AmCham 2020 Covid-19 Business Impact Survey
Second Round

Background

This report details the findings of the second round of the Business Impact Survey conducted by the American Chamber of Commerce in Serbia (AmCham Serbia) following the outbreak of the SARS-CoV-2 virus (novel coronavirus). The poll aimed at providing a structured presentation of the current and expected effects of the pandemic on firms, as well as assessing the measures that ought to be taken to minimise the adverse impact on human health and the Serbian economy. The survey examined perceptions of AmCham member companies about the state of Serbia's economy in the aftermath of the Covid-19 outbreak and the measures imposed by the Serbian Government to curb the spread of the infection.

A survey of the same sample of companies conducted in the autumn of 2019 found that 78 percent of all respondents had been planning to expand their businesses in 2020, whilst 61 percent had been preparing to take on new staff.

The latest findings indicate that firms are expecting to see profits tumble by 25 percent and investments decline by 30 percent. Most companies (71 percent) are not planning layoffs, 14 percent expect new hiring, and 15 percent are planning to shed jobs.

The first round of the Covid-19 Business Impact Survey took place from 13 to 17 March 2020 on the same sample of companies. This second round was conducted from 4 to 13 May.

The key findings are as follows:

- ***The pandemic has already had a major adverse impact on operations, with further difficulties expected:* close to two-thirds of those polled reported issues with their businesses, and another quarter are expecting these to become apparent soon.** Nevertheless, ***firms are more optimistic now than in the first round of the survey:*** in March, 42 percent of all respondents had forecast difficulties ahead. Falling demand for goods and services, local and global lockdowns, and difficulties in collecting accounts receivable from Serbian and foreign partners and the government, are all seen as key threats to doing business brought about by the crisis.
- ***According to a rough estimate, revenues have declined by about 30 percent in March and April 2020 relative to 2019.*** Here, 56 percent of those polled reported drops in earnings of up to 20 percent, with one-quarter claiming to have lost 40 percent of revenue. The remaining AmCham members report higher losses.
- ***Over the remainder of the year, companies expect a decline in profitability of 25 percent and a 30-percent cut in investment; 71 percent of those polled plan to retain current staff numbers until the end of 2020 (14 percent expect new hiring and 15 percent feel layoffs are likely).*** One-third of those polled feel investment will decline by up to 10 percent, but as many as one-quarter are expecting this figure to exceed 50 percent.

- ***Most firms (55 percent) are expecting to see a U-shaped recovery curve, whereas 22 percent fear a second wave of the illness and a W-shaped revival.*** If the pandemic ceased today, recovery would be expected to take up to six months.
- ***One-half of all AmCham members, mostly small and medium-sized enterprises (SMEs), are using the government's Covid-19 relief measures.*** The most popular of these policies is the payroll tax and contribution deferral. Large companies have mainly opted out of government assistance.
- **A second round of measures is needed for the hardest-hit sectors, such as tourism (especially hotels) and transportation; support for the construction industry and real estate sector should also be considered.**

Methodology and demographics

The survey instruments were a quantitative anonymous online questionnaire administered to AmCham member companies, and a series of in-depth qualitative telephone interviews with the Chief Executive Officers (CEOs) of over 40 selected businesses, both of which took place from 4 to 13 May 2020.

Structure of the sample

Quantitative survey: the quantitative sample was made up of **101 AmCham member companies** operating in 15 sectors, namely: agriculture; consulting and accounting; legal services; distribution and logistics; education; financial services; fast-moving consumer goods (FMCG) and services; healthcare and pharmaceuticals; information and communication technology (ICT); manufacturing and production; marketing and public relations; real estate; travel and hospitality; retail; and energy.

The **qualitative survey** was administered through **direct telephone interviews with 40 selected AmCham member companies** which commented on the quantitative findings, listed the key challenges, and made recommendations for overcoming them.

The qualitative sample comprised the same sectors as the quantitative questionnaire. Nearly all respondents in the qualitative sample were company CEOs.

Working arrangements: challenges and plans for getting back to business

At the time of the survey (4 to 13 May 2020), over 80 percent of staff at nearly two-thirds of the companies were working from home. A gradual return to offices is envisaged from mid-May onwards: one-quarter of those polled expect to bring 20 percent of their staff back to work, with slightly more than one-quarter each intending to return up to 50 percent and up to 80 percent of all employees. No more than 18 percent of all firms are planning to keep most (over 80 percent) of their staff at home.

