

**Deloitte.**

CFO Survey  
Bulgaria

cautiousness

Today's businesses are challenged to operate in times, when we are hardly able to clearly see what is waiting for us behind the corner. Uncertainty makes us cautious. But "cautious" means a lot – it does not only stand for keeping our eyes open for threats. It is also about looking for opportunities.



*V. Raichev*

**Vasko Raichev**  
Chairman, Deloitte Bulgaria

## Some glimmers of optimism while caution rules

Welcome to this first edition of the Deloitte CFO Survey for Bulgaria. This is a bi-annual survey, which is regularly published in Central Europe. For the first time, Deloitte is now addressing the views, issues and concerns of Bulgarian CFOs, enabling us to compare them with those of CFOs from the other largest economies across the region (Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia). Our poll respondents represent various industries, controlling the finances of those companies that are the key players in their sectors. I therefore believe that you will find this report very interesting reading.

One might expect the Bulgarian economic outlook to be characterised as “uncertain”, given the challenging economic environment worldwide. There is no doubt, CFOs are naturally concerned, expecting economic stagnation to mark 2013. Even though we see some pointers to a more optimistic future, our respondents remain cautious and avoid big moves.

The most optimistic views of our CFOs concern the financial prospects for their companies. However, we can see no such optimism in their intentions to take on new risks. But despite the lack of major appetite for new investments, and with cost-cutting still being of high importance, revenue growth nevertheless appears to be one of the major topics on our CFOs’ agenda for the year ahead.

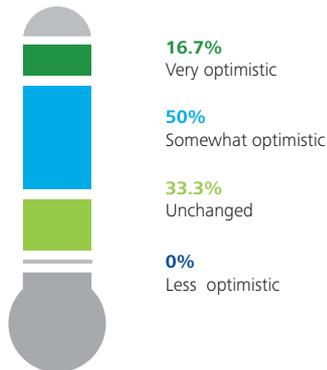
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## Key trends and findings:

- Despite financial and economic uncertainties, a majority of Bulgarian CFOs are feeling optimistic about their companies' financial prospects
- Growing revenues from existing and new markets is seen as a priority for the year ahead
- Nevertheless, cost-cutting remains of high importance and most CFOs do not see now as good time to take on new risks
- Anticipating stagnation for the year to come, few CFOs are considering making new investments and taking on more debt
- Access to capital is becoming easier and bank financing is the preferred choice for CFOs
- Broadly, there is a belief among CFOs that they might need to restructure the business over the next 12 months
- CFOs see the quality of public services and the efficiency of public administration as fair, while indicating that there is much room for improvement
- Overall, CFOs feel comfortable with the Bulgarian financial system as an environment, within which to develop and execute their business plans and budgets

# Bulgarian CFOs' sentiment

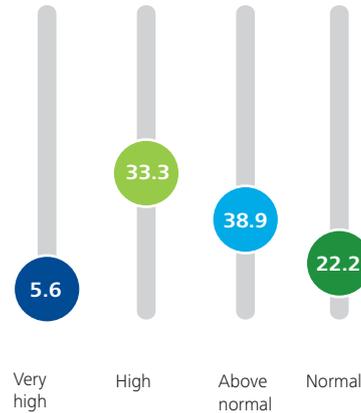
**Graph 1: Outlook on financial prospects for their company (compared with 6 months ago)**



This graph shows a positive trend, with 50% of participating CFOs feeling somewhat more optimistic about the financial prospects for their companies than six months ago. The views of one third of the questioned CFOs are unchanged, and 16.7% are very optimistic.

However, such positive feedback does not extend to their appetite for risk, with 72% stating that this is not an appropriate time to take more risk on to the balance sheet (Graph 3)

**Graph 2: Perceived general level of external financial and economic uncertainty**



The uncertainty connected with the external financial and economic conditions facing the CFOs' businesses remains high for the majority (72.2%) of respondents. For one third of our poll it is high and for 38.9% it is above normal. Only 22.2% perceive the levels of uncertainty as normal while, at the other end of the scale, 5.6% rate them as very high. This sense of financial and economic uncertainty that companies are feeling is directly impacting on their medium and long-term decisions.

