Optimistic business sentiment accelerates focus on growth

The global economic environment drives CFO optimism, and several of our surveys key indicators have reached historic values in the second quarter. CFO optimism is at its highest since 2010 while financial and economic uncertainty has further decreased to a new low. The overall positive mood accelerates CFOs focus on expansion. Corporates expect topline to increase and plan to further grow capital expenditure and headcount. CFOs are above all concerned about the availability of skilled labour to meet growth expectations.
CFO optimism increased for the fourth quarter in a row. Today, 56% of survey participants are more optimistic about the financial prospects of their company than they were three months ago, with only 7% saying that their prospects have decreased. External financial and economic uncertainty continues its downward trend. In the second quarter of this year only one in five rate the general levels of external financial and economic uncertainty above normal, an all-time low in the Deloitte CFO Survey. CFOs remain cautiously optimistic about growth of the Belgian economy in 2017, the median CFO Survey participant anticipates growth to be between 1% and 1.5%. This is slightly lower than the 1.6% set out by the National Bank of Belgium.

Corporate outlook and performance
More than two-thirds anticipate turnover and profits to increase in the next 12 months, almost half expect turnover to increase more than 5%. The outlook is hence promising, however performance to budget in the second quarter was somewhat disappointing: 41% of CFOs indicate they have not met the 2nd quarter’s financial budget. This is an 11 percentage point increase compared to the second quarter of last year. It therefore remains to be seen if the current optimistic mood will translate into actual improved performance in second half of the year.

Investment appetite
Following the increased optimism and reduced uncertainty, risk appetite has elevated to the highest level we have witnessed since the launch of the Deloitte CFO survey in 2009. 69% of survey participants believe it is a good time to take greater risk on their balance sheet. As a consequence, planned capital expenditure remains high: half of CFOs expect to increase capital expenditure over the next 12 months, while the other half expect their capital expenditure to remain at the current level. Headcount projections continue their upward trend: today 66% of CFOs report to likely increase their headcount in the next 12 months, another all-time high for this survey and up from 48% one year ago.

Funding
External financing remains attractive, with over 70% of participants rating bank borrowing to be available and cheap. The majority of CFOs expect moderate interest rate increases over the next 12 months. This is in line with expectations that the ECB will shortly announce continuing its quantitative easing monetary policy at a slower pace.

Concerns
Global business sentiment is high and the majority of corporates are looking to invest. The vast majority of CFOs are concerned they will not be able to meet their recruitment requirements in the next 12 months. For the first time since the launch of this survey, economic recovery is not in the top 3 of economic concerns. CFOs are today more concerned about their competitive position in the markets they serve and about the impact of Belgian financial and economic policy making on their competitive position. Overall perception of the appropriateness of federal financial and economic policy making remains low, but stable compared to last quarter. Labour market reform, taxation and education policy are considered the most important priorities for business. We look forward to the results of the third quarter survey to see how CFOs evaluate the impact of the tax reform agreement announced by the Belgian federal government in July.

The macroeconomic backdrop to the Deloitte CFO Survey Q2 2017
With a synchronised recovery underway in advanced and emerging markets the International Monetary Fund revised up its global growth forecasts for 2017. A convincing victory for the pro-EU centrist, Emmanuel Macron, in France’s presidential election helped ease perceptions of political risks in Europe. Survey data indicated an acceleration in the euro area recovery, with consumer confidence rising to its highest level since 2007 and German business sentiment rising to its highest ever level. Euro area, US and UK equity prices rose while government bond prices fell as investors anticipated a tightening of monetary policy in advanced economies. The Federal Reserve demonstrated its confidence in the US recovery by raising interest rates for the third time on 14th June. The UK General Election on 8th June unexpectedly delivered a hung parliament, creating new political uncertainties.

Ian Stewart, Deloitte UK Chief Economist
Looking back:
Optimistic business sentiment accelerates focus on growth
Net % of CFOs who are more/less optimistic about the financial prospects for their company

"Favorable business environment fuels optimism to historic levels"
Favorable business environment fuels optimism to historic levels.

% CFOs rating the general level of external financial and economic uncertainty facing their business as high.
General environment

- Optimism
- Economic uncertainty
- Risk appetite
- Turnover growth
- Belgian economic growth
- Concerns
- Actuals performance vs. budget

% of CFOs who think now is a good time to be taking greater risk onto their balance sheets

"Favorable business environment fuels optimism to historic levels"
How do you expect your turnover/top-line to evolve in the next 12 months?