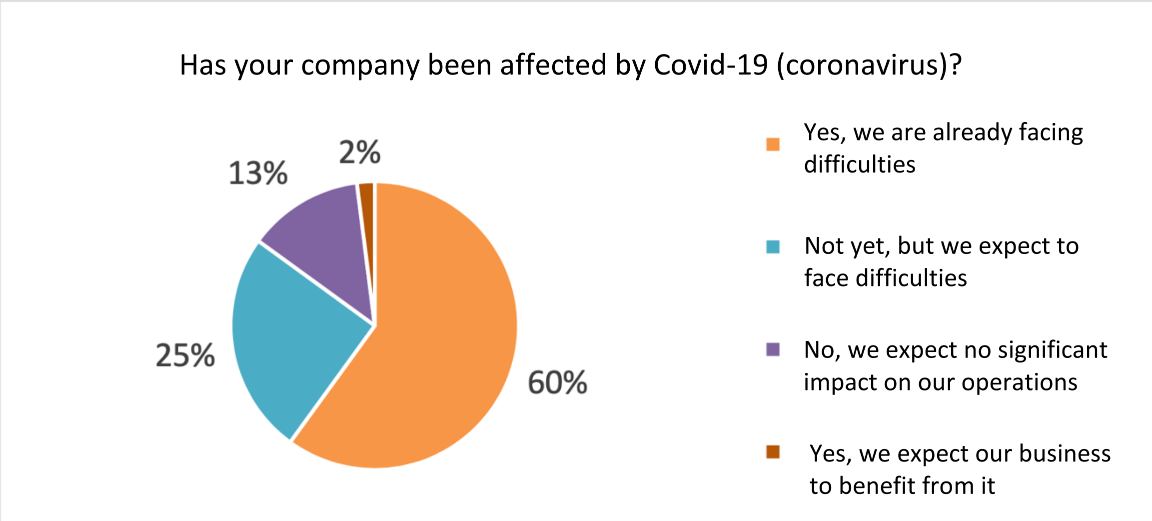
In terms of working arrangements, the key challenges reported by employers are **reduced efficiency and productivity** due to staff working from home (owing to issues such as work ethics, difficulties in supervising staff and keeping attendance records, need to balance private life and work, lack of equipment and staff training, etc.). Some problems were also apparent in the workplace, including reduced capacity on account of social distancing measures in production facilities, loss or reduction of both external contacts with clients and associates and internal staff meetings, and movement restrictions. Respondents in qualitative interviews noted that the hardest-hit firms were those in the hospitality industry and transport sector, companies whose business models required fieldwork and customer contact (such as field sales and technical support), and businesses working with healthcare providers, government authorities, and similar entities.

A second key challenge reported by employers had to do with **administrative requirements** due to policies introduced by the Serbian Government and the exigencies of working from home. Businesses noted the adverse impact associated with issuing travel permits required by staff during lockdown hours, as well as the additional logistical costs involved in having staff working from their homes (e.g. for delivery of documents that needed signing). The respondents also claimed there was a lack of clarity in administrative procedures required to waive the mandatory 14-day quarantine for returning foreign nationals employed in Serbia.

The businesses feel challenges related to **occupational safety and health** will increase in importance in the future, and that clear, direct, and proportional policies will have to be introduced to ensure health and safety procedures can be implemented feasibly and without unduly burdening companies. Major issues with procuring personal protective equipment (PPE) were apparent when the state of emergency was first introduced, but these problems were gradually overcome as the situation evolved.

Impact of Covid-19 on business

Nearly **two-thirds of those polled (60 percent) reported they were already facing difficulties with their operations, with another 25 percent expecting to see issues in the near future.** Another 13 percent did not expect the pandemic to have any adverse effects, and as few as 2 percent believed Covid-19 would be beneficial for their business (this view was reported by a handful of pharmaceuticals companies).



Compared with the first round of the survey, conducted from 13 to 17 March 2020, more firms now believe they have been affected (60 percent in May vs 55 percent in March), but much fewer companies feel the crisis will impact them in the future (no more than 25 percent in May vs 42 percent in March). There has also been an increase in the proportion of businesses that expect no significant impact, from 3 percent in March to 13 percent in May. Such better-than-expected performance is partly attributed to companies' greater flexibility in arranging for staff to work from home, as well as to well-judged earlier investment in new sales channels that have now proven dominant.

