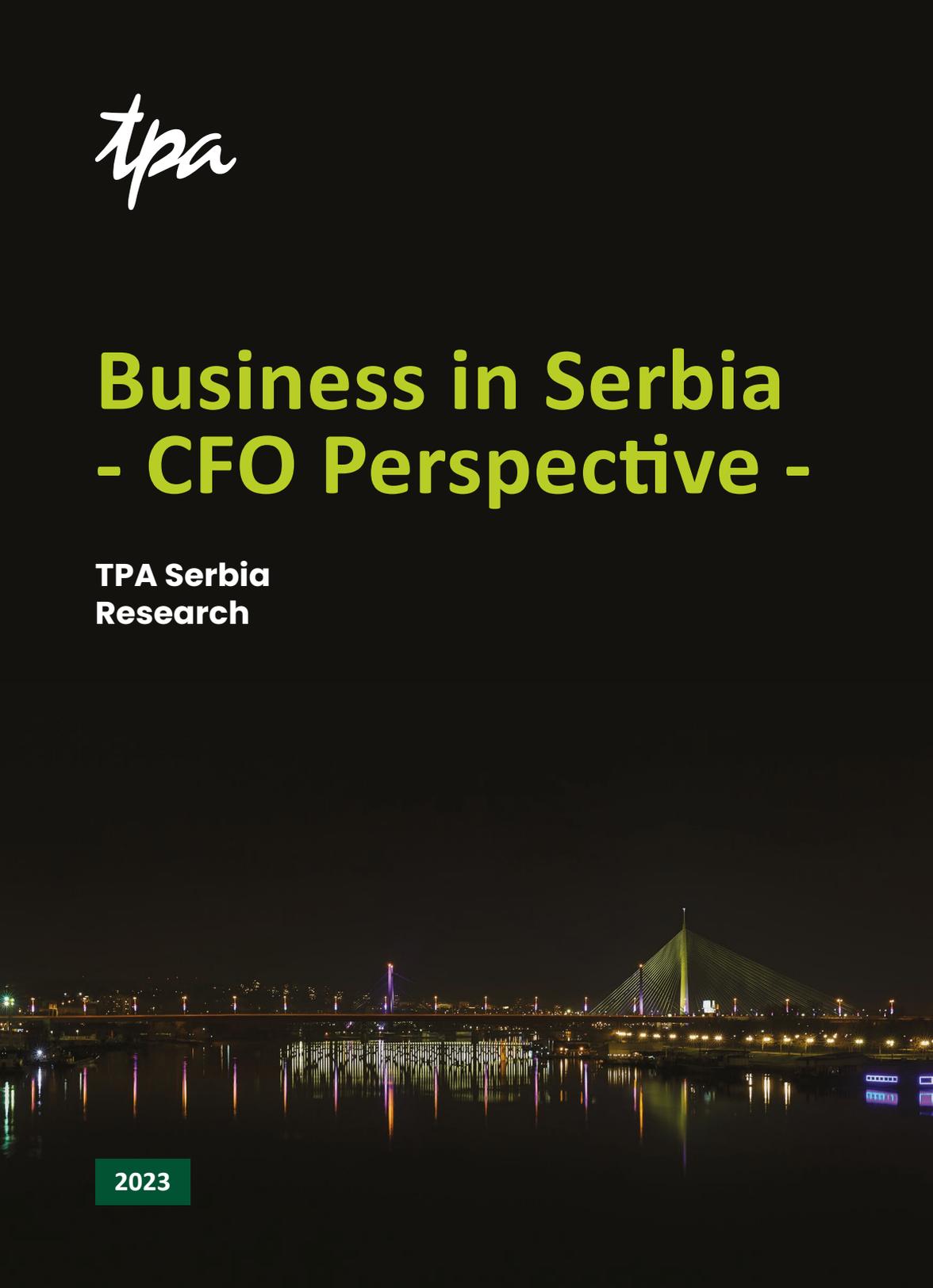




Business in Serbia - CFO Perspective -

**TPA Serbia
Research**

A nighttime photograph of a cityscape reflected in water. A prominent cable-stayed bridge with a tall central pylon and numerous stay cables is illuminated and reflected in the water. The city lights in the background are also reflected. The overall scene is dark with vibrant colors from the lights.

2023



RESEARCH OBJECTIVE

The research aims to acquire information about market trends in the economy and the plans for reorganizing businesses from the perspective of finance sector executives. A specific focus is placed on challenges in the finance sector of both global and domestic companies. The information and research results obtained can be helpful for financial directors and executives in other sectors for more effective planning and decision-making. Fifty CFOs participated in the research.

