

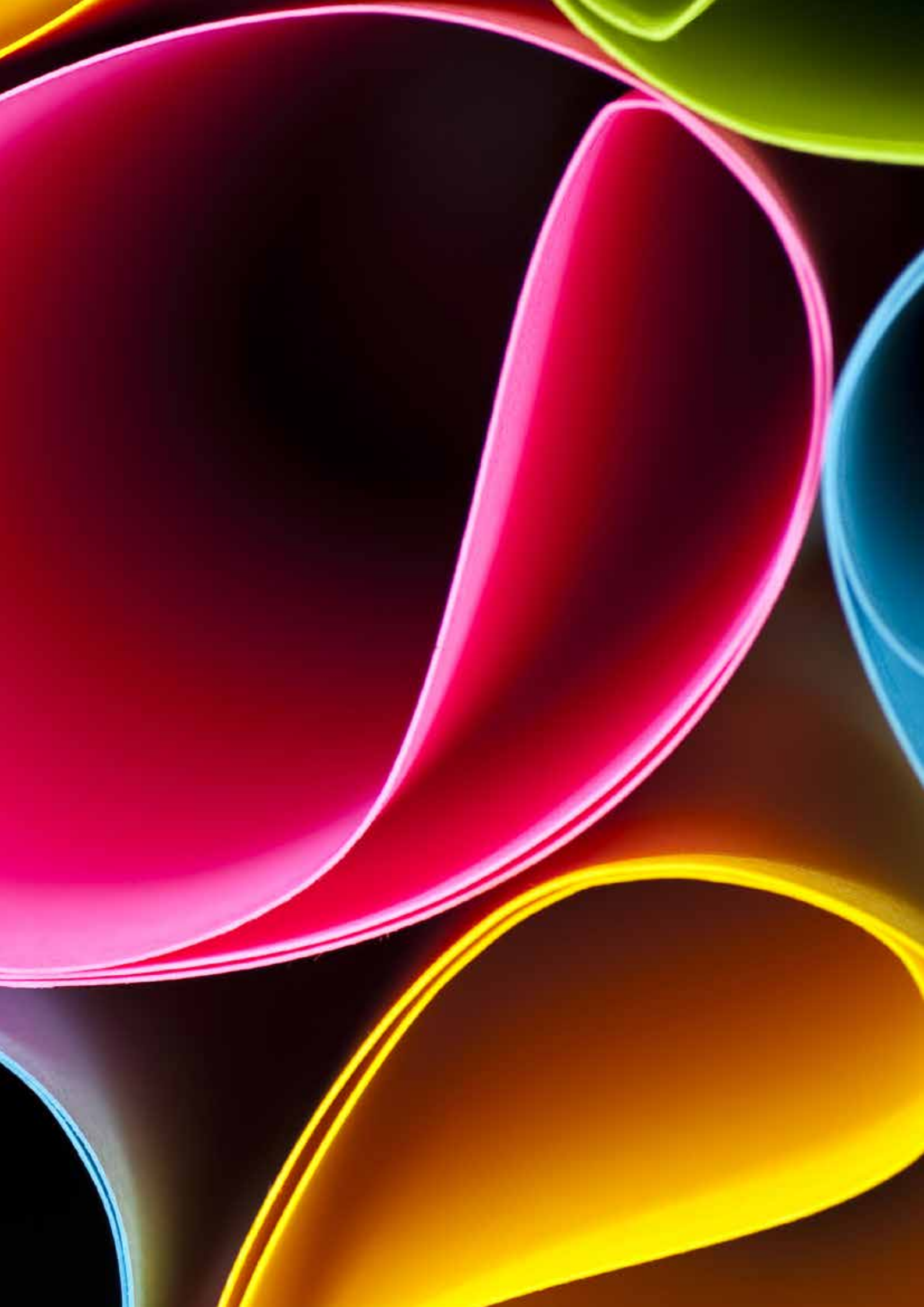


## **Positive expectations in a testing time**

Central Europe CFO Survey 2017

8th edition | Bulgaria

The **CFO** Program



# Introduction



**Todor Todorov**  
Bulgaria CFO Program Leader  
Deloitte Bulgaria

Welcome to the Deloitte CFO Survey in Bulgaria.

This is the 8th edition of the Deloitte CE CFO Survey report, tracking the latest thinking and actions of CFOs representing largest and most influential companies in the region.

For Bulgaria the survey was held for the 6th time, following the Central-European questionnaire and methodology. CFOs were asked to share their expectations in three major areas: economic outlook, business environment outlook and companies' growth outlook.

This survey paints a picture of an increased confidence across the CE region. CFOs in Bulgaria also enter 2017 in better spirits than any time since the last 4 years. The brighter mood represents improved prospects for the CFOs own businesses and the economic growth. Strict cost control is still to keep an eye on, however the openness to introduction of new products / services is now more visible.

While CFOs across the region hold varying views on the possible consequences of the UK leaving the European Union, Bulgarian CFOs see less or no impact on their businesses. However, similar to the majority of their colleagues in CE, they are mainly concerned that Brexit may lead to increased complexity and cost and expect restricted workforce mobility.

It will be extremely interesting in early 2018 to see how the views and predictions of our respondents have stood the test of time.

I take the opportunity to thank all CFOs from Bulgaria, who took time from their busy schedules to participate in the survey and I hope the readers will find the next pages an interesting reading.



# CFO Confidence Index

## Central Europe - regional perspectives

CFOs are clearly optimistic about the changes they anticipate in 2017. The CFO Confidence Index has a positive value of 13, which stands in sharp contrast to last year's more pessimistic predictions.

We can observe the biggest change in the participating CFOs' outlook on the economy. The index has risen by an impressive 29 points, indicating a striking change in attitudes. The economic situation continues to improve, leading to improving expectations for the future.

Predicted changes in the business

environment show little change. The CFOs are very cautious about the future, and their optimism has deteriorated slightly since last year (-1 point compared to 2016).

This means that although they expect the economy to improve, they anticipate almost no change in the business environment of Central European countries.

However, CFOs are optimistic about their companies' prospects in 2017. Despite the unfavourable institutional environment, they expect positive change to take place in their companies and their overall condition

to improve. Participants are even more optimistic in this regard than they were last year (with an increase of 11 points over 2016).

# Key findings

CFOs in Bulgaria are positive about the future of their organizations – the levels of optimism have increased to the highest level for the last 4 years with a returning risk appetite. Expectations for economic growth have also improved. Both revenues and expenses will increase, with labor and production costs seen as most challenging. The perceived level of external financial and economic uncertainty is normal. CFOs in the country are clearly not pessimistic about the consequences of Brexit for their businesses.



The background features a series of overlapping, curved, light blue/purple shapes that resemble stylized petals or layers of a flower, set against a solid black background. The shapes are arranged in a fan-like pattern, with the innermost layers being darker and the outermost layers being lighter and more translucent.

# Economic outlook



# Economic outlook

## Central Europe - regional perspectives

The economic growth rate in Central European countries accelerated in 2016, and most countries in the region saw falling unemployment. These economic improvements are leading to a positive outlook on the future.

Unlike the previous year, CE-based CFOs are optimistic about the future for the economy: the Economic Confidence Index rose to +11 in 2017, up from -18 in 2016. Negative GDP growth is not expected in any of the countries covered by the research. CFOs predict average GDP growth of 1.9%.

The CFOs we questioned for the 2016 survey expected a higher rate of GDP growth than was achieved during the year. However, growth during the third quarter of 2016 surpassed their predictions.

CFOs also expect such positive changes to have an impact on unemployment rates, with the majority of respondents predicting a larger fall than we saw the previous year. Most CFOs expect Consumer Price Index to rise in 2017. There was widespread agreement among CFOs from all countries, sectors and sizes of company on this issue and on their expectations for GDP growth and falling unemployment.

This year we asked the CFOs for their opinions on the consequences of Brexit. The responses were mixed. It appears that the severity of the consequences they predict depends more on the sectors in which their companies operate than on whether or not they are based in memberstates of the EU or eurozone.

The CFOs of companies in the Life Science and Consumer Business sectors are the most worried, while those in the Energy, Utilities, Mining and Public sectors expect Brexit to bring positive changes.