As many as **68 percent of those polled reported reduced demand for products or services** as the key adverse impact of the crisis on their operations, in particular in the tourism and hospitality sectors, road and air transport, and real estate sales and leasing, as well as in the automotive industry and consumer durables; some negative trends are also emerging in the FMCG sector (such as a rise in the online black market in cigarettes). The key perceived reasons for this drop in demand are the current lockdowns and those that will remain in effect for as long as the pandemic and local outbreaks persist; consumer sluggishness in returning to old habits; and expected aversion to non-essential spending and likely decline in purchasing power in the event of an extended crisis. For instance, cautious estimates by the hospitality industry indicate that Belgrade's hotels will return to occupancy levels last seen in March 2020 no earlier than March 2023. Even though real estate prices are yet to see significant falls, that sector is also expected to contract in the medium term, with real estate firms highlighting the need for securing stable finance.

Local and global lockdowns have affected some 54 percent of all respondents. This issue is at its most pronounced in the tourism and hospitality industry, but is also noticeable in other sectors that depend on frequent business trips abroad, such as transport, distribution and logistics, and other fields. Internal lockdowns have had a particularly serious impact on field sales and pharmaceuticals companies, whose business models are based on frequent contacts with healthcare workers. By contrast, the many business trips that used to be the norm for consulting and IT firms and similar businesses have now been replaced by online meetings and webinars, which seem set to continue to some extent even as travel restrictions are eased. Greater focus on cutting costs looks highly likely to affect this aspect of business spending.

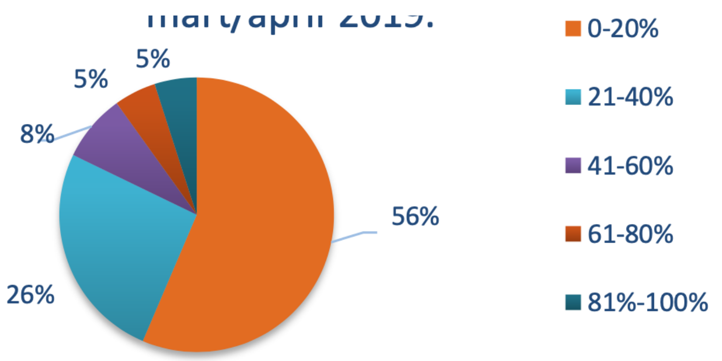
A total of 42 percent of those polled have faced or expect to see difficulties with collecting accounts receivable from private Serbian firms, especially in the legal services and consulting sectors, as well as in the FMCG industry (with small businesses especially likely to defer payments). Conversely, **63 percent of all AmCham members do not expect any difficulties in paying their debts,** with the exception of those in the hardest-hit sectors (tourism and hospitality industry) and some small and micro-enterprises. **Shopping mall and retail park landlords** are struggling to collect rents from their tenants, in particular shops that have faced enforced closures or found it difficult to operate during and after the state of emergency. In March and April 2020, shopping malls lost some 80 percent of their year-on-year revenue, with some seeing losses of 100 percent as they did not collect rent from their tenants during the blanket curfew. Even after the lockdowns were lifted, changed consumption patterns (reduced footfall and lower sales) continued depressing the revenues of smaller tenants, which in turn led to greater calls for rents to be cut. Most companies in the ICT and pharmaceuticals industries also report issues with collecting receivables from the **public sector;** 17 percent of all AmCham members have already encountered problems of this kind.

As many as 33 percent of those polled complain about the reduced performance of public administration during the lockdown, so demand is rising for efficiency gains in the coming months. As in the private sector, social distancing has revealed that many government procedures can be done online; businesses believe e-government arrangements introduced during the emergency should be sustained and simplified at pace, given the drastic reductions in red tape that this entails. In particular, businesses believe that the National Bank of Serbia's new e-filing service for registration of foreign credit operations should be retained and enhanced. Another useful improvement is the newly introduced electronic procedure for importing medicines administered by the Medicines and Medical Devices Agency of Serbia (ALIMS), but respondents feel that related procedures for drug marketing authorisations, variations, and promotional materials should all also be moved wholly online.

