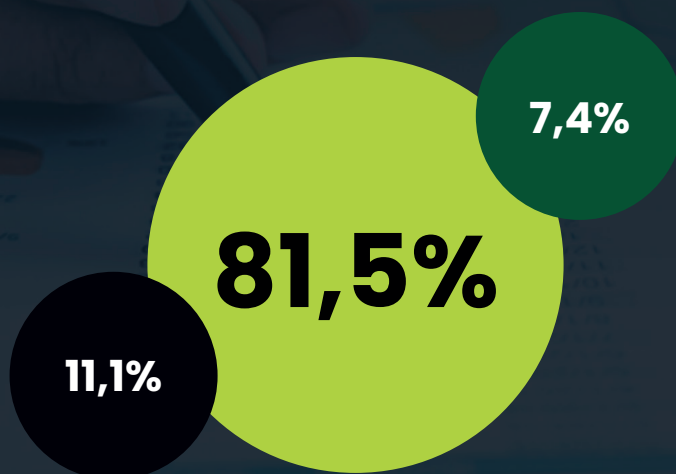


How will the increase in the reference rate in Serbia from 1% to 3.5% (August 2022) affect your company's planned investments in 2023?



From the survey results, it can be concluded that the majority of respondents are optimistic about the future in that the inflation tensions and the energy crisis will subside. This position is substantiated by the successful monetary policy measure, which, by increasing interest rates, affects inflation drop, which is a prerequisite for further economic growth and development. It would be particularly interesting to see which industries the respondents that will reduce or postpone investments belong to because they are obviously more cautious. It is possible that they come from sectors that are more energy-dependent or have a traditionally high level of debt.

Ognjen Jovanović
Finance Manager,
Eagle Hills Serbia



81,5% Our company continues planned investments
11,1% Our company will reduce planned investments
7,4% Our company will postpone planned investments

In your opinion, which threats will be the most prevalent in the next year (2023) from the financial risk aspect?

Further price growth will inevitably adversely affect the business environment. The construction industry is already seeing a slowdown due to rising costs of materials and labor, as well as energy prices. This is especially visible in industrial construction, where inquiries have drastically decreased compared to the past 12 months. Add to this the growth of borrowing costs, which have already skyrocketed, and you can understand why the construction industry is expected to experience stagnation and possibly even a decline.



Ljubomir Đurović
Financial Director,
Penta Ge.Co. Construction



87% Inflation growth
13% Growth in borrowing costs

87%

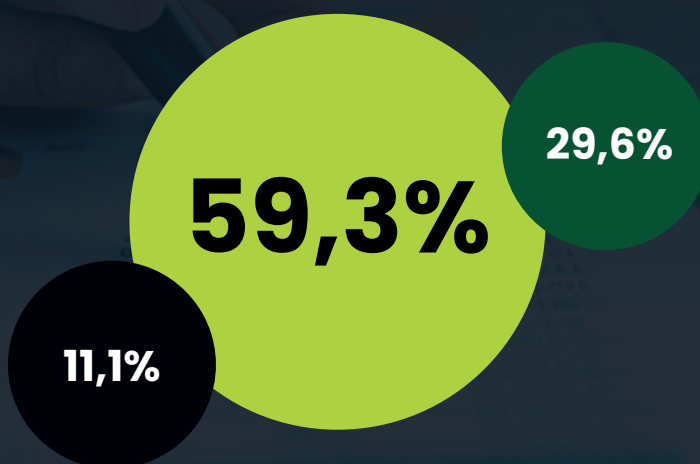
13%

Was the rising inflation in Serbia kept up with by a proportional increase in the prices of your company's services/products?



Based on the obtained results, the conclusion is that, unfortunately, this will affect the growth rate reduction in most companies in Serbia. Construction and manufacturing companies have reacted more slowly to the negative global trend and failed to offset the significant increase in input prices by increasing the prices of their services. The percentage of 11.1% was achieved, probably dominantly, in the domain of service companies because they are by nature more agile compared to manufacturing and construction activities.

Jelena Hadžić
Audit Manager,
TPA Serbia



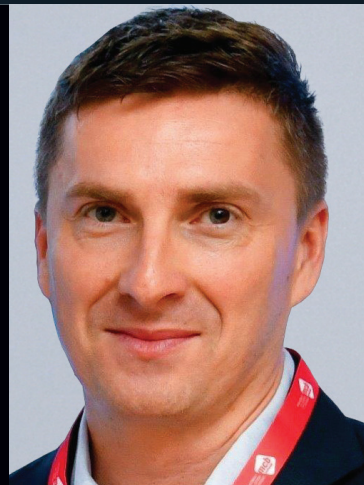
59,3% There was an increase, but disproportionate to inflation

29,6% There was no increase

11,1% Yes, the increase kept up with inflation proportionally

Was the rising inflation in Serbia kept up with by a proportional raise of salaries in your company?