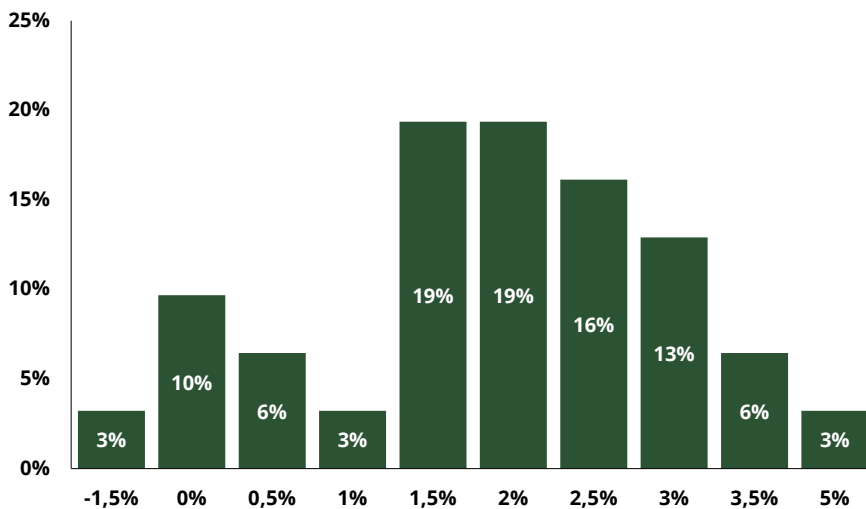
The two most frequently mentioned consequences of Brexit were restrictions in workforce mobility and decreased export opportunities due to tariff barriers.

## Bulgaria

### GDP Growth

Expectations for economic growth among the CFOs improved for fourth consecutive year amid the accelerating nationwide and Eurozone economic recovery. Six out of seven respondents expect GDP growth with more 77% of the CFOs projecting moderate growth compared to 48% in 2016. Most notable were the expectations for high growth according to almost quarter of the respondents, despite the political environment.

**What is your expectation for the country economic GDP growth for the year 2017?**

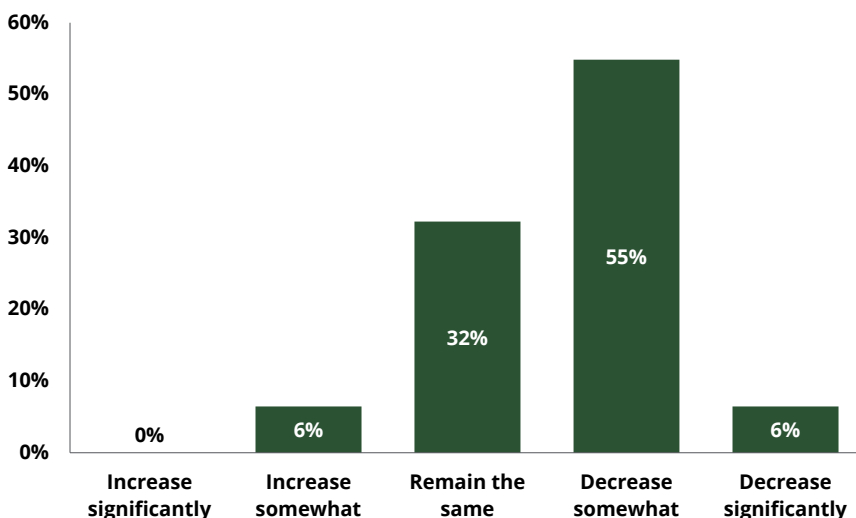


### Unemployment rate

In line with the expected economic growth more than half of the CFOs expect a decrease of unemployment in the next 12 months. The improving expectations coincide with the positive labour market dynamics since 2013 and follow the lowest unemployment rate since 2009, marked in November 2016.

Although the labour costs remain below EU average nine out of ten CFOs expect that workforce expense will increase. Almost 20% of the respondents expect significant growth in the labour costs.

**Over the next 12 months how do you expect levels of unemployment to change in your country?**

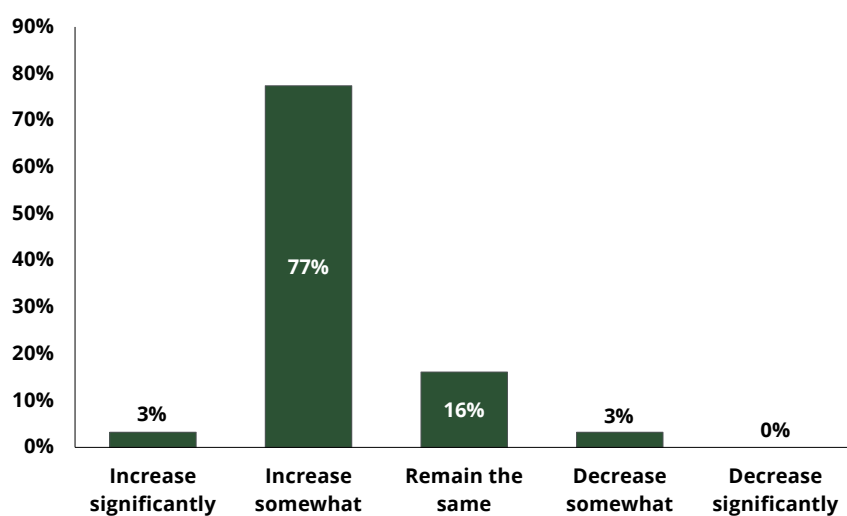


## Bulgaria

### Consumer Price Index

Four out of five respondents foresee increase in the Consumer Price Index (CPI) levels, while other 16% consider that there will be no change. This is adjacent to the expected labor cost, service cost and real estate cost increase.

Over the next 12 months how do you expect CPI levels to change in your country?