RESEARCH AREAS

The global and local market conditions in the Republic of Serbia raise a number of questions:

- What are the most significant trends in economic developments?
- What are strategic priorities in the operation of businesses?
- What predictions are there regarding changes in the total number of employees in 2024 compared to 2023?
- Which business risks do executives see as the most significant?
- When is the implementation of artificial intelligence planned in any of the company's business segments?
- How do companies plan to invest excess corporate liquidity

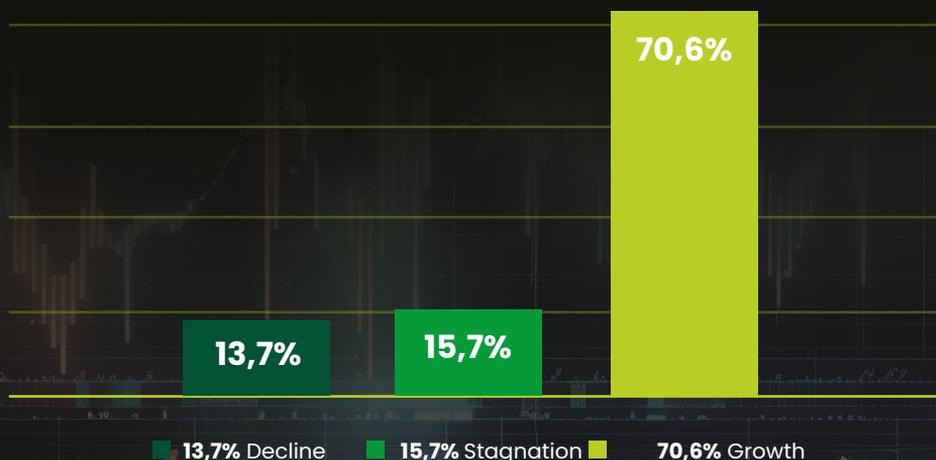
The research results will provide a roadmap for improving the planning process, all with the aim of optimal resource management for companies and making informed decisions.

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**Research
results**

According to your financial reports, has your business recorded an increase or decrease in revenue during H1 2023 compared to H1 2022?



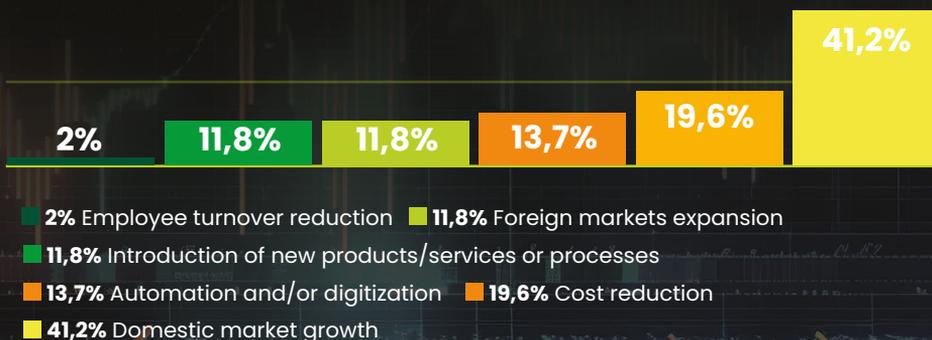
Ana Arnaut Vučenović

Head of Finance and
Administration, TX Services

For the majority of surveyed companies, there has been a rise in income compared to the corresponding period in 2022.

The survey findings align with the report from the Republic Statistical Office, highlighting that the highest growth index in business revenue was observed in the service sector. One of the factors contributing to the uptick in business revenue is undeniably the influence of the "post-COVID" era, during which sectors such as tourism, transportation, and hospitality once again underwent expansion. Furthermore, inflation has a noticeable impact on business revenues as well as on business expenditures.

What are your strategic business priorities?