**Graph 3: CFOs' view if now is a good time to be taking greater risk on their company's balance sheet**



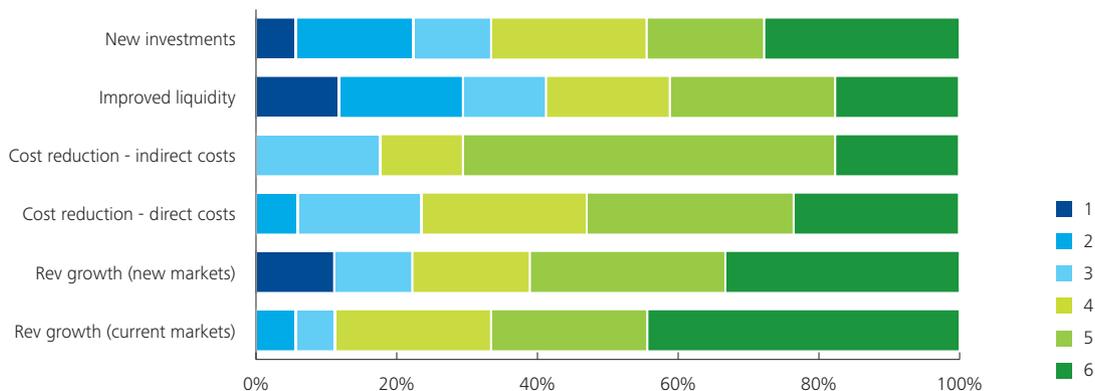
The majority of the participating CFOs are cautious about placing any risks on to their companies' balance sheets. More than two thirds of the respondents do not think that this is the right time for risk-taking.

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The lack of urge to risk in most of the CFOs' answers could be predicted, given the current financial and economic circumstances. The significant share (more than one fourth) of positive attitude towards risk-taking is impressive, though. Naturally, the readiness for risk-taking mirrors the companies' profitability – the more profit on the balance sheet, the stronger the confidence and appetite for risk.

**Graph 4: What is your company's business focus for the next 12 months?**

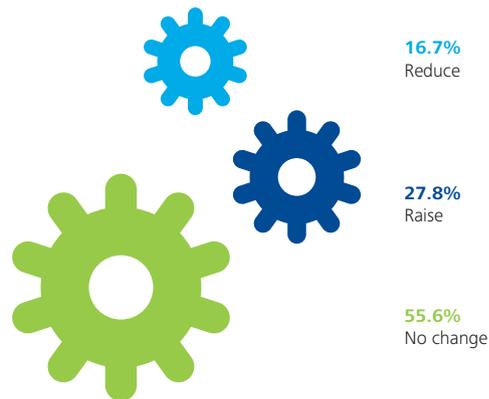
(1-least important, 6-most important)



CFOs are focused on operational improvement, with 70% of respondents viewing efforts to reduce costs as their most important or second most important task. However, revenue growth is increasingly coming on to the CFO radar – 44.4% plan to focus on growing share within their current markets and a third on expanding into new markets.

New investments to support growth are a top priority for just 28% of the CFOs, which possibly reflects their attitude to taking on new risks (see graph 3). Only 18% of them plan to concentrate on improving liquidity.

**Graph 5: CFO's plans for the level of gearing in the following 12 months**



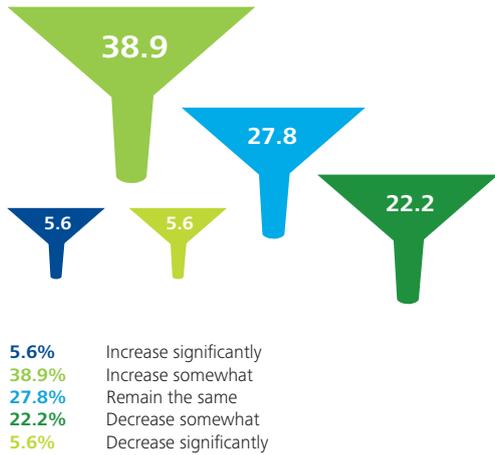
More than half of the respondent CFOs do not intend to change their level of gearing over the next 12 months; just 17% are aiming to reduce their current level. Companies are playing safe with the business's capital structure. Still, more than a quarter (28%) of the CFOs is clearly expecting strong and predictable cash flows, as they are prepared to consider taking on a higher level of borrowing.