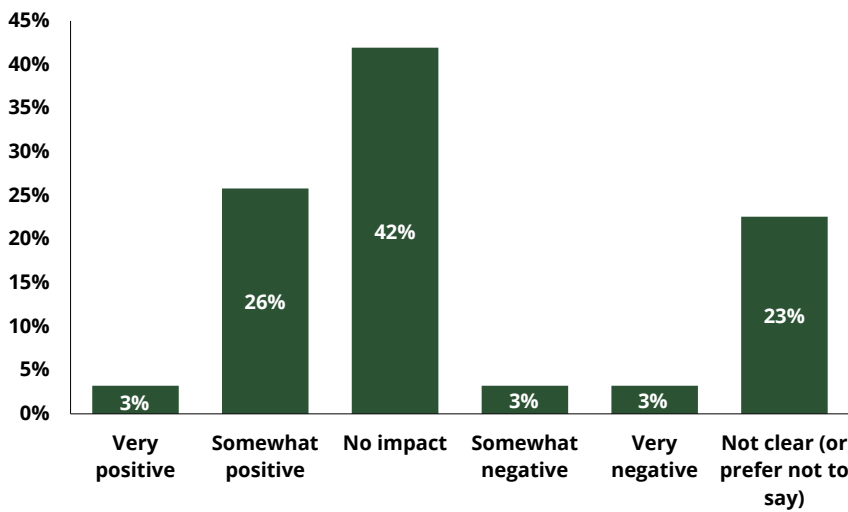


## Bulgaria

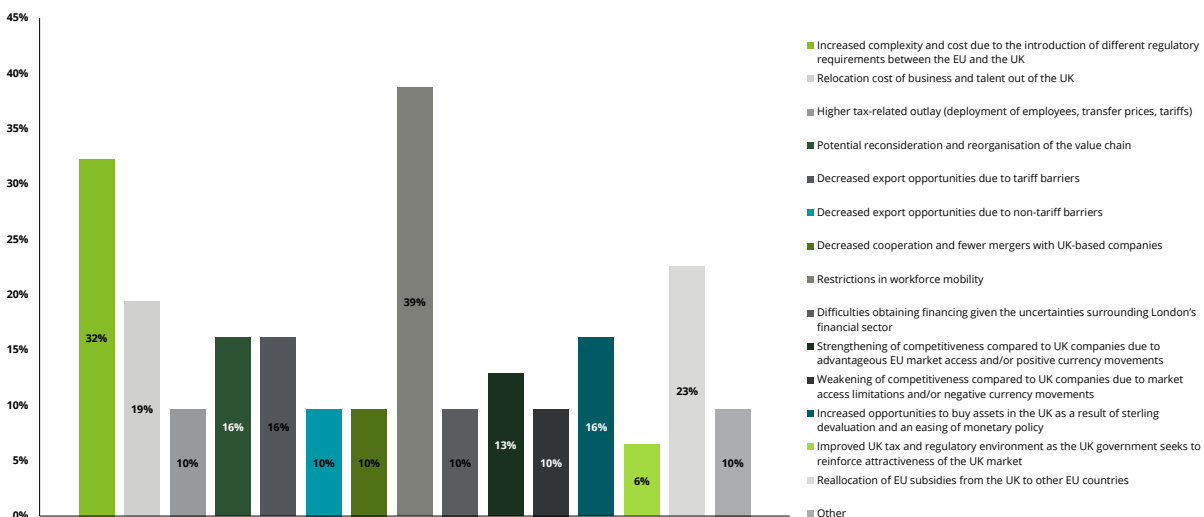
### Potential consequences of Brexit

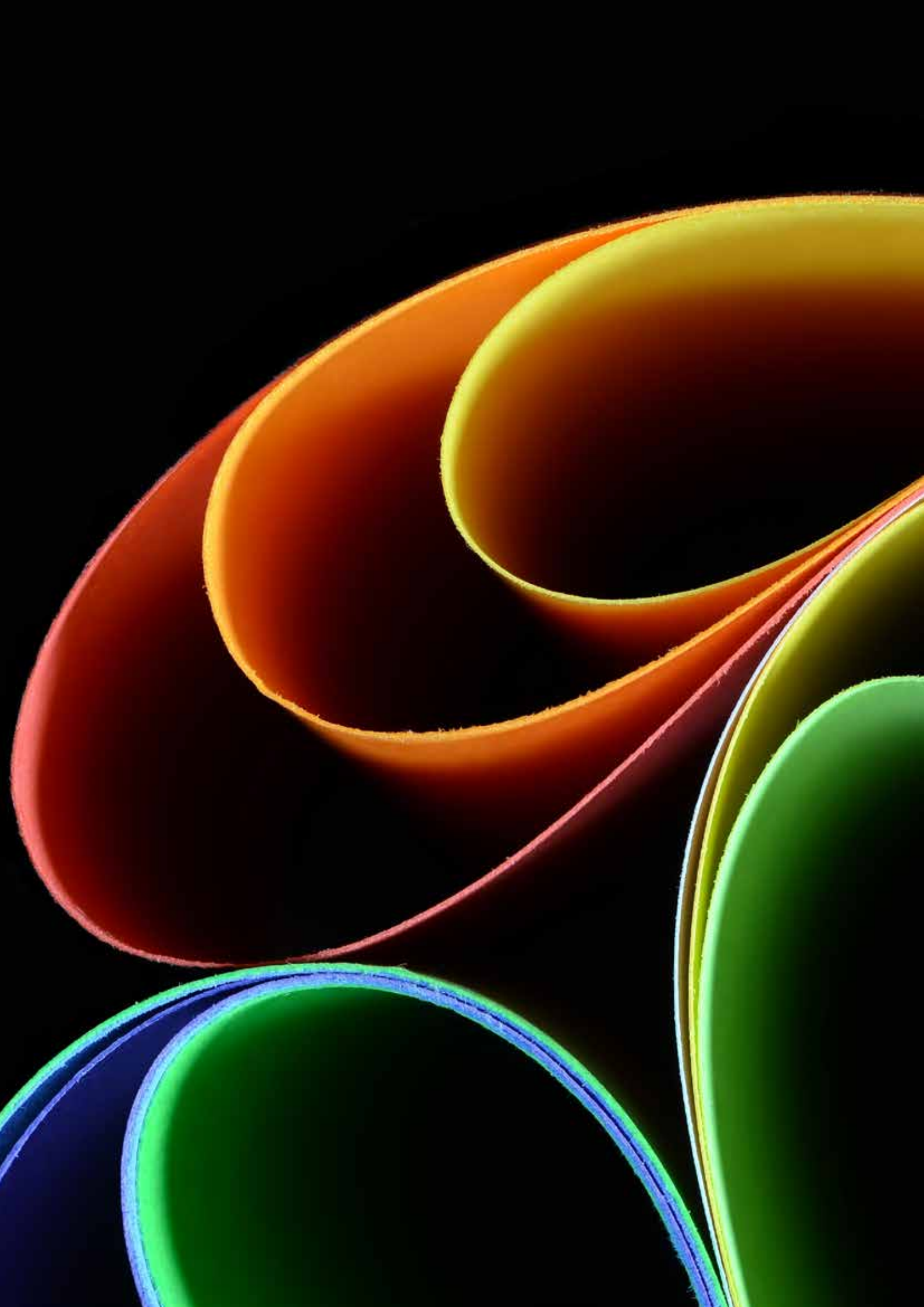
Only 6% of the interviewed CFOs consider that Brexit will have negative impact on their companies, while 70% expect no or positive impact. However 22% of the respondents would not engage in predicting the outcome of Brexit due to not clear direction of the potential impacts. Major concerns are that UK leaving the EU will lead to increased complexity and cost due to introduction of different regulatory requirements between the EU and the UK and it will restrict the mobility of workforce, each claiming a third of the responses.