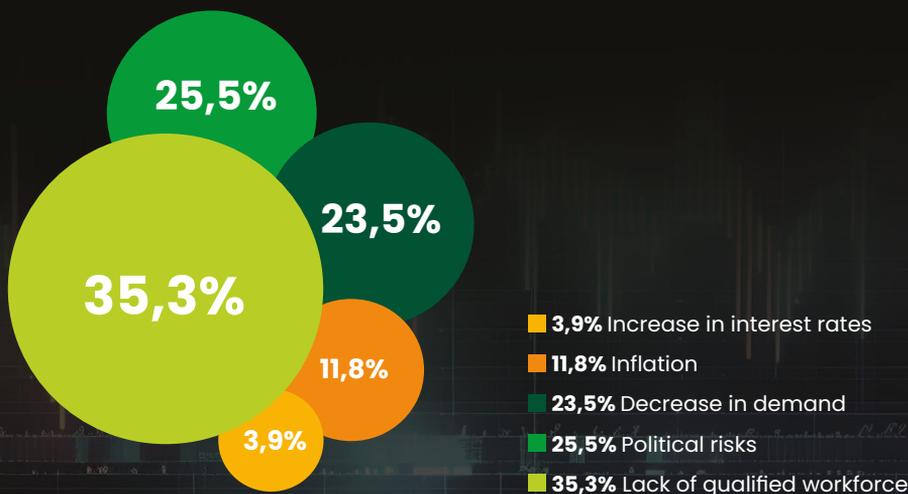
It is almost impossible to imagine a company, regardless of its size or industry, not having the improvement of business through new technologies among its strategic goals.

At TPA Serbia, we fully understand these circumstances and plan to implement robotic process automation (RPA) in 2024. This will make our operations more efficient and enable us and our clients in the Accounting Department to focus more on the actual needs of each client.



Bojan Žepinić
 Managing Partner
 TPA Serbia

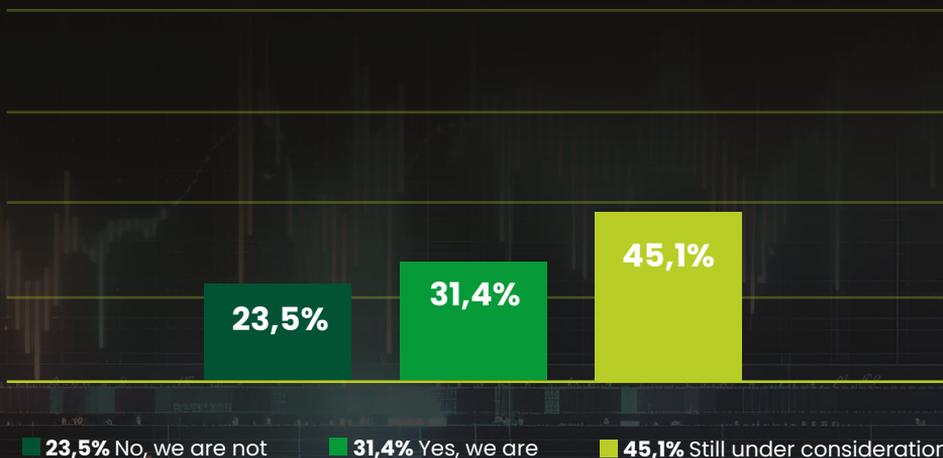
Which of the listed factors do you consider to pose the greatest risks to your business in 2024?



Thomas Haneder
 Managing Partner
 TPA Group

The labor market situation will continue to pose a significant challenge for our business in 2024, not only in Serbia but throughout the entire CEE/SEE region. Consequently, the strategy is to concentrate on digitalization and automation to maintain innovativeness and competitiveness in the future. The global political landscape has grown increasingly uncertain, impacting various business sectors. Although preparing for potential consequences is challenging, it is crucial to consider the potential pathways for future developments.

Are you planning to increase your services/product prices in 2024, considering high inflation, rising interest rates, and salary increases?



Depending on the industry in which companies operate, it is certain that most are contemplating and planning to increase their service prices, considering inflation, the rise in wage costs, and financing expenses. However, depending on the industry, some companies will find it easier to implement this than others.

I believe that in the highly competitive construction industry, compensating for these costs may not be feasible by raising service prices. It is more realistic that in 2024, firms will absorb a portion of these costs at the expense of their results.