**Graph 6: Overall ability of new credit for companies nowadays**

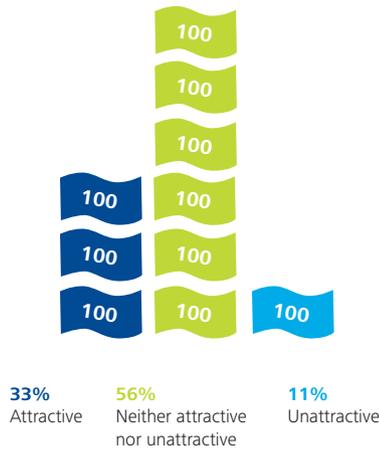


Most participating CFOs (56%) believe that the availability of new credit lines is currently normal, and 11% even believe that new credit facilities are easily accessible to them. Such opinions correspond with the official statistics released by the Bulgarian National Bank in September 2012, which announced annual growth of 6.1% in the credit issued to business over the same period in 2011. One third of our poll, however, still says that it is difficult for companies to come by new credit.

**Graph 7: Expected change in financing costs for companies in Bulgaria over the next 12 months**



**Graph 8: Currently bank borrowing as a source of funding is**

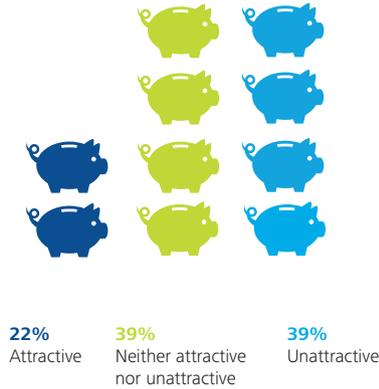


As the graph shows, there is little support for the options at each end of the scale – our CFOs expect neither a significant increase nor a major decrease in the costs of finance. These views appear to mirror movements in the commercial lending rate, which for the past 12 months have fallen in some product segments and increased in others (such as the interest rates on credit lines over EUR 1million, contracted in BGN).

(Source: BNB)

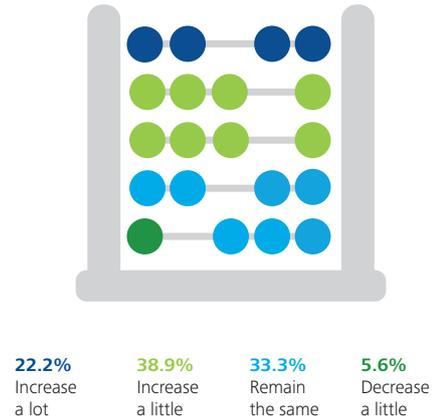
While bank financing is a cheaper form of funding than raising equity, the majority of our respondents do not have strong opinions on the attractiveness of credit in the current environment. A third of our CFOs nonetheless find bank borrowing attractive, most probably as a consequence of the perceived easing of lending practices and a clear idea of where they could use the money.

**Graph 9: Currently equity raising, as a source of funding is**



One in five Bulgarian CFOs perceives raising equity finance as an attractive source of funding. This can be read in the context of low liquidity and weak investor interest in the Bulgarian capital market, as well as waning enthusiasm on the part of foreign investors for committing capital to private transactions.

**Graph 10: CFOs' expectations about their ability to service their debt over the next 3 years**



A more positive pointer comes from the majority of the respondents (61.1%) who believe that their companies' ability to service debt will increase in the medium term. A third of our poll expects no changes and a small minority anticipates just a slight worsening.