#### How will the Brexit negotiations between the EU27 and the UK impact your business?

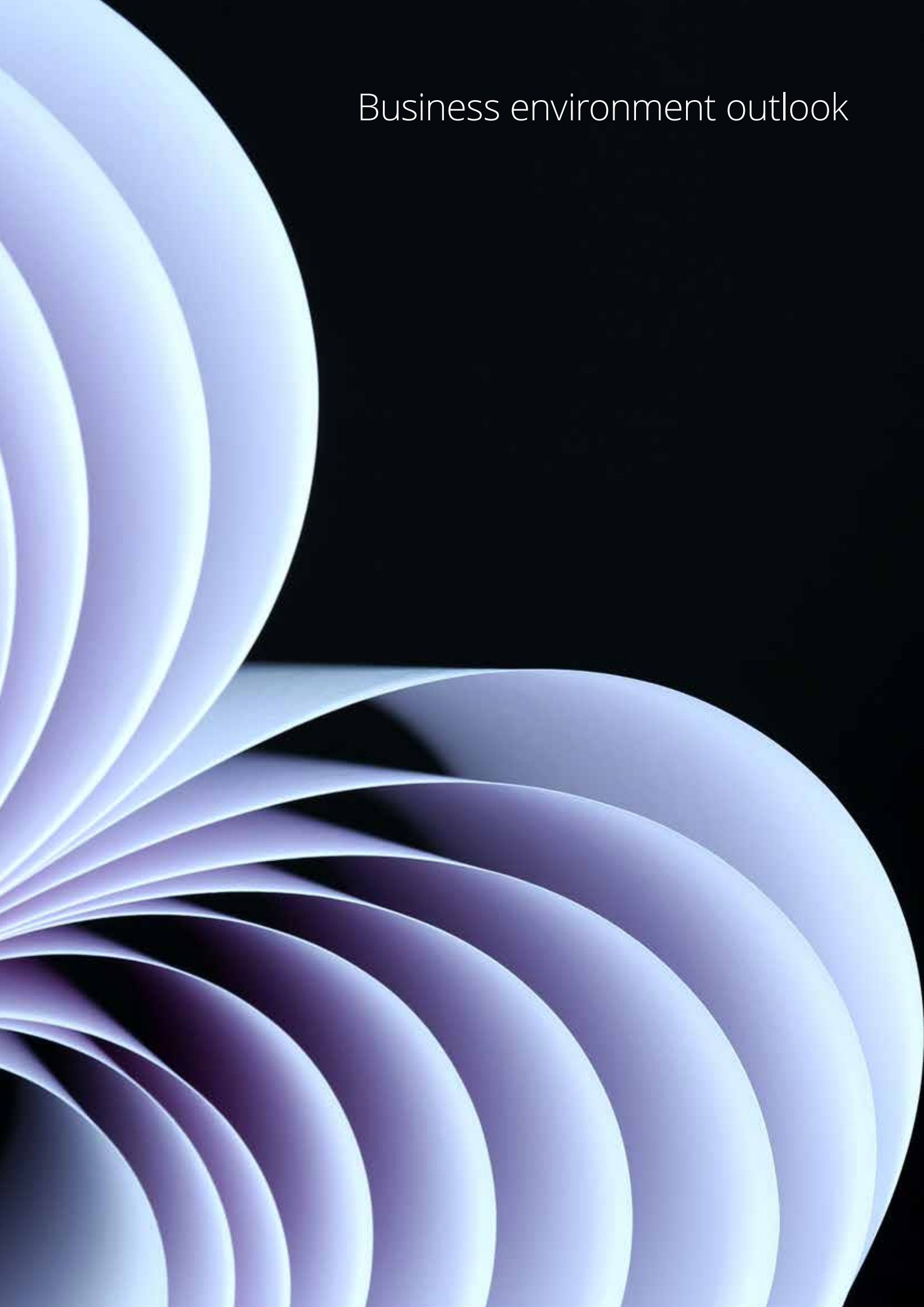


#### How do you think your business would be affected if the UK leaves the EU?





# Business environment outlook



# Business environment outlook

## Central Europe - regional perspectives

The business environment remains uncertain and is not encouraging firms to take risks. Many CFOs are concerned about forthcoming changes in economic law and tax law that may have a negative impact on their company bottom lines.

CFOs feel the downward market pressure on the price of the goods and services they offer will be one of the most important factors to affect their businesses. The shortage of qualified workers continues to be the biggest challenge facing companies in the Business & Professional Services, Technology, Media, Telecommunications and Consumer Business sectors. This shortage is being caused by an ongoing shift towards an employee's market, making it difficult to attract specialists in certain fields.

The risks outlined by participating CFOs translate into concerns about rising costs, particularly workforce and production costs.

Despite being worried about the changes in tax law, most CFOs do not expect taxes to rise. They are more concerned about increasingly stringent regulation and the challenges that this can cause.

Internal financing continues to be the most feasible source of capital for companies. While most CFOs also spoke positively about other financing sources, such as corporate debt and equity, they did not necessarily consider these to be the best solutions for their own companies. The perceived feasibility of a given financial instrument is largely dependent on the sector within which a given company operates.

For example, equity was rated highly by CFOs in the Technology, Media, Telecommunications sector, but received little support from the CFOs of finance companies.

CFOs also like the idea of EU funds, but admit that they are not a source of financing that their companies would take advantage of. CFOs in the Public Sector are the exception here, as a large proportion of EU support is targeted at public institutions.

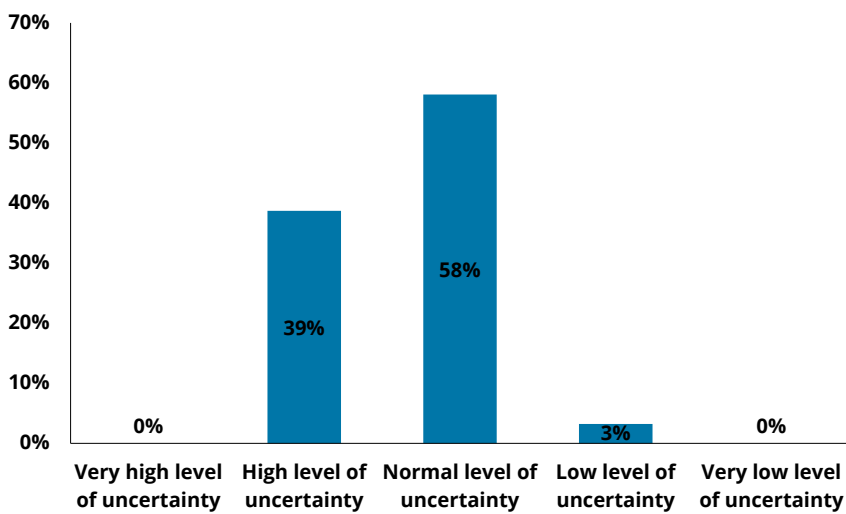
Much like last year, participating CFOs expect the M&A market to continue growing.

## Bulgaria

### Levels of uncertainty

The level of external financial and economic uncertainty is normal or high for 61% of the CFOs. The slight decrease of uncertainty compared to previous year indicates that the stabilization of the banking sector coupled with the economic growth do not neutralize the unstable regulatory and political environment in which the companies operate.

**How would you rate the overall level of external financial and economic uncertainty facing your business?**



### Production and workforce costs

**In your view how are costs for companies in your country likely to change over the next 12 months?**

The majority of the CFOs expect increase in operating expenses. The most significant increase is expected in the labour and production cost where respectively 90% and 71% of the respondents expect increase. Taxes are expected to stay at the same level as previous year by 9 out of 10 of the surveyed.



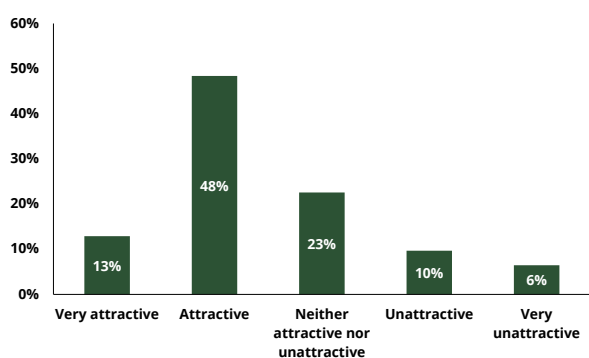
## Bulgaria

# Source of financing

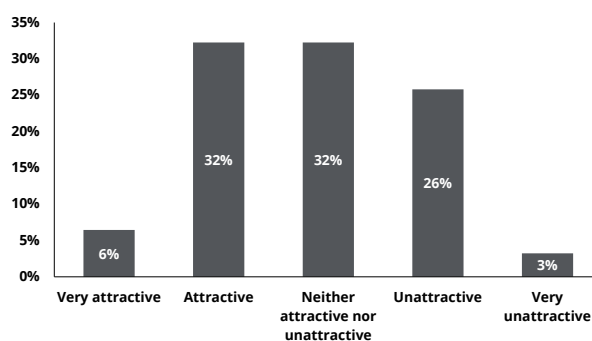
How would you rate the attractiveness of investment sources for companies in your country?

Despite the decreasing bank borrowing cost CFOs are reluctant to overreact with only 48% claiming that it is an attractive source of financing. Additionally 75% of the respondents have indicated that the most attractive source is internal financing. EU funds and equity financing was pointed out as the most unattractive source of funding by more than third of the CFOs. This however is due to the expected increase in equity cost by 35% of the respondents.