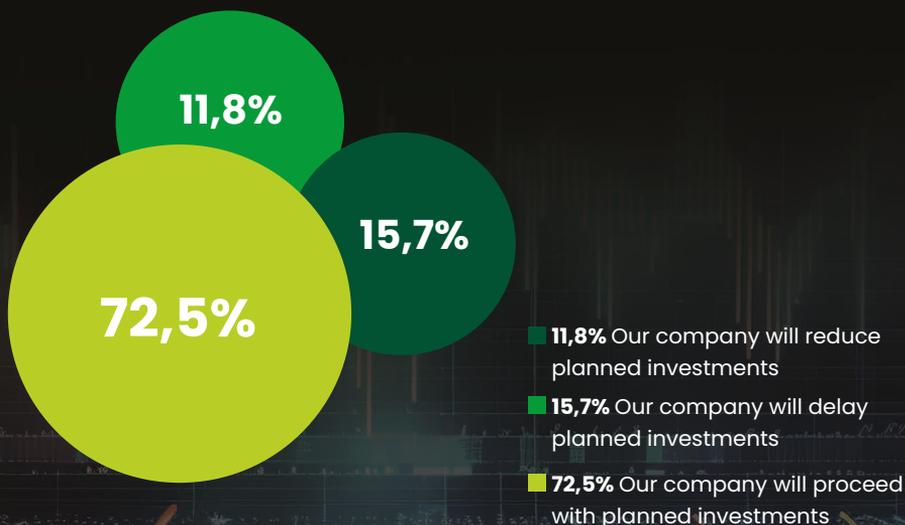


Ljubomir Đurović

CFO

Penta Ge.Co. Construction

How will the rise in the reference interest rate in Serbia in 2023 impact your company's anticipated investments in 2024?

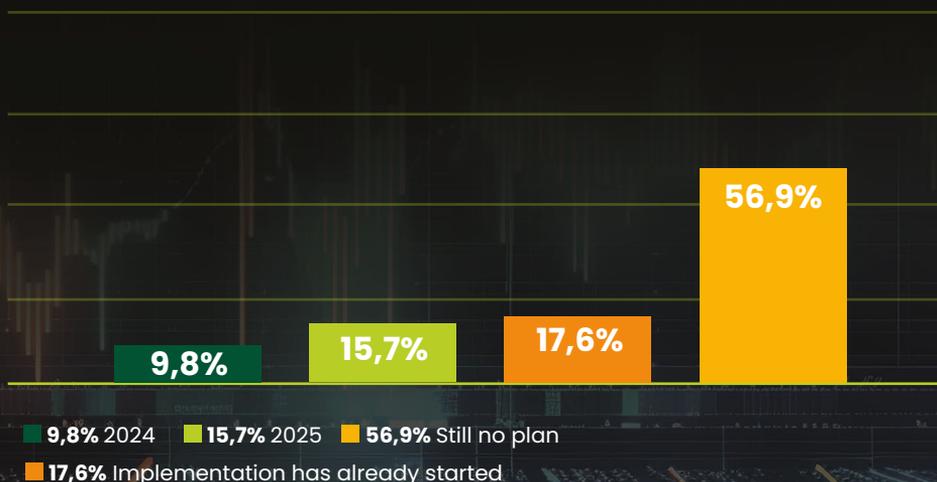


Ana Arnaut Vučenović

Head of Finance and
Administration, TX Services

Just over two-thirds of the surveyed companies anticipate they will proceed with their planned investment activities despite the rise in the reference interest rate. Given that higher interest rates naturally decrease enthusiasm for loans and investments while boosting interest in savings, this somewhat unexpected outcome is primarily favorable news for the Serbian economy and potentially a promising indication for medium-term economic recovery. It can be inferred that the business sector perceives the National Bank of Serbia's restrictive measures as expected, even necessary, to mitigate the persistently high inflation in the country compared to the EU. Additionally, there are optimistic economic expectations for the upcoming year.

When do you approximate your company will start implementing artificial intelligence within some aspect of your business?



Given virtual assistants in the banking sector and artificial intelligence (AI) making business decisions through diverse parameters, including customer experience analysis or logistical tasks, the results are nothing short of expected.

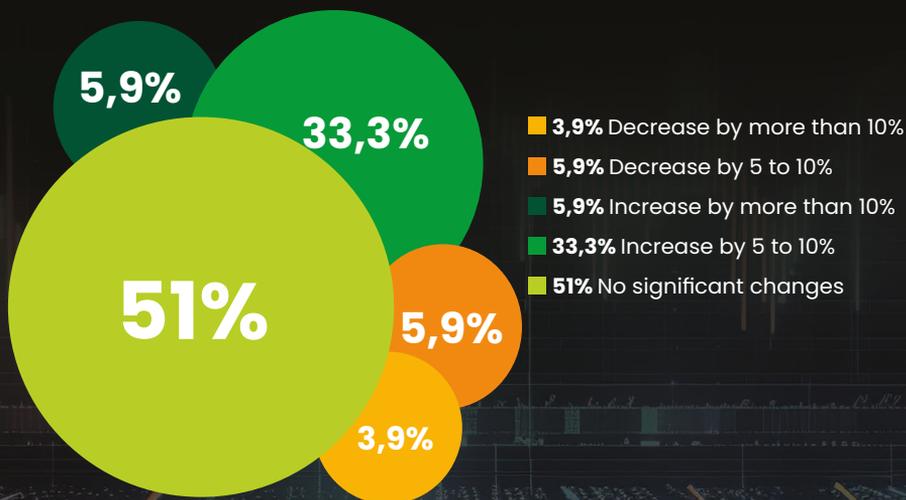
AI is progressively employed in activities that entail automation or processing extensive data to identify optimal solutions. Nevertheless, AI is not yet suitable for domains demanding experience and creativity. Whether and to what extent it can be employed in those fields remains uncertain. The research outcomes in the upcoming years will probably provide responses to these questions.