- Decrease between 0% and 2%: 3%
- Increase between 0% and 2%: 14%
- Increase between 2% and 5%: 14%
- Increase with more than 5%: 47%
- Same level: 22%

"Favorable business environment fuels optimism to historic levels"
What do you expect the economic growth in Belgium to be in 2017?

- Greater than 2%: 53%
- 1.6% to 2%: 25%
- 1% to 1.5%: 11%
- 0.5% to 0.9%: 6%
- 0% to 0.4%: 6%

"Favorable business environment fuels optimism to historic levels"
## General environment

<table>
<thead>
<tr>
<th>Optimism</th>
<th>Economic uncertainty</th>
<th>Risk appetite</th>
<th>Turnover growth</th>
<th>Belgian economic growth</th>
</tr>
</thead>
</table>

### Concerns

#### Shortage of (skilled) labour
- Strong concern: 58%
- Somewhat of a concern: 39%
- Not a concern: 3%

#### Competitive position in the market
- Strong concern: 59%
- Somewhat of a concern: 24%
- Not a concern: 18%

#### Impact of Belgian financial & economic policy making
- Strong concern: 60%
- Somewhat of a concern: 9%
- Not a concern: 31%

#### Economic outlook/growth
- Strong concern: 66%
- Somewhat of a concern: 3%
- Not a concern: 31%

#### Changes in regulation
- Strong concern: 51%
- Somewhat of a concern: 14%
- Not a concern: 34%

#### Euro exchange rate
- Strong concern: 43%
- Somewhat of a concern: 17%
- Not a concern: 40%

#### Current geopolitical risks
- Strong concern: 34%
- Somewhat of a concern: 23%
- Not a concern: 43%

#### Eurozone stability
- Strong concern: 46%
- Somewhat of a concern: 23%
- Not a concern: 34%

#### European Union Stability
- Strong concern: 46%
- Somewhat of a concern: 14%
- Not a concern: 49%

#### Inflation risk
- Strong concern: 54%
- Somewhat of a concern: 6%
- Not a concern: 40%

#### China’s slow-down
- Strong concern: 71%
- Somewhat of a concern: 29%
- Not a concern: 14%

#### Increasing sovereign risk
- Strong concern: 71%
- Somewhat of a concern: 9%
- Not a concern: 20%

#### Monetary tightening
- Strong concern: 74%
- Somewhat of a concern: 26%
- Not a concern: 9%

#### Access to capital/funding
- Strong concern: 74%
- Somewhat of a concern: 3%
- Not a concern: 9%

#### Deflation risk
- Strong concern: 85%
- Somewhat of a concern: 3%
- Not a concern: 12%

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“Leading investment indicators continue their steady increase”
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### Business priorities

**Priorities**

- Capex, headcount and discretionary spending

**Capex expectations**

**Metrics**

<table>
<thead>
<tr>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>Same level</td>
</tr>
<tr>
<td>25%</td>
<td>Increase between 1% and 5%</td>
</tr>
<tr>
<td>14%</td>
<td>Increase between 6% and 10%</td>
</tr>
<tr>
<td>11%</td>
<td>Increase with more than 10%</td>
</tr>
</tbody>
</table>
**Business priorities**

**Priorities**

- Capex, headcount and discretionary spending

**Capex expectations**

- Metrics

"Leading investment indicators continue their steady increase"

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**CFOs' expectations on the evolution of the following metrics in the next twelve months**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Increase</th>
<th>The same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>91%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>74%</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>71%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>Headcount</td>
<td>66%</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>Operating margins</td>
<td>63%</td>
<td>29%</td>
<td>9%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>57%</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>Levels of cash and cash equivalents on balance sheet</td>
<td>51%</td>
<td>37%</td>
<td>14%</td>
</tr>
<tr>
<td>Discretionary spending, for instance on travel, training and marketing</td>
<td>31%</td>
<td>51%</td>
<td>17%</td>
</tr>
<tr>
<td>Inventory levels</td>
<td>29%</td>
<td>60%</td>
<td>11%</td>
</tr>
<tr>
<td>Financing costs</td>
<td>14%</td>
<td>66%</td>
<td>20%</td>
</tr>
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</table>
Net % of CFOs who think Belgian corporate balance sheets are overleveraged/underleveraged

“External financing is cheap and available”
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Financing options

- Financial leverage
- Attractiveness of funding sources
- Usage of resources
- Availability and cost of credit
- Interest rates
- Euro

“External financing is cheap and available”