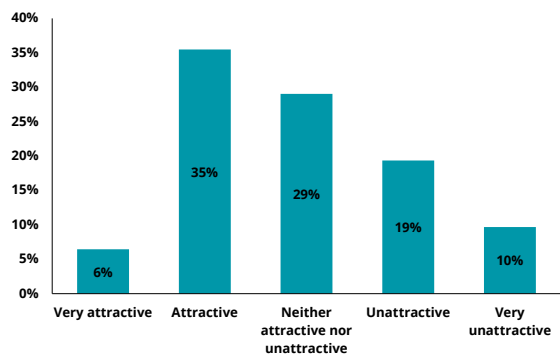
### Bank borrowing



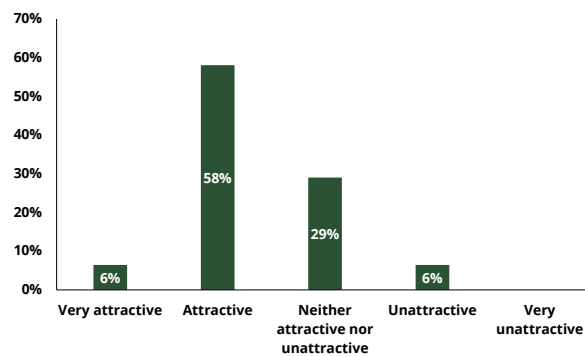
### Corporate debt



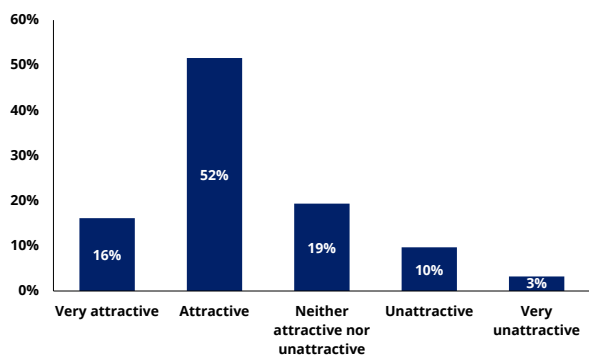
### Equity



### Internal financing



### EU Funds

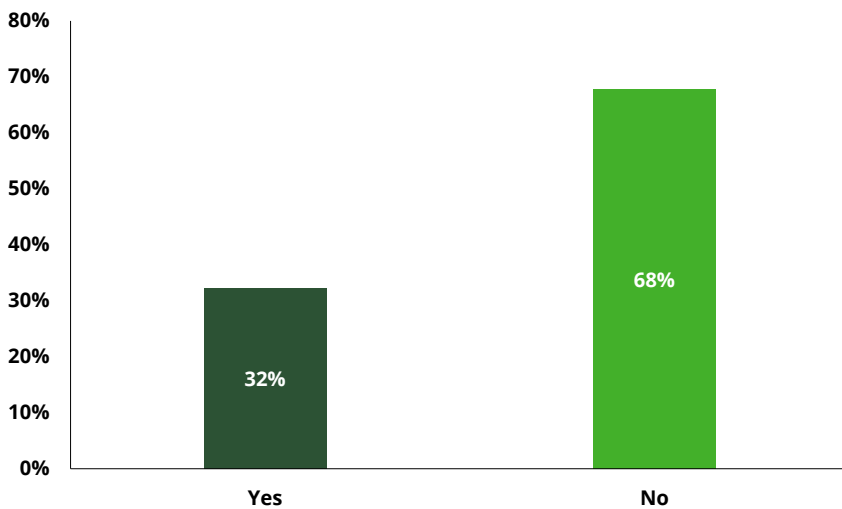


## Bulgaria

### Attitude to risk

The risk appetite of the CFOs has returned in 2016 with one third of the CFOs being positive on the issue. The change is dramatic and three times more CFOs believe that now is a good time to take risks compared to 2014. However still, two out of three respondents are risk averse.

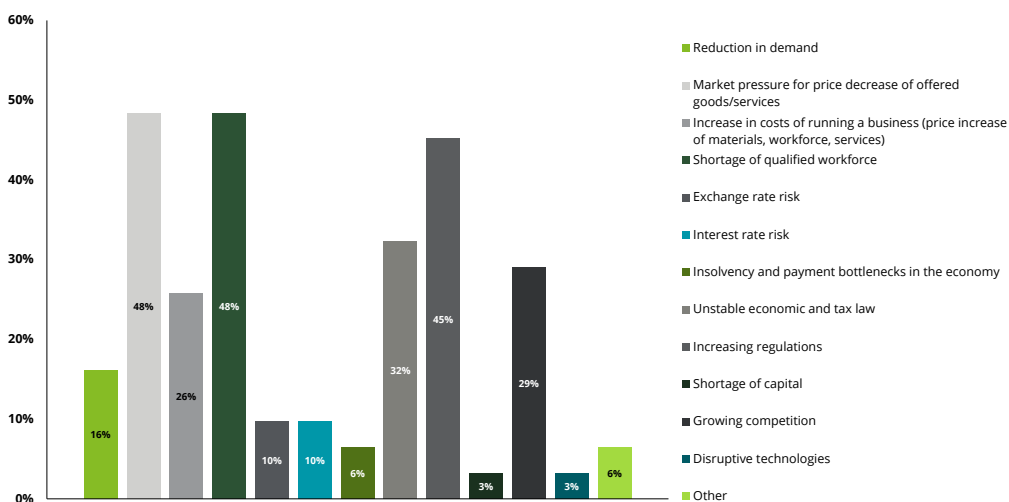
#### Is this a good time to be taking greater risk onto your company's balance sheets?



### Biggest challenges for companies

Half of the surveyed CFOs have pointed out as major challenges the shortage of qualified workforce and the market pressure for price decrease. The government interference in the business is also noted as an issue, namely the unstable economic and tax laws and the increasing regulations. However despite the challenges only one out of ten respondents considers that revenues are likely to decline in the next 12 months.

#### Which of the following factors are likely to pose a significant risk to companies in your country over the next 12 months?

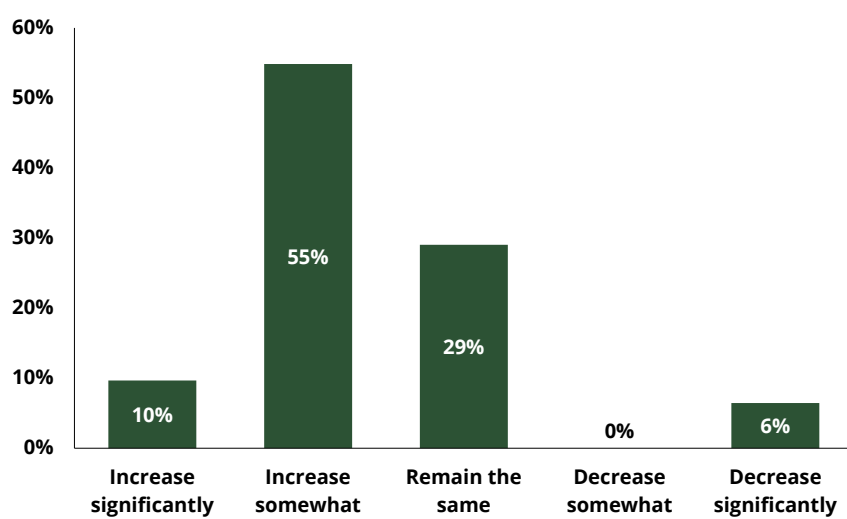


## Bulgaria

### Expected level of M&A

CFOs remain bullish in predicting increase in the M&A activity with 55% share in the survey. This corresponds to the 74% of the surveyed considering revenues to increase over the next 12 months. However there is a notable decrease in confidence compared to 2015 where 83% of the CFOs were positive on the M&A dynamics.

#### Over the next 12 months how do you expect M&A levels to change in your country?



The image features a series of overlapping, curved, light blue and purple shapes that resemble stylized petals or layers of a flower. These shapes are set against a solid black background. The text "Companies growth outlook" is positioned in the upper right quadrant of the image.

Companies growth outlook

# Companies growth outlook

## Central Europe - regional perspectives

The year to come will bring growth and financial prosperity. There is definitely more optimism than in previous years as CFOs expect their companies to deal successfully with the challenges caused by a relatively unfavourable business environment. This is not to say that attitudes are overly optimistic. CFOs are aware of the threats and will carefully consider their decisions. For example, despite the predicted growth of companies and rising revenues, the general consensus is that risky decisions should be avoided and spending should be kept in check.

In addition, CFOs from different sectors have diverging opinions. Many Life Sciences and Consumer Business CFOs expect their companies to grow, whereas the majority of those from the Public Sector and the Business & Professional Services, Construction & Real Estate and Financial Services sectors expect the market to stabilise.

Such differences are the result of the uneven growth rates of different sectors. The Life Sciences sector, for example, is flourishing due to increased investment in innovative technologies, while the Construction & Real Estate sector is still trying to recover from the fallout of the financial crisis.

The priorities of CFOs remain similar regardless of sector. As well as keeping expenses under control, which has already been mentioned, their focus is on developing new products and services. Despite stating that attracting qualified employees will be the most serious challenge in the year to come, CFOs nevertheless expect the workforce of their companies to grow.

This is especially true for CFOs of companies in the Technology, Media, Communications and Business & Professional Services sectors.