Ana Perović

Tax Director,
TPA Srbija

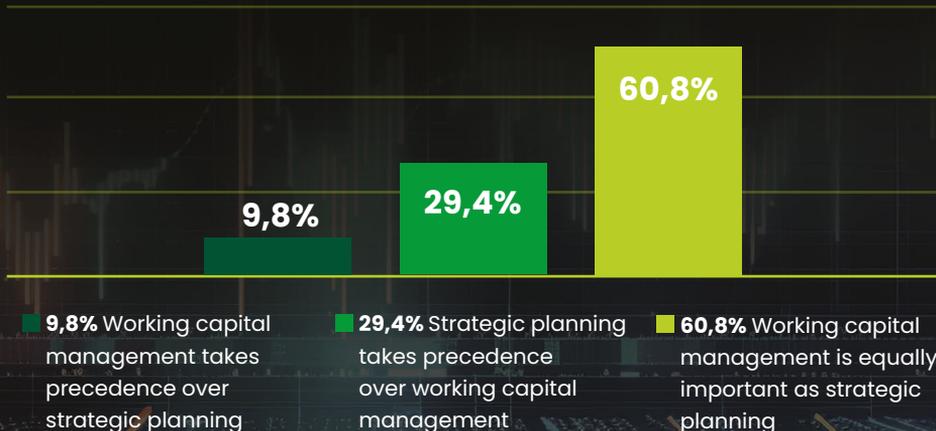
What do you predict regarding the change in the total number of employees in your company in January 2024 compared to January 2023?



Bojan Žepinić
 Managing Partner
 TPA Serbia

Our company has welcomed 15 new employees this year, bringing the total number of employees at TPA Serbia to over 60. Given our organization's high sensitivity to efficiency, the number of employees has grown less than the revenue when comparing the beginning of 2023 and 2024.

The strategy aims for results in the future, while tactics aim for results now. Companies increasingly expect immediate results. Do you plan to prioritize working capital management over strategic planning in 2024?



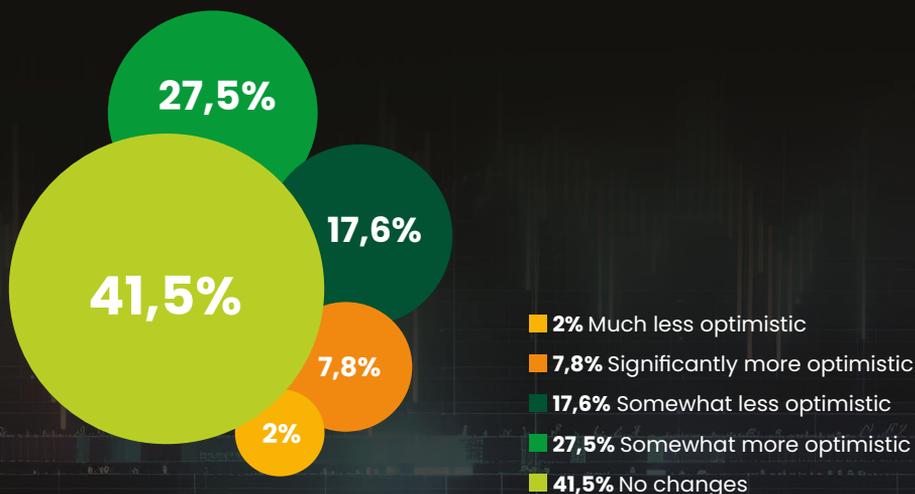
In our case, in 2024, we are shifting the emphasis from tactics to strategic planning. In previous years, the focus was on what needed to be done and how to do it best, engaging in tactics. We are entering a period where the analysis shifts to why we are doing things this way, and the most



Jelena Hadžić

Head of Audit,
TPA Srbija

In comparison to the period six months ago, what are the financial prospects for your company?