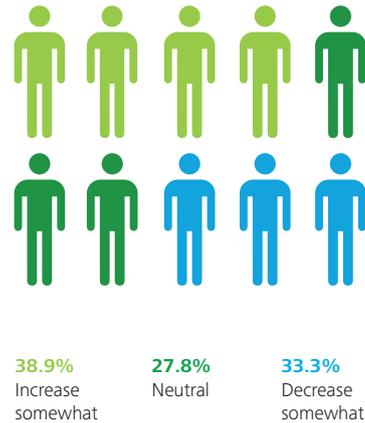
**Graph 11: CFOs' expectations for Bulgarian GDP growth for the year 2013**



The majority of Bulgarian CFOs expect economic stagnation in 2013, with a growth rate between 0% and 1.5%. Unlike the CFOs in some other Central European countries, where recession is expected by more than half of the poll, very few Bulgarian CFOs are so pessimistic. Even though growth is a minority expectation with just 5.6% of the poll, optimism in Bulgaria is nonetheless the highest in the region - no CFOs from other countries anticipate growth.

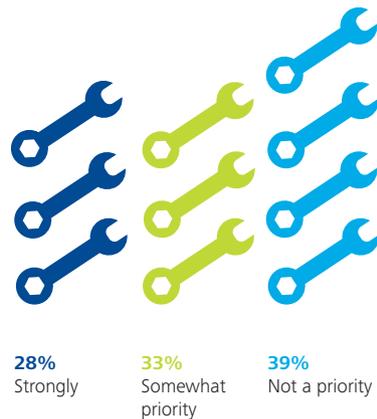
Comparing this finding with the recent Bulgarian Outlook report, it is clear that the recovery remains quite fragile, particularly given that the rate of growth has slowed from 1.7% last year to 0.8% this year.

**Graph 12: Expected levels of unemployment in Bulgaria over the next 12 months**



Unemployment in Bulgaria is not improving quickly. It is set to continue its recent increase, growing to 11.5% this year and staying close to this figure in 2013. Bulgaria is one of those CE markets where some companies are planning job cuts while others are planning to hire. We can also observe the same trend in our CFOs' responses, and we assume that the unemployment levels they expect are based on anticipated reduction /recruitment measures within their own companies.

**Graph 13: CFOs' attitudes towards restructuring and remodelling over the next 12 months**



Most respondents (61%) agree that business remodelling and restructuring will be priority over the next 12 months. Companies will have to seek new, innovative ways of production, selling and distribution, which might ultimately cause them to change their business models.

**Graph 14: CFOs' expectations about the levels of M&A in their country**



Bulgarian CFOs do not appear to have a strong opinion on how the levels of M&A will change; the majority view is that the number of M&A deals will either increase somewhat (55.6%) or remain unchanged (44.4%). No significant increase or decrease is predicted for the next 12 months.

The number of deals within the first nine months of 2012 was lower than in the same period of 2011. There is a trend towards decreased numbers of “fresh” acquisition activities and a greater prevalence of debt restructuring and mergers and acquisitions between small businesses.

*(Source: CMS Cameron McKenna, DealWatch).*

**Graph 15: CFOs' rating of the quality of public services and the efficiency of public financial administration**



5% Excellent  
17% Good  
61% Fair  
17% Poor

According to our respondents, the quality of public services and the efficiency of public administration is fair without being excellent. A substantial 17% of the CFOs, however, actually see them as poor. We are not surprised by this feedback and we read it as a call for improvement in the efficiency of public administration.

**Graph 16: CFOs' opinion to what extent the overall situation of the financial system in Bulgaria provides their company with a solid ground for development and execution of their business plan and budget**



22% To large extend  
61% To some extend  
17% Does not provide

With 83% of the CFOs responding positively, the financial system in Bulgaria is seen as providing a more or less favourable environment for companies to develop and execute their business plans and budgets. The negative response of 17% of the polled CFOs should not necessarily distract us from the importance of the overall stability of the financial system. It rather indicates the relative insignificance that those particular respondents ascribe to the macro-environment.

# Central European comparative

This section of the report compares the expectations of the Chief Financial Officers from the eight Central European countries that participated in the survey (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovenia and Slovakia). It highlights the key differences between the views expressed in Bulgaria and the other seven countries. It is based on answers of 362 CFOs from broad range of industries.