It is clear that, in most cases, wages have fallen out of step with rising inflation, leading to a decline in the purchasing power of the employed population. On the other hand, companies anticipate a recession and try to optimize their operations with as low operating costs and as efficient cash flow as possible. Given that demographic trends decrease labor availability and the demand is on the rise - I expect that employee turnover will increase towards employers who will be more flexible in terms of increasing earnings but also overall working conditions (which employees find increasingly important).



Slobodan Žepinić
Director of Finance,
Novelic

53,7% There was a raise, but disproportionate to inflation

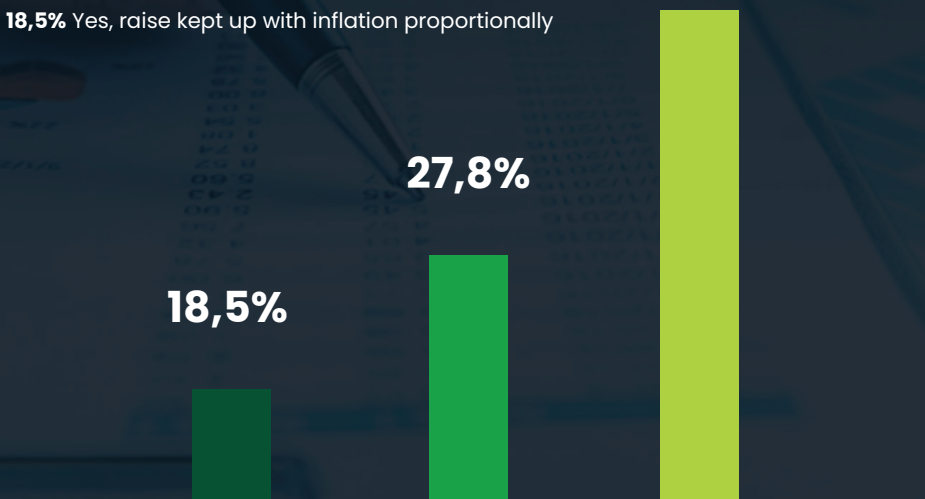
27,8% There was no raise

18,5% Yes, raise kept up with inflation proportionally

53,7%

27,8%

18,5%

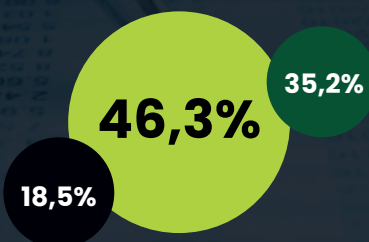


Do you plan to earmark more funds for green transformation and ESG strategy creation/ implementation in 2023 compared to the annual average you allocated in the previous three years of business?



Since its arrival 20 years ago, Henkel Serbia has been committed to sustainable business. In accordance with the Global Sustainability and ESG Strategy, Henkel was the first company to issue green bonds in 2021. In addition to striving to be a climate-positive business, Henkel is focused on contributing to the community through its corporate volunteering program. Next year, we plan to keep the same level of investment and continue regular and special projects such as cleaning water surfaces and afforestation in Serbia. We also expect the largest 5 MW solar power plant in Henkel's system to start operating at our production location in Kruševac, which will make our contribution even more significant.

Miloš Đukanović
 Head of Finance
 Serbia & Bosnia and Herzegovina,
 Henkel



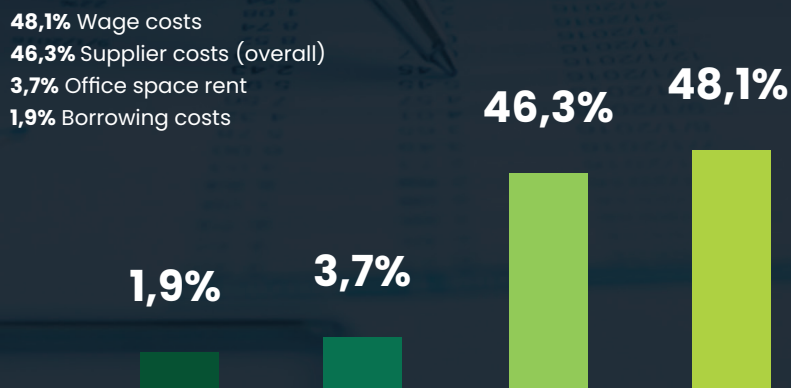
46,3% For 2023, we plan to keep the investments at the previous level
35,2% We do not plan investments in 2023
18,5% We plan more investments in 2023 than before

In which of the following costs do you expect the most significant increase in your budget in 2023 compared to 2022?