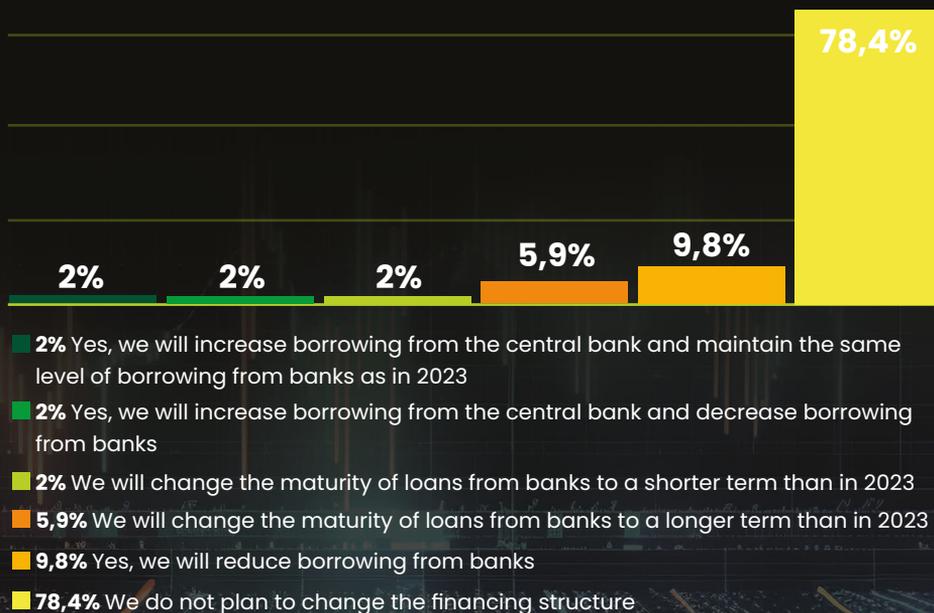


Ognjen Jovanović

The Head of the Accounting
and Payroll Department
TPA Serbia

The research has shown that 45.1% of respondents believe that the situation regarding their companies' financial prospects will remain unchanged compared to the period six months ago. These results indicate the majority's expectation that the prospects for economic growth will stay at the same level, considering that achieving the targeted inflation rate of around 3% is projected only by the end of 2024. Consequently, significant reductions in the reference interest rate of the National Bank of Serbia are not expected in the coming months. It is also essential to consider that the current geopolitical situation is one of the main factors contributing to global economic volatility and unpredictability, reflecting the diversity of results in this survey.

Do you plan to change the financing structure in 2024?



- 2% Yes, we will increase borrowing from the central bank and maintain the same level of borrowing from banks as in 2023
- 2% Yes, we will increase borrowing from the central bank and decrease borrowing from banks
- 2% We will change the maturity of loans from banks to a shorter term than in 2023
- 5,9% We will change the maturity of loans from banks to a longer term than in 2023
- 9,8% Yes, we will reduce borrowing from banks
- 78,4% We do not plan to change the financing structure

It is clear that, in most cases, market entities have already adapted to the significant increase in the cost of financing sources, and any change can only lead to additional risks and/or costs.

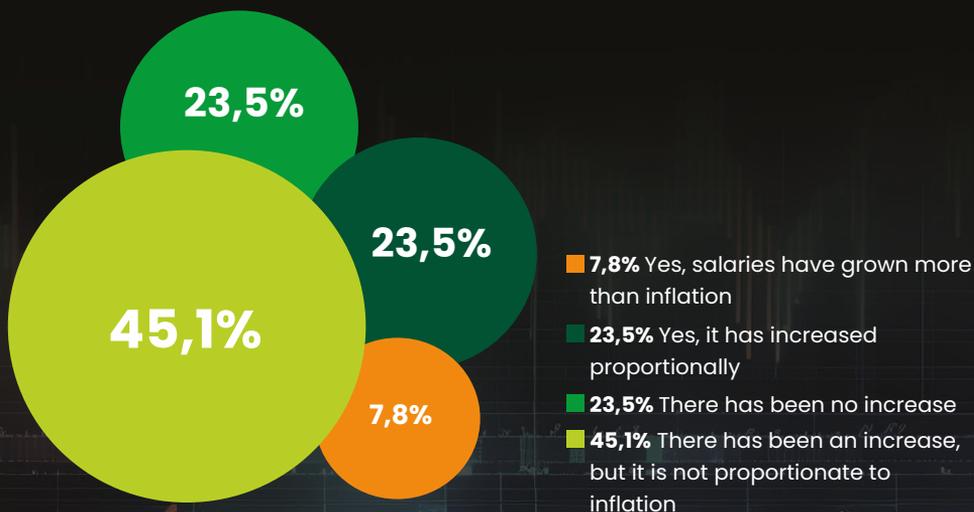
Due to the instability caused by the pandemic, economic entities have, on the one hand, maintained a high level of caution when taking on debt, which the additional uncertainty of the tightening monetary policy in the country has further intensified.