Employment, revenues, and investment

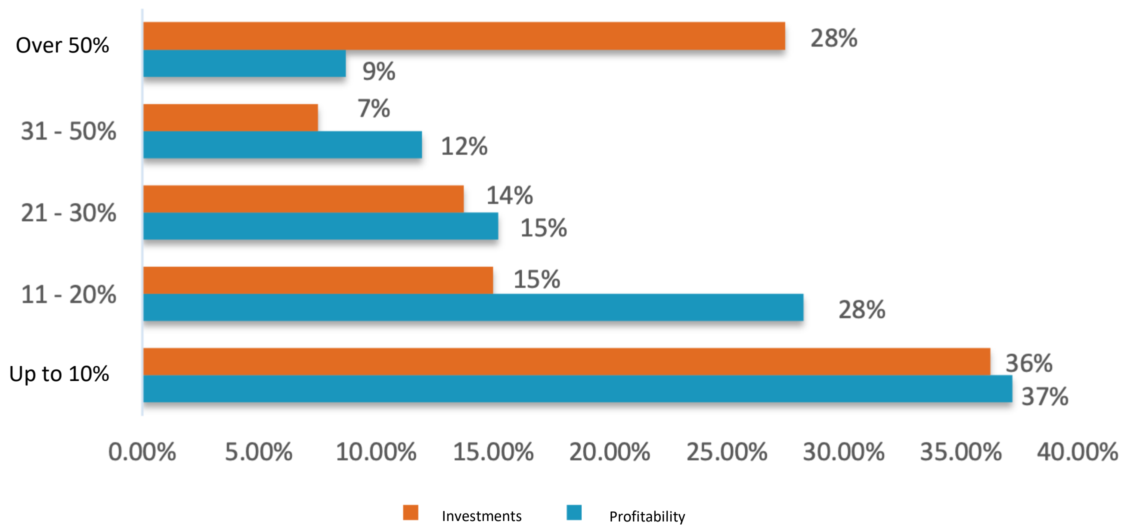
Just how much the coronavirus pandemic has cost businesses is best revealed by the loss in revenues over the past two months relative to last year. Over one-half (56 percent) of all AmCham members have lost up to 20 percent of their income, with an additional quarter seeing their revenues plummet by up to 40 percent. The hardest-hit are hospitality providers, transport firms, and retail park and shopping mall operators, with over 80 percent of their earnings wiped out.

Loss of revenue, March-April 2020 vs March-April 2019

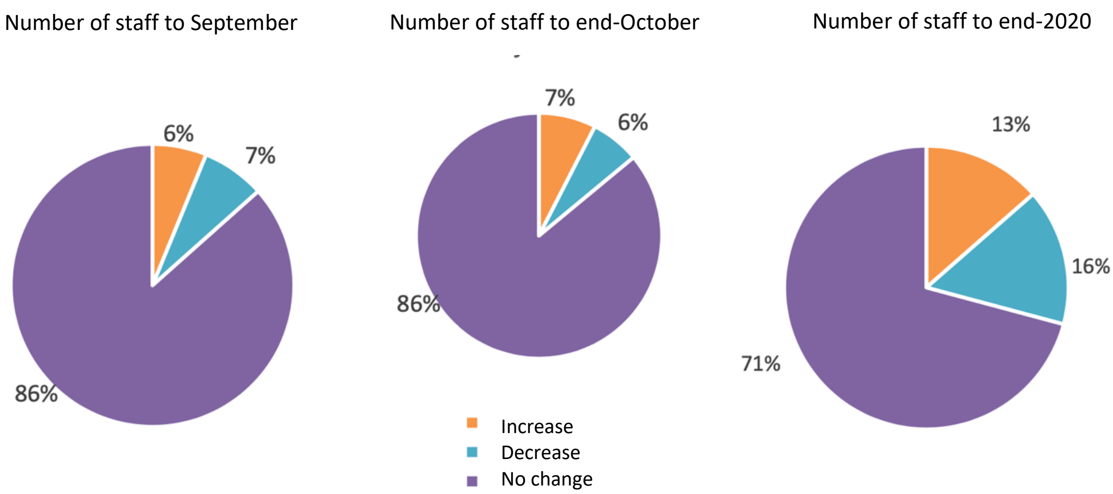


Similarly, close to two-thirds of those polled are expecting to see profitability fall by up to 20 percent (although for most firms the decline will likely not exceed 10 percent). Slightly over one-third look set to cut investment by up to 10 percent, with as many as one quarter expecting investments to plummet by more than 50 percent.