Quite expectedly, the greatest number of respondents (48.1%) answered that the most significant increase in the budget for 2023 relates to the costs of employee wages. I consider the increase in wage costs to be a handy mechanism for both the individual and the economy as a whole, but also the overall image of our country in the eyes of investors. Unlike supplier costs (overall), in which 46.3% of respondents expect the greatest growth in this field, the increase in wage costs was not only influenced by inflation, neither global nor local. I consider the Serbian labor market situation and below-basket of goods level wages to be the key reasons for the above (positive) expectations.



Verica Teofilović
Finance Director,
Doncafé Strauss Adriatic

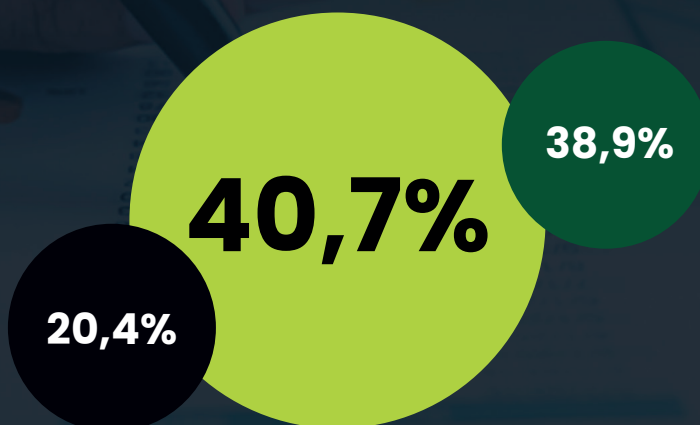


With which of the following internal functions do you expect more intensive cooperation in 2023 compared to 2022?



Research results show there is awareness of a high, now chronic shortage of qualified labor in all industries. There is no business development without quality people. Therefore, 40.7% of respondents believe that the human resources sector has a challenge not only to attract staff but also to retain existing quality people because the supply-demand gap in this segment is growing. As for more intensive cooperation with IT, as many as 38.9% of respondents believe that business is changing drastically and that digital transformation is becoming a necessity of modern business, i.e., imperative to achieve optimization, quick adaptation, and efficiency in work in order to successfully keep up with changes surrounding us.

Ana Perović
Tax Consulting Director,
TPA Serbia



40,7% HR
38,9% IT
20,4% Procurement

Does the transfer of companies (and their employees) from Russia and Ukraine to Serbia affect your business?

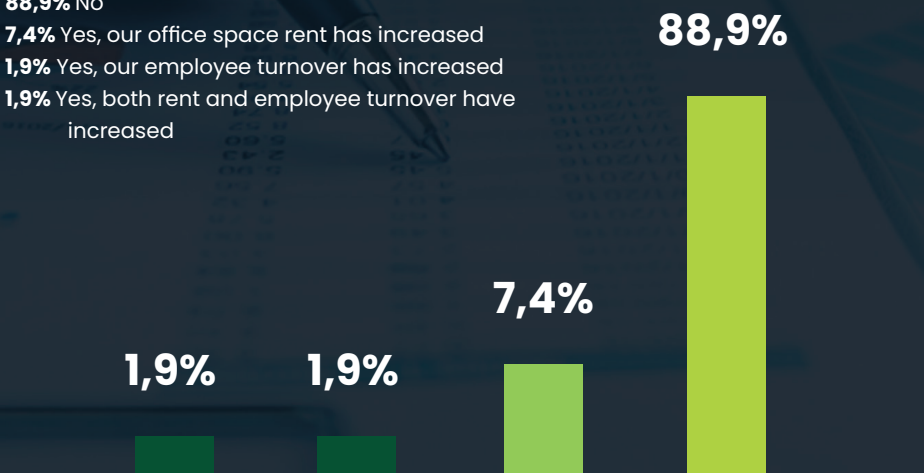
In our case, the transfer of companies from Russia and Ukraine does not affect our activity. The contacts we had with Russian and Ukrainian companies are almost exclusively from the IT or service sector. Nevertheless, they have influenced the short-term growth of commercial and residential rental prices, but it is difficult to predict how long this will last. If they decide to stay in Serbia long-term, they will certainly try to reduce their business costs and adapt to domestic conditions. We assess this growth as temporary because they had to quickly relocate their businesses during the sanctions period, so it was expected that they would pay more compared to market prices in the short term.