By contrast, Public Sector CFOs expect to see workforce reductions, caused among other factors by government pressure. The vast majority of CFOs do not expect to see falls in the cost of employment, equity and real estate in the near future.

However, plans are in place to reduce production costs, which will most likely be achieved by implementing more effective and innovative production methods. It appears that these planned cost reductions are not directly related to a company's financial position, but rather originate from planned restructuring activities or changes that affect production and the scope of the company's operations.

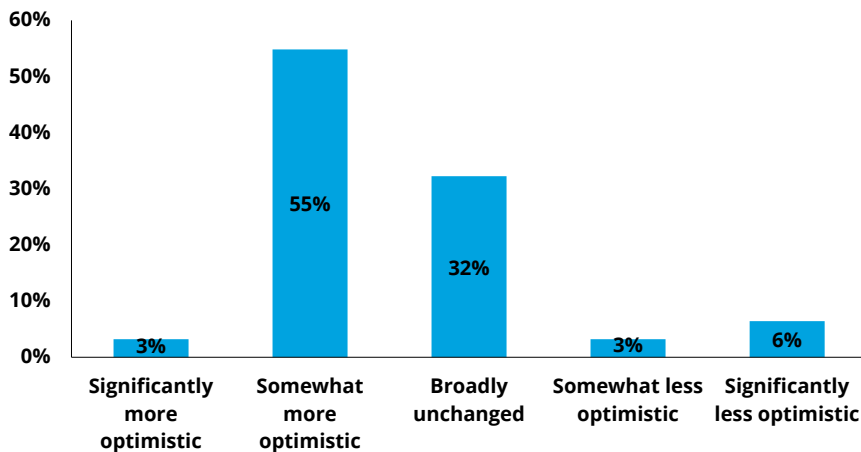


## Bulgaria

### Financial prospects for companies

CFOs optimism regarding the prospects of their companies has increased to the highest level for the last 4 years. Only 1 out of 10 considers that the prospects have decreased compared to 6 months ago. More than half of the surveyed expressed optimism and one out of three considers, that there is no change.

**Compared with six months ago, how do you feel about the financial prospects for your company?**

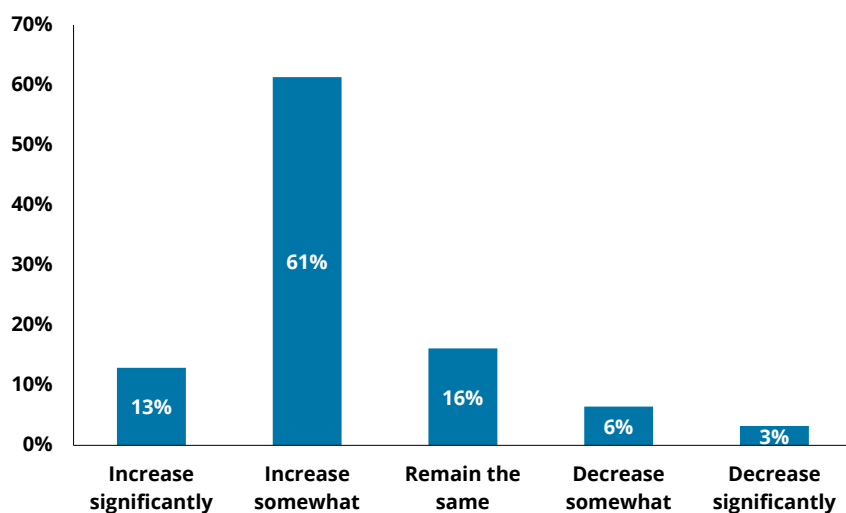


## Bulgaria

### Revenue

More than 74% of the CFOs were optimistic that revenues will increase, one fifth of these betting on a significant growth. According to 36% of the respondents, the most important revenue growth driver is going to be the introduction of new products/services, followed by organic growth. The optimism regarding revenue increase is understandable, having in mind the expected economy growth increase and CPI.

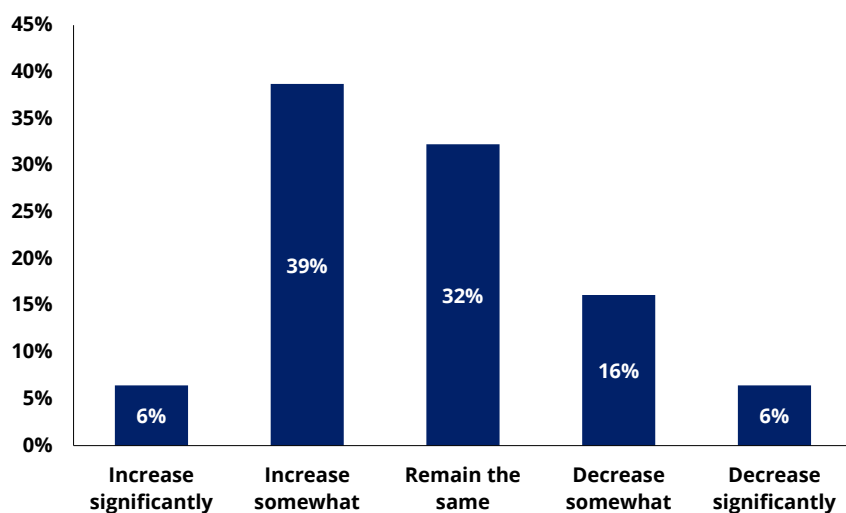
**In your view, how are revenues for your company likely to change over the next 12 months?**



### Operating margins

Less than quarter of the interviewed, expect decrease in operating margins. This is expected to be achieved not only through topline increase, but also via close cost monitoring, which is noted as priority process by almost all surveyed CFOs.

**In your view, how are operating margins for your company likely to change over the next 12 months?**

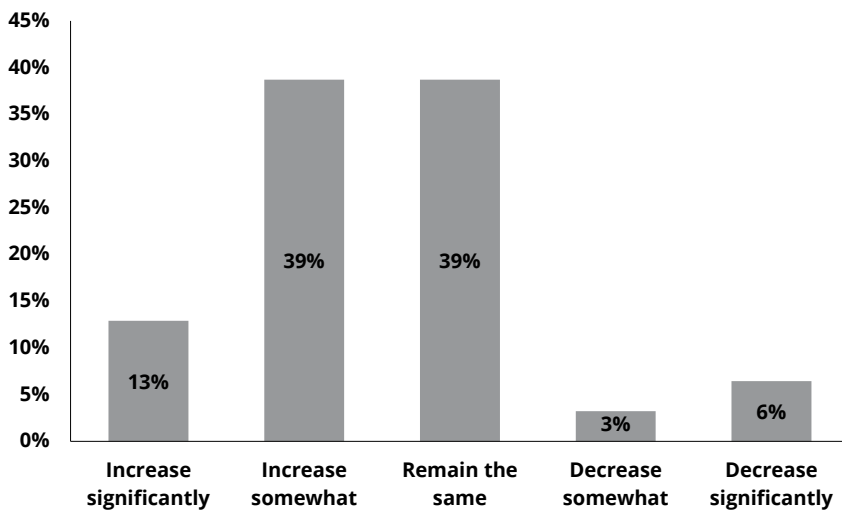


## Bulgaria

### CAPEX

Just some 10% of the respondents expect capital expenditure levels to decrease in the course of the next 12 months and 51% expect increase in capital expenditure. This is directly related to the expected revenue increase, for which higher capacities will be needed and also the increased CPI and GDP growth.