Net % of CFOs expecting interest rates to increase in the next 12 months

- 2011 Q2: 54%
- 2011 Q3: 32%
- 2011 Q4: 55%
- 2012 Q1: 48%
- 2012 Q2: 54%
- 2012 Q3: 46%
- 2012 Q4: 29%
- 2013 Q1: 45%
- 2013 Q2: 47%
- 2013 Q3: 36%
- 2013 Q4: 30%
- 2014 Q1: 14%
- 2014 Q2: 20%
- 2014 Q3: 40%
- 2014 Q4: 26%
- 2015 Q1: 29%
- 2015 Q2: 30%
- 2015 Q3: 40%
- 2015 Q4: 38%
- 2016 Q1: 29%
- 2016 Q2: 46%
- 2016 Q3: 55%
- 2016 Q4: 54%
- 2017 Q1: 81%
- 2017 Q2: 88%
- 2017 Q3: 83%
External financing is cheap and available.
“Evaluation of federal government policy remains weak but stabilises”
### Policies

**Appropriateness of financial and economic policies**

- **Importance of government policies**
  - Monetary policy, including interest rates, inflation and the availability of credit (Eurozone policy)
  - Immigration policy
  - Education & training
  - Labour market
  - Energy policy
  - Infrastructure
  - Taxation policy
  - Financial regulation
  - Urban & town planning
  - General levels of regulation affecting business

**Detailed appropriateness**

- **Evaluation of federal government policy remains weak but stabilises**
  - 2017 Q1: -47%, -27%, -47%, -27%, -31%, -25%, -35%, -10%, -44%, -47%, -31%, -44%, -44%, -23%, -44%, -25%, -35%, -12%, -4%, 2%, 2%, 0%, 3%, 20%, 4%, -6%, 4%, -3%, -3%, 21%, 42%
  - 2017 Q2: -50%, -40%, -30%, -20%, -10%, 0%, 10%, 20%, 30%, 40%, 50%
### Policies

#### Appropriateness of financial and economic policies

#### Detailed appropriateness

#### Importance of government policies

**Evaluation of federal government policy remains weak but stabilises**

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<th>Policy</th>
<th>Net % of CFOs rating as important</th>
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<tr>
<td>Taxation policy</td>
<td>94%</td>
</tr>
<tr>
<td>Education &amp; training</td>
<td>88%</td>
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<td>Labour market</td>
<td>85%</td>
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<tr>
<td>Infrastructure</td>
<td>76%</td>
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<td>Monetary policy, including interest rates, inflation and the availability of credit (Eurozone policy)</td>
<td>74%</td>
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<td>General levels of regulation affecting business</td>
<td>74%</td>
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<tr>
<td>Energy policy</td>
<td>74%</td>
</tr>
<tr>
<td>Public expenditure</td>
<td>67%</td>
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<td>Financial regulation</td>
<td>65%</td>
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Profile survey participants

% of revenues generated outside of Belgium

- 0% - 30%: 24%
- 31% - 60%: 47%
- 61% - 70%: 29%

Business category of respondents

- Construction: 3%
- Manufacturing: 3%
- Other: 3%
- Consumer business (incl. transport & logistics, leisure & travel): 22%
- Technology, Media, Telecommunication: 3%
- Life Sciences: 13%
- Financial Services: 13%
- Energy, Utilities, Mining: 13%
- Real Estate: 13%

Companies' approximate turnover

- Turnover < €100mn: 15%
- €100mn < Turnover < €999mn: 44%
- Turnover > €1bn: 41%

A note on methodology

Not all survey questions are reported in each quarterly survey. In response to the current financial economic situation survey questions will be selected. In case you participated to the survey and would like to receive information about non-reported questions do not hesitate to contact us. Some of the charts in the Deloitte CFO survey show the result in the form of a net % balance. This is the percentage of respondents reporting, for instance, that bank credit is attractive minus the percentage saying bank credit is unattractive. This is a standard way of presenting survey data.

The 2017 second quarter survey took place between May 30th and June 17th, 2017. A total of 70 CFOs completed our survey.

We would like to thank all participating CFOs for their efforts in completing our survey. We hope the report makes an interesting read, clearly highlighting the challenges facing CFOs, and providing an important benchmark to understand how your organisation rates among peers.

Rules on the dashboard indicators

The following methodology was applied for the symbols and indicators used in the CFO survey dashboard: An upward arrow is displayed in case an indicator has increased with 5 or more percentage points since the previous survey. A downward arrow is used in case an indicator has decreased with 5 or more percentage points since the previous survey. The equals sign is used in case the indicator remained stable between these upper and lower thresholds. A green symbol is used in case the indicator, from a business perspective, displays a favourable trend or situation; a red colour is used in case the indicator displays an unfavourable trend or situation; a grey colour is in case of ambiguous or neutral outcomes.

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