Ljubomir Đurović
Finance Director,
Penta Ge.Co. Construction



88,9% No
7,4% Yes, our office space rent has increased
1,9% Yes, our employee turnover has increased
1,9% Yes, both rent and employee turnover have increased

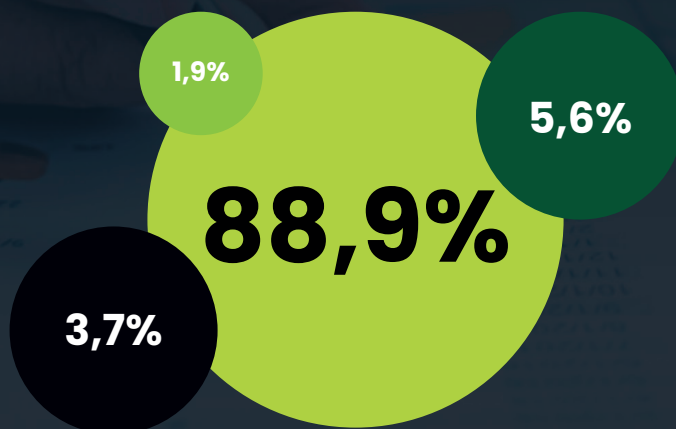


Do sanctions imposed against Russian companies and difficult payment transactions affect your business?



This answer gave us confirmation that we are much more connected to the EU market than to the Russian market, but the answer also indicates that the Russian market is resilient and stable. I personally believe that the effects of the war in Ukraine, but also the results of government pandemic-related decisions in many countries, are to be felt in the period to come (here I primarily mean uncontrolled printing of money that leads to inflation and thus destroys the purchasing power of the currency, the earnings power, and the savings value).

Slobodan Žepinić
Director of Finance,
Novelic



88,9% No

5,6% Yes, our production costs have increased

3,7% Yes, our sales decreased

1,9% Yes, our sales increased

Does the nearshoring trend affect your business?

The research results indicate that the majority of respondents expect the global economic and political situation, as well as international cooperation, trade, and transport to normalize. On the other hand, more and more companies recognize the benefits of nearshoring trend and try to make use of it or diversify their risks.



Ognjen Jovanović
Finance Manager,
Eagle Hills Serbia



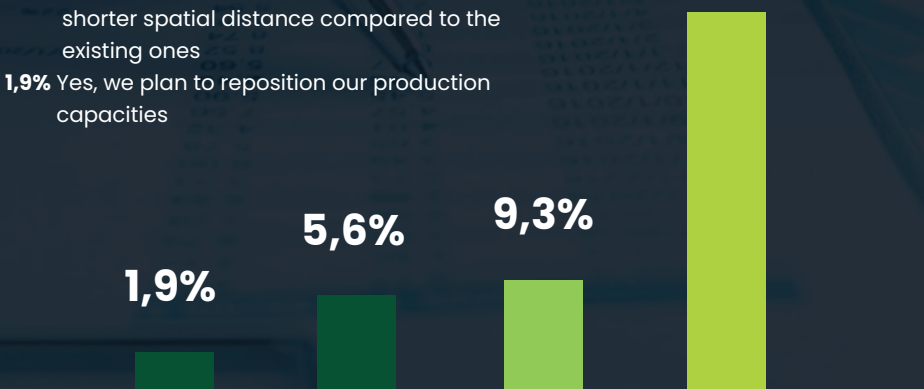
83,3% No

9,3% Yes, when choosing partners outside our country, we prioritize cooperation with partners with similar or complementary values and corporate culture

5,6% Yes, we are working on finding suppliers at shorter spatial distance compared to the existing ones

1,9% Yes, we plan to reposition our production capacities

83,3%





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Bojan Žepinić has been the Managing partner of TPA Serbia since 2010 and is responsible for the entire company's operations. Since 2020, he has been the Chairman of the Board of Directors of TPA Group.

Bojan is a guest lecturer and an expert author in the field of taxes and M&A.

TPA Serbia is a member of the TPA Group and is one of the leading companies in the field of accounting, tax consulting, and auditing in Serbia.

TPA Group has over 1,700 employees in 30 offices in Albania, Austria, Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

In September 2020, TPA Serbia became a full member of Baker Tilly International. Thanks to the cooperation between TPA Serbia and the Baker Tilly International network, 12 countries of the independent TPA Group are connected globally, and we are able to provide quality services in all major business centers and regions worldwide.