Certainly, in the upcoming period, if interest rates are not relaxed, the structure of financing sources will remain unchanged.



Žarko Vuković
CFO,
OMV

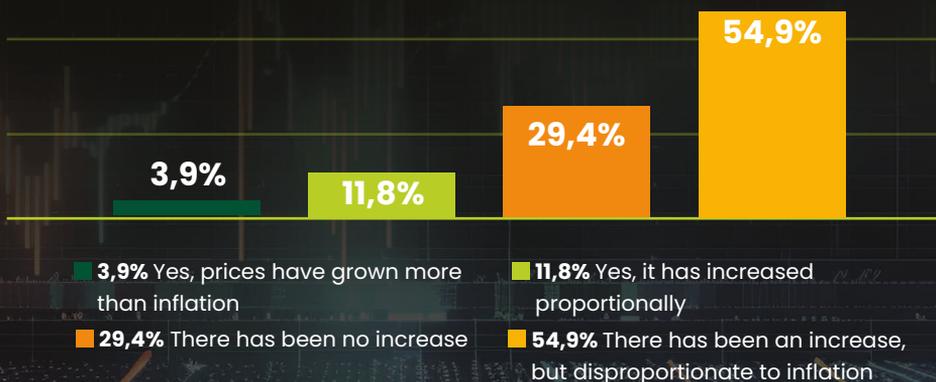
Did the inflation growth in Serbia correspond to a proportional increase in employee salaries in 2023 in your company?



Bojan Lukić
Tax Manager
TPA Serbia

Based on the obtained results, the conclusion is that the salary increase follows the inflation growth but not to a sufficient extent. Given that the inflationary trend persists and, conversely, acknowledging that salaries constitute a crucial element in the overall contentment of employees, employers in this domain encounter substantial challenges.

Did the inflation growth in Serbia correspond to a proportional increase in the prices of your company's services/products?



Most companies in Serbia have not kept pace with the significant inflationary surge they have faced in the last two years. It is crucial to highlight that 29% of respondents have been unable to raise the prices of their services or products. This indicates a dire economic situation for such companies and their position in the market, considering the substantial increase in input costs necessary for their operations.

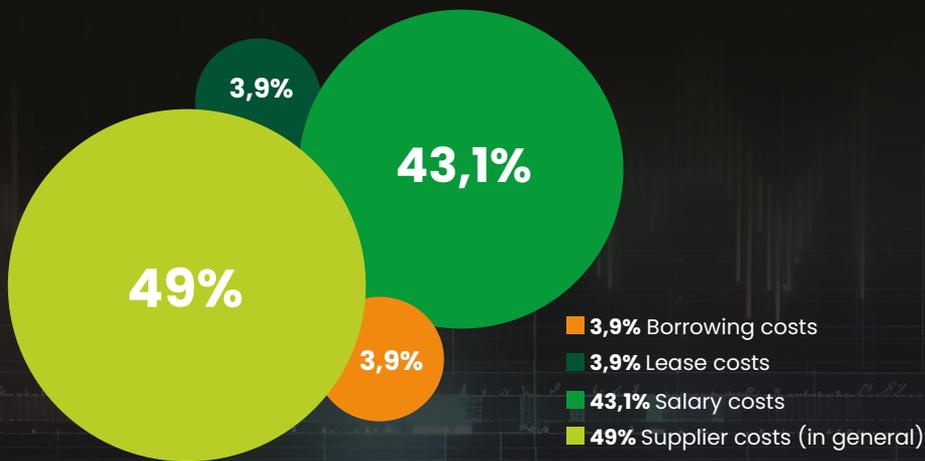
The continuation of inflation growth is anticipated in the upcoming period, posing a significant challenge for all companies to navigate this trend, even for the few that have managed to do so thus far.



Mirela Arsić

Senior Tax Manager
TPA Serbia

For which of the listed costs do you expect the largest increase in your budget in 2024 compared to 2023?