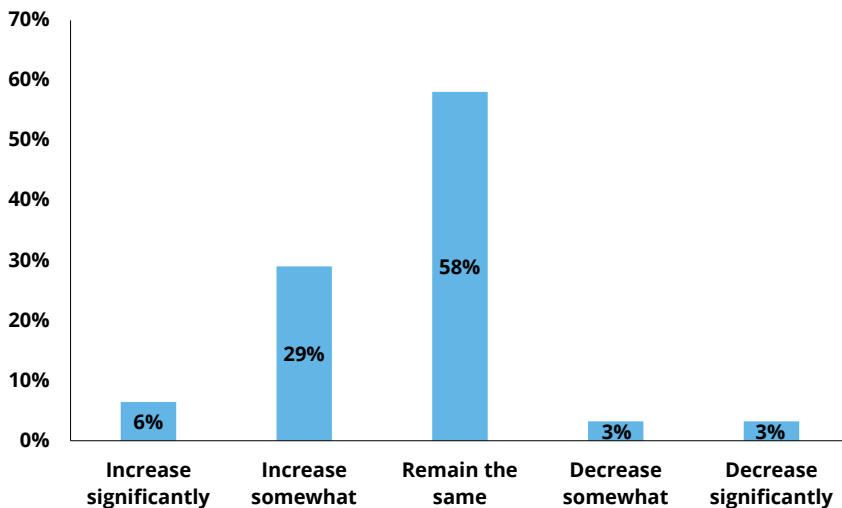
**In your view, how are capital expenditures (CAPEX) for your company likely to change over the next 12 months?**



### Number of employees

The majority of the CFOs expect the number of employees to remain the same while 35% expect increase in headcount over the next 12 months. As shortage of employees poses significant risk according to 77% of the respondents it is understandable that some increase in workforce is expected by the surveyed CFOs.

**In your view, how is the number of employees for your company likely to change over the next 12 months?**



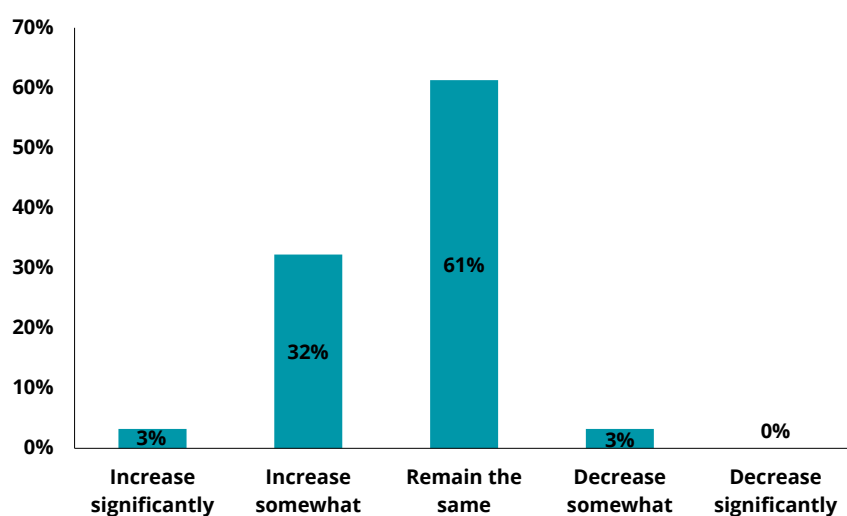


## Bulgaria

### Debt service capabilities

In line with the previous year only 3% of the CFOs expect that their ability to service debt will somewhat decrease. This corresponds with the positive outlook regarding the increase revenue and operating margin trends.

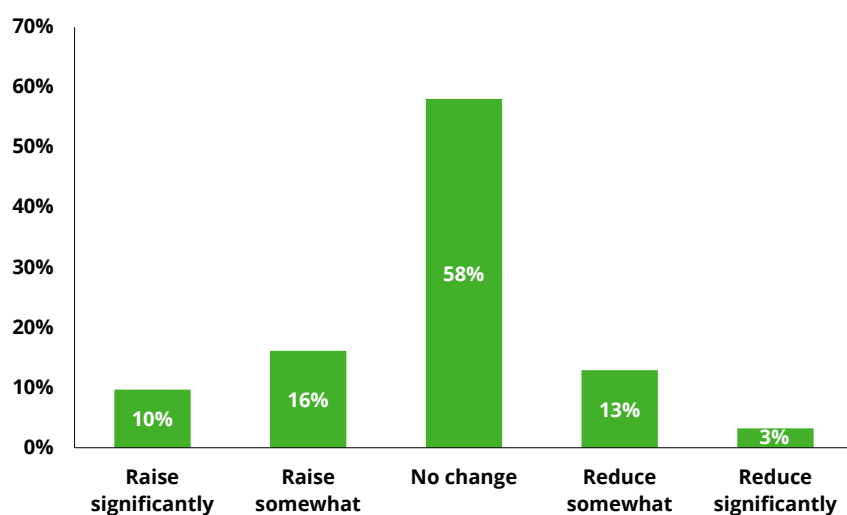
Over the next three years, how do you expect your ability to service your debt to change?



### Level of gearing

Similar to previous years more than half of the CFOs do not expect to increase their level of gearing. Every one out of four however expects increase in the next 12 months, which is in line with the expectations of more than half of the respondents to increase their CAPEX during the next year.

What is your aim for your level of gearing over the next 12 months?



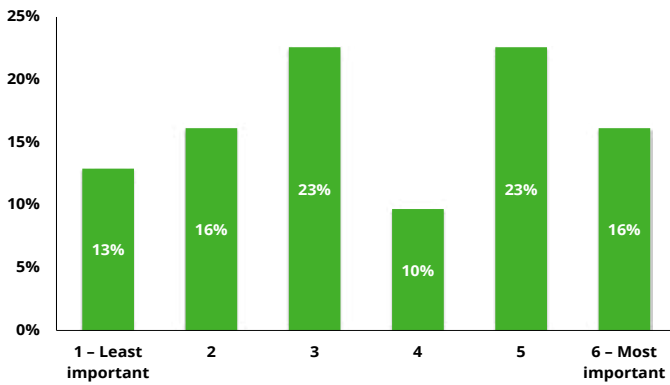
## Bulgaria

### Priorities

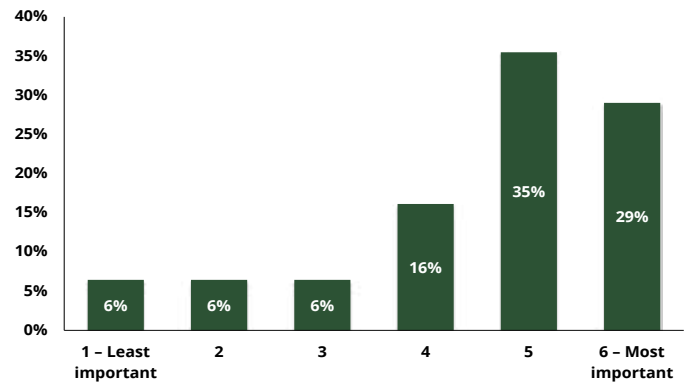
Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?

Cost control is one of the major focuses for the CFOs in the next 12 months. This is in line with their expectation for increased expenses related to services and workforce. More than third of the surveyed CFOs consider their main priority to be introduction of new services/ products, with which to sustain revenue growth, which is similar trend compared to last year. In line with the prioritizing introduction of new products/ services 74% of the CFOs expect increasing revenues and other 16% do not expect a decline.