Central Europe's CFOs are markedly less optimistic than they were early in 2012 when Deloitte last surveyed their opinions. It is interesting to note that this increasingly pessimistic outlook among finance professionals, who mainly work in large corporate enterprises, matches that highlighted in the recent Deloitte survey of Private Equity practitioners, whose confidence is at the third lowest ebb of any time in the last decade.

There are several key factors to which this broad-based decline in optimism can be attributed – the continuing crisis in the key export markets of the eurozone, worries about recession in some CE countries and a slowdown in growth in others.

Whatever the reasons – and all these and more have a role to play – the results appears to be greater financial and economic uncertainty, reduced expectations of growth, expectations of higher unemployment and more.

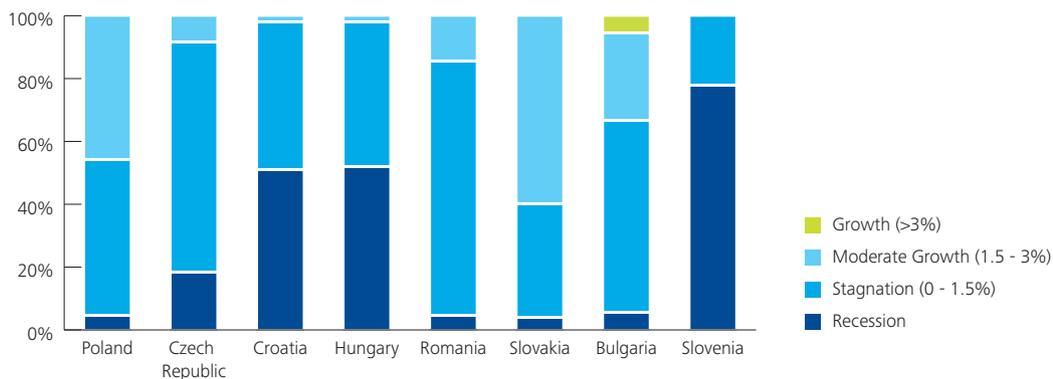
But no picture is exclusively black or white – for while Polish and Slovenian CFOs are the most pessimistic about the prospects for their own companies compared to 6 months ago, there are distinct signs of optimism among those in the Czech Republic, Croatia, Romania, Slovakia and, most particularly, Bulgaria where 67% of respondents believe their prospects are better than in early 2012.

### CFOs' expectations for their countries' growth in GDP during 2013

While CFOs from the eight surveyed countries of the CE region have different expectations for their countries' GDP growth, most of them are expecting a slowdown in economic activity for the year ahead. Whereas Slovenia, Croatia and Hungary are expecting a return to recession, Poland, the Czech Republic, Romania and Bulgaria are expecting 2013 to be a year of a minimal growth and stagnation (0 – 1.5% growth).

Slovenia is the most pessimistic of the countries in the region; after a slight recovery in the last year, its CFOs are expecting the situation to worsen, with almost 80% expecting recession in the year ahead. Export-driven Slovakia on the other hand is the most optimistic country, with 60% of its CFOs expecting moderate economic growth (1.5 – 3%).

**Graph 17: CFOs expectations for the country economic GDP growth for the year 2013**

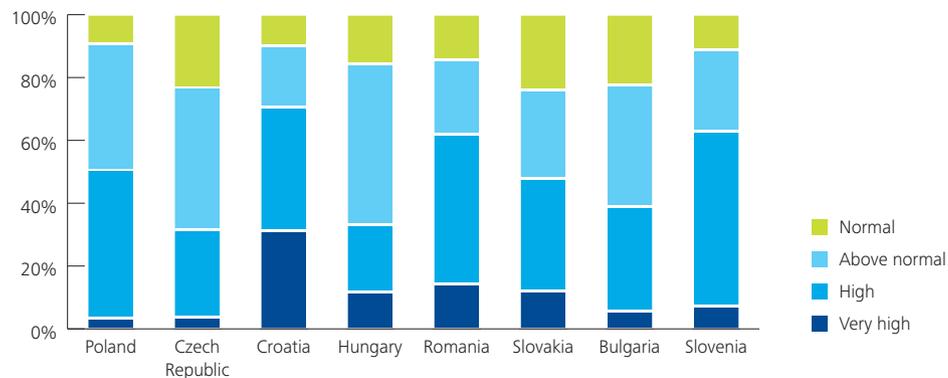


## How CFOs rate the general level of external financial and economic uncertainty facing their businesses

CFOs in most countries expect to face high external financial and economic uncertainty. Similar to the last survey, Croatia and Romania (and now Slovenia as well) are the countries where “high” or “very high” levels make up the largest proportion of the poll, possibly reflecting a cautious attitude to the potential financial impacts of external economic conditions.