Expected decline in profitability and investments due to Covid-19



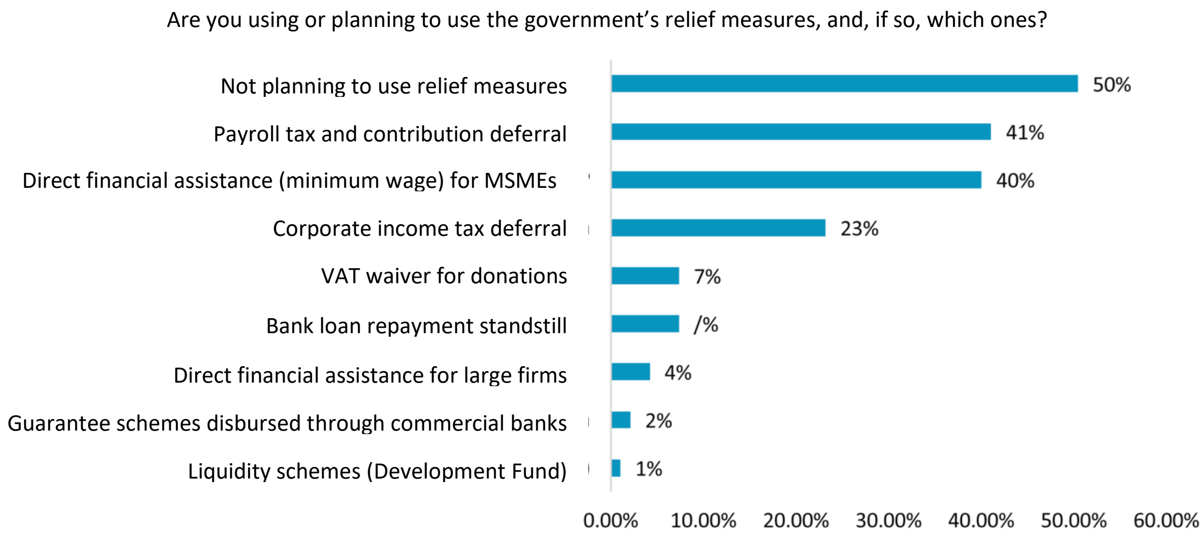
That being said, these major falls in both revenue and profits are yet to drive most AmCham members to make substantial layoffs (with the exception of the hardest-hit sectors). Employment forecasts are mainly stable for the remainder of the year, as most companies (86 percent) are planning to retain all staff in the next six months, with similar numbers either looking for new hiring or expecting to terminate employees. AmCham members also expect considerable changes in employment to occur only after 31 October, when the government's relief measures are set to expire. Nevertheless, only some 50 percent of all member companies, mainly SMEs, have chosen to use government support; large corporations have in the main opted out of direct aid and fiscal relief. The greater fluctuations in staff numbers expected in the final quarter of 2020 (a twofold increase in firms expecting to both hire new staff and shed jobs) can be attributed to the expiry of job retention policies, on the one hand, and differences in how quickly various sectors are forecast to recover, on the other.



The magnitude of the impact is best illustrated by a comparison with the findings of AmCham's Seventh Lap Time survey, conducted in the summer and early autumn of 2019, when 78% of all respondents reported planning to expand operations and 61% expected to take on more staff.