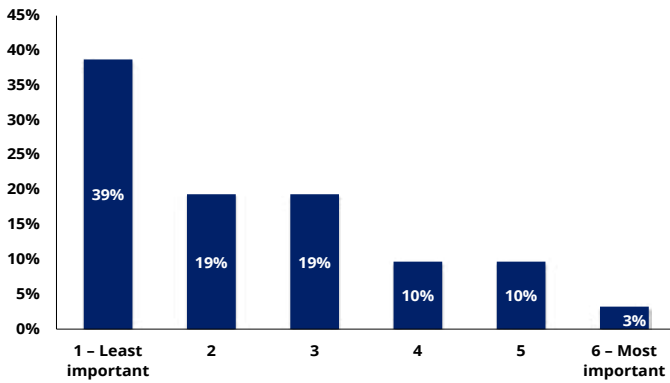
#### Expanding into new markets



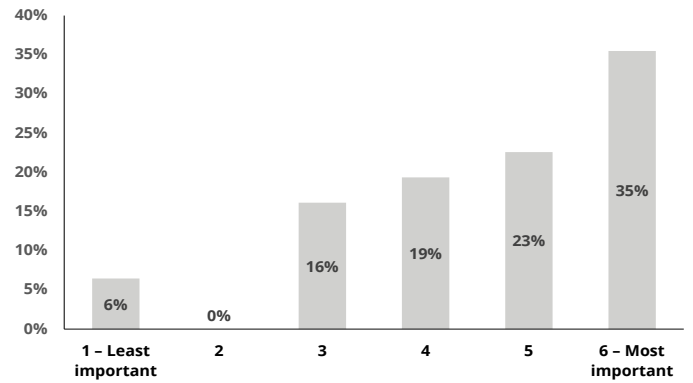
#### Organic growth



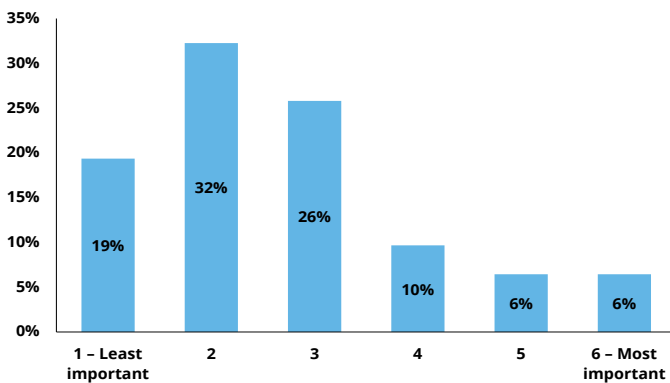
#### Expanding by acquisition



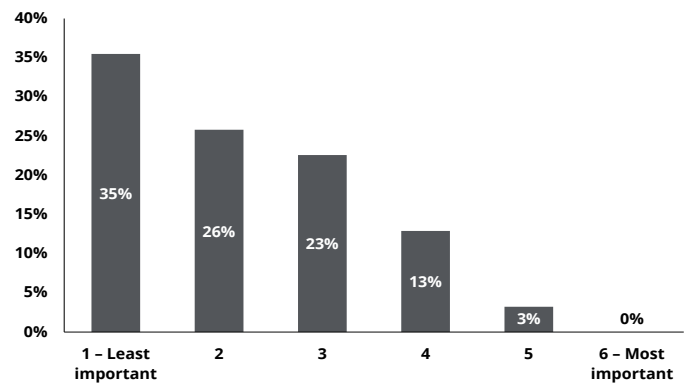
#### New products / services



#### Increasing CAPEX

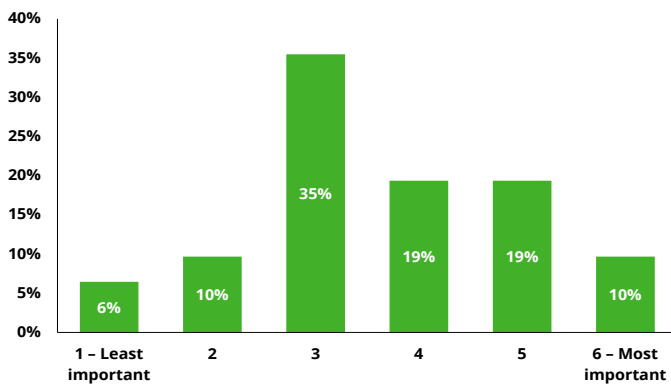


#### Increasing OPEX

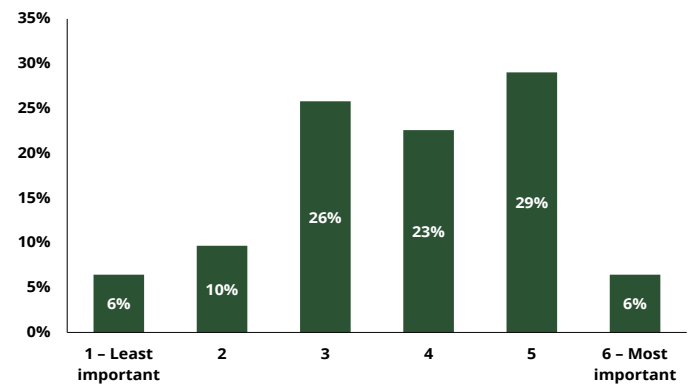


## Bulgaria

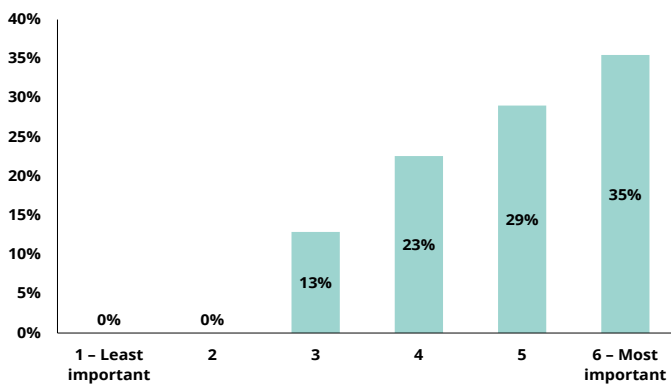
### Reducing direct costs



### Reducing indirect costs



### Cost control



# Methodology

## About the CE data

The findings discussed in this report represent the opinions of almost 600 CFOs based in 12 Central European countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

The survey was conducted between August and October 2016.

The expression "Euro zone" used on the charts and infographics in this report refers to the surveyed Central European countries who adopted the European currency, and "Non-Euro zone" countries refers to the other surveyed CE countries. The expression "EU" used on the graphs and infographics in this report refers to surveyed Central European countries who are full members of the European Union.

Some of the charts in the report show results as index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither positive nor negative are deemed to be neutral. Due to rounding, responses to the questions covered in this report may not aggregate to 100.

Some findings include a comparison with those in the previous edition of the survey, based on a sample of 11 countries who appear in both editions.

The Deloitte Central Europe CFO Confidence Index consists of three sub-indices that reflect CFOs' optimism (or lack of it) about three key issues: economic processes (the Economy Confidence Index); the business environment (the Business Environment Confidence Index); and prospects for the development of their companies (the Company Perspective Index).

The sub-indices are a mean of the net balance index for selected questions. The main index is a mean of the sub-indices and assumes values between - 100 and 100, with - 100 meaning that a given CFO provided only pessimistic answers and 100 meaning only optimistic ones.

The Economy Confidence Index is based on questions concerning economic growth, unemployment and the Consumer Price Index (CPI).

The Business Environment Confidence Index is based on questions concerning uncertainty, risk, operational expenses, the attractiveness of different sources of funding and opinions about the M&A market. The Company Perspective Index is based on questions concerning the company's future, financial condition (revenue, debt-servicing capabilities, capital expenditure and margins), its predicted level of gearing and employee numbers.

The findings discussed in Central Europe CFO Survey 2017 represent the opinions of

# 600 CFOs

**based in**

12 Central European countries:

Bosnia and Herzegovina (BA),  
Bulgaria (BG), Croatia (HR),  
the Czech Republic (CZ),  
Hungary (HU), Lithuania (LT),  
Poland (PL), Romania (RO),  
Serbia (RS), Slovakia (SK),  
Slovenia (SI) and Ukraine (UA).

The report was prepared  
in cooperation with  
**Mateusz Trochymiak,**  
Expert in Institute for Labour Market  
Analyses.

- 
- A map of Eastern Europe with country codes in white circles. The countries are highlighted in green. A legend in the center-right lists the countries and their codes. The codes are: BA (Bosnia and Herzegovina), BG (Bulgaria), HR (Croatia), CZ (Czech Republic), HU (Hungary), UA (Ukraine), PL (Poland), RO (Romania), XS (Serbia), SK (Slovakia), SI (Slovenia), and LT (Lithuania).
- |      |                        |      |           |
|------|------------------------|------|-----------|
| (BA) | Bosnia and Herzegovina | (PL) | Poland    |
| (BG) | Bulgaria               | (RO) | Romania   |
| (HR) | Croatia                | (XS) | Serbia    |
| (CZ) | Czech Republic         | (SK) | Slovakia  |
| (HU) | Hungary                | (SI) | Slovenia  |
| (UA) | Ukraine                | (LT) | Lithuania |

LT

PL

UA

CZ

SK

HU

RO

SI

HR

BA

XS

BG



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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 organization rates among peers.

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