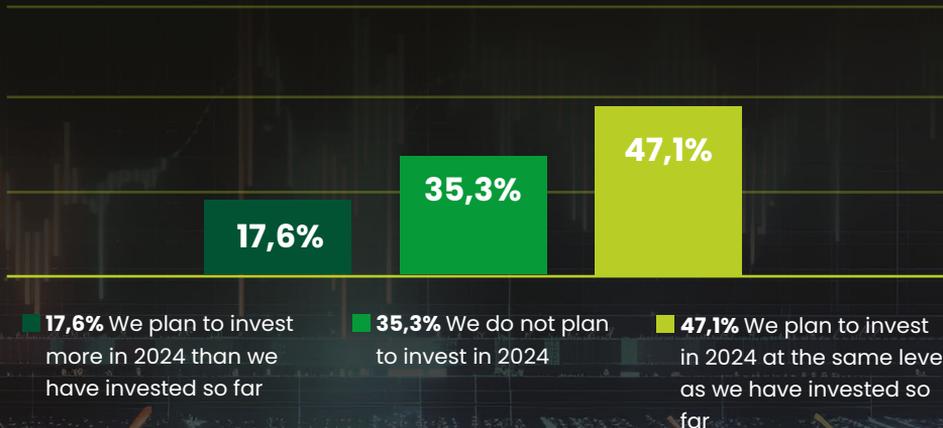


Ognjen Jovanović

The Head of the Accounting and Payroll Department
TPA Serbia

The survey results indicate that most respondents expect largest increase in supplier and salary costs. Such expectations align with the projected growth of almost all tax revenues defined by the budget of the Government of the Republic of Serbia, on the one hand, and the fact that in a large number of companies, employee earnings have not kept pace with inflationary movements or have not done so to a sufficient extent. This necessitates the demand for aligning salaries with the cost of living as a prerequisite for preserving human resources, a crucial and already scarce factor for further economic and financial growth and prosperity.

The majority of company boards have ESG (environmental, social, and governance) strategy on their agenda. Do you plan to allocate more funds in 2024 for the creation/implementation of the ESG strategy compared to the average annual allocation over the past 3 years of business?



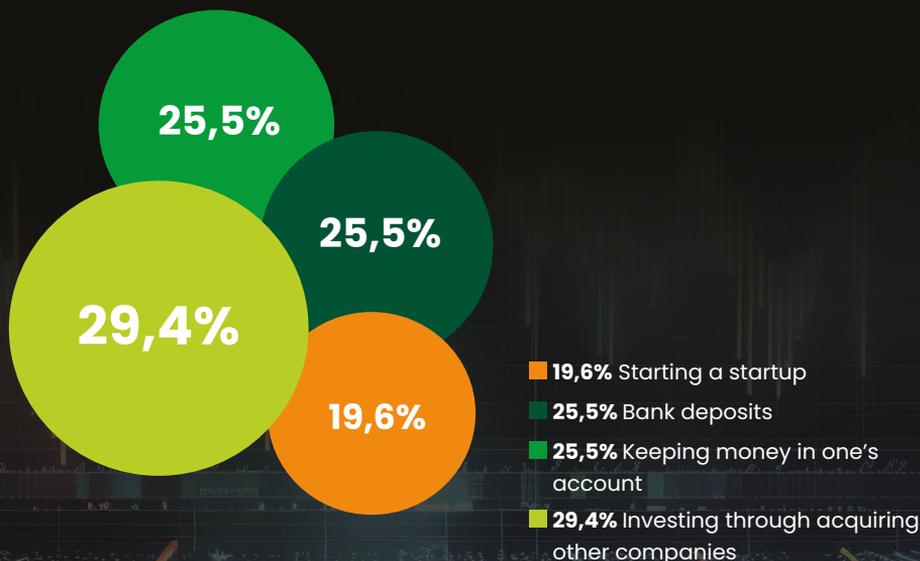
The research results indicate a rising awareness among companies that increasingly incorporate environmental protection, social responsibility, and conscientious corporate governance as integral parts of their business strategy. Greater access to capital markets and favorable financing conditions, rational resource use leading to business optimization, attraction of more qualified and talented workers, and an enhanced reputation both locally and globally are some of the advantages of implementing ESG.

The survey shows that 64.7% of respondents plan to continue or increase investments in developing ESG strategies during 2024. It is expected that this percentage will continue to grow over time.



Nataša Marinković
 Director in the Accounting Department, TPA Serbia

How would you invest the surplus corporate liquidity?



Jelena Hadžić

Head of Audit,
TPA Srbija

Since we are engaged in acquiring companies for our clients, we are familiar with the risks and benefits of investing surplus funds in company acquisitions.

In our case, the decision would lean in this direction. An increasing number of smaller family-owned companies on the market are attractive for acquisition. Based on the survey, it can be concluded that most participants share my opinion.



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

Bojan is a guest lecturer and an expert author in taxation and M&A.

TPA Serbia is a member of the TPA Group and is one of the leading companies in the fields of accounting, tax consulting, audit, and IT solutions in Serbia's financial domain.

The TPA Group has over 1,700 employees in 30 offices across 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 collaboration between TPA Serbia and the Baker Tilly International network, 12 countries within the independent TPA Group are interconnected globally, enabling high-quality services in major business centers and regions worldwide.