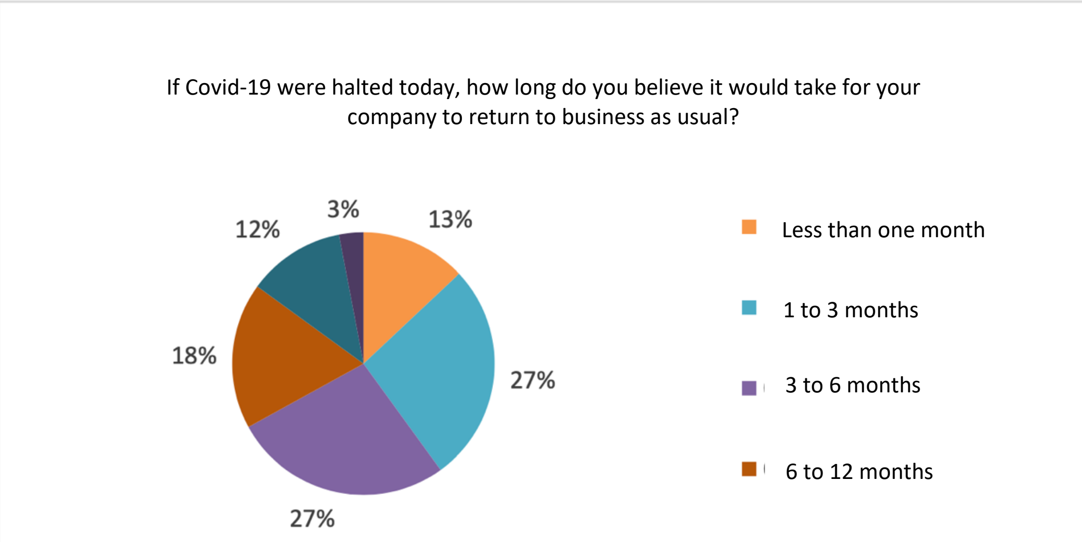
Use of government relief

One-half of all AmCham members are neither using the government's Covid-19 relief measures nor planning to do so. Businesses that have opted to take advantage of these policies see payroll tax and contribution deferrals as the most useful options (as reported by 41% of those polled), followed by direct assistance to small and medium-sized businesses (40%) and corporate income tax deferrals (23%). It has mainly been SMEs that have chosen to use this assistance, and they have primarily relied on direct financial support; in contrast, few large companies have opted in, and even where they have done so, they have generally restricted their involvement to tax deferrals (mainly for payroll taxes). Even though the respondents have generally taken advantage of liquidity-boosting measures, no large member company has reported considering an issue of corporate bonds.



Recovery forecasts

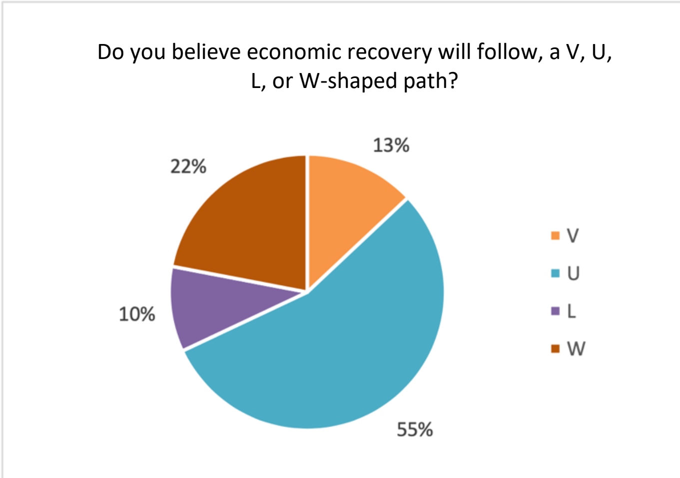
More than two-thirds of those polled (67 percent) believe it would take no more than six months to return to business as usual if Covid-19 were halted today.



At the time of the survey, 13 percent of all firms felt recovery would take less than one month, close to one-third (27 percent) each believed it would take one to three months and between three and six months, 18 percent expected a return to business as usual would require six to 12 months, and a final 12 percent believed they would need more than 12 months to recover. Nevertheless, **some 3 percent, all in the tourism and hospitality sector, were unable to say when they expected a return to regular operations.**

Most respondents in qualitative interviews noted that recovery would be largely determined by whether there was a second wave of the pandemic, as well as whether a vaccine for Covid-19 was found.

More than one-half of those polled (55 percent) believe recovery will be gradual and follow a U-shaped curve, citing the gradual phased re-opening of the economy and consumer psychology considerations. These respondents expect crisis habits to persist and only slowly return to normal patterns.



A second group of 22 percent feel a second wave of the outbreak is inevitable and see a W-shaped recovery as the most likely outcome.

Hardest-hit sectors

AmCham's survey has shown that tourism, hospitality, transport, and construction, including real estate rentals, have all been hit especially hard by the outbreak. A trait all of these industries share is that the introduction of the state of emergency wiped out demand for their products and services instantaneously and nearly completely. This means that a return to business as usual after social distancing measures are relaxed will be neither quick nor simple, but will rather depend on many social, economic, and psychological factors that will shape the market after a 'new normal' is achieved, and these considerations will require additional attention and support from the government. Companies that remained able to operate during the lockdown were confronted with a series of administrative and organisational issues, such as obtaining travel permits, organising transportation, meals, and accommodation for staff, and securing sufficient quantities of PPE and disinfectants that were at one point in short supply. These hurdles, coupled with other health and safety requirements, made it particularly difficult to do business and created unforeseen costs.

Tourism and the hospitality industry were the first sectors hit by the outbreak, and are expected to be the last to recover, as pre-crisis levels are not likely to be reached before the end of 2021. All companies surveyed have already encountered difficulties: 40 percent have ceased all operations, and 60 percent have seen the volume of their activities decline greatly. The sector's revenues and profits have fallen by more than 80 percent relative to 2019 and the firms are not expecting any new investments. The main effect of the pandemic has been a major decline or complete disappearance of demand, which has caused problems with operating arrangements and logistics. Even though the government's relief measures have helped companies to keep jobs, the slow and gradual pace of the expected recovery means that some 60 percent of those polled expect layoffs are likely by the end of the year. Liquidity is also a major challenge, with all companies either already facing or expecting difficulties in paying their debts. Respondents in qualitative interviews reported that a complete recovery, meaning a return to 2019 levels, could not be expected before 2023; it was also noted occupancy rates were unlikely to exceed 40 percent in the coming 12 months. Such pessimistic forecasts certainly mean that all aspects of operations will have to adjust to the reduced volume of business in the long run.

Proposed sectoral relief for tourism and the hospitality industry would focus on preserving capacity whilst business recovers to pre-crisis levels. These measures range from facilitating cross-border travel to the extent permissible given public health considerations, to fiscal measures and direct assistance tailored to the sector's needs, to promoting cafes and restaurants that adhere to the highest standards of hygiene.

Transport was either completely halted or severely restricted after the pandemic was declared, leading all firms surveyed to report difficulties. One-third have completely suspended operations, and the remaining two-thirds are working at diminished capacity. Lockdowns have completely halted air, road, rail, and river travel, whilst cargo has kept moving, albeit with intermittent logistical issues and problems involving administrative procedures at border crossings, which were later overcome after 'green corridors' were introduced between Central European Free Trade Agreement (CEFTA) countries. The companies surveyed are more optimistic when it comes to keeping staff on, as no layoffs are expected until the end of the year, but the firms foresee no new investments either. One-third have already encountered difficulties with paying their debts; another third expect to face such problems in the near future (between six months and one year from now); and the final third envisage no issues with liquidity. A complete recovery is expected to take between six months and three years and will be driven by the pace of recovery of transport in the European Union (EU) and Serbia's immediate neighbourhood. The firms have also been calling for a set of sectoral measures in support of the industry's hardest-hit companies.

Real estate development and sales face issues with construction, rental, and project development. Two-thirds of those polled in this area are facing constraints, with the remaining third expecting to see such issues in the future. Business has either been completely suspended (for retail parks and shopping malls) or severely curtailed. This sector has seen profits plummet by between 30 and 50 percent, and recovery prospects will greatly depend on how the pandemic evolves. A total of 17 percent of these firms expect to shed jobs and encounter challenges in paying their debts by the end of the year. One-third of those polled are currently facing liquidity issues, and one-half expect no such constraints.

In qualitative interviews, respondents from the construction industry reported the sector was increasingly reliant on workers aged 65 or above who have been confined to their homes during the lockdown. These companies expect some younger expatriates who have returned to Serbia after losing jobs abroad could be motivated to stay if given work in the construction industry. The suspension of passenger transport has made it difficult for employees to travel to work, and initial issues with stockpiles of construction materials were subsequently overcome. In some cases, the impact of the pandemic has forced landlords to re-negotiate rents with tenants.

Recovery is generally expected by 2021, but respondents warn that a demand-side crisis could be replaced by a supply-side one if banks stop financing construction projects. To address this issue, the firms have been calling for targeted government incentives for banks and fiscal relief for the construction industry, given the sector's major GDP multiplier effect.