Croatia, in fact, is the most pessimistic of all six countries, with 31% of respondents expecting “very high” levels of financial and economic uncertainty – a significant increase from the 15% in the last survey. On the other hand (as in the last survey) the Czech Republic is the most optimistic country in the region in this respect, with 45% anticipating “above normal” and 23% “normal” levels of uncertainty.

**Graph 18: General level of external financial and economic uncertainty**



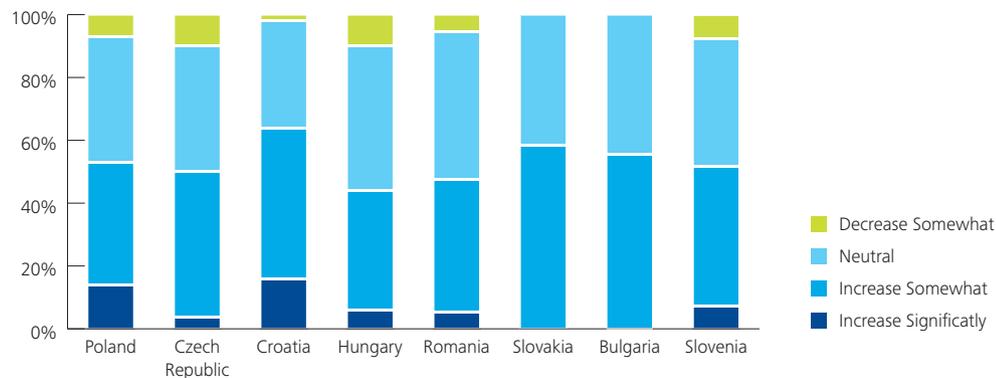
## How CFOs expect levels of M&A to change in their countries over the next 12 months

CFOs in five out of the eight countries expect levels of M&A activity to increase during 2013.

However, this expectation may be due to the very low activity levels in CE M&A markets over the last year, meaning that even a slight hike would represent an increase from previous levels.

There has been a significant change in the sentiment of Croatian CFOs, who predicted the smallest increase in the last survey. This time 64% of Croatian CFOs are anticipating an increase in M&A activity during the upcoming 12 months.

**Graph 19: Expected levels of M&A over the next year**



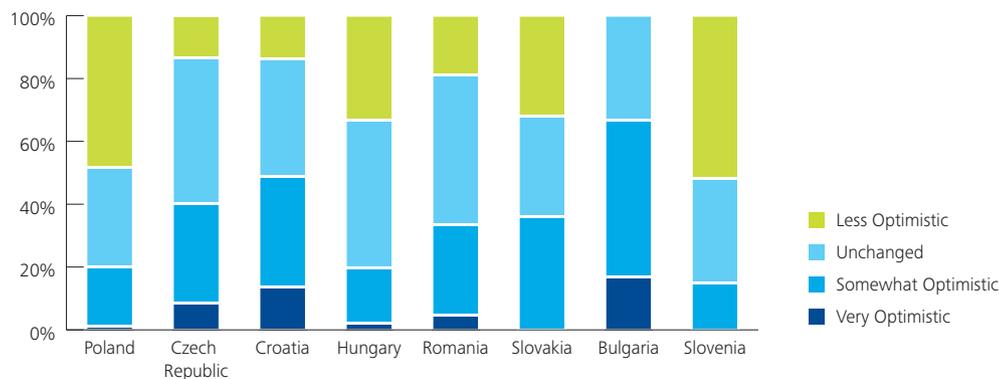
## How CFOs feel about the financial prospects for their companies compared to six months ago

CFOs in five of the eight countries expect the financial prospects of their companies to remain unchanged from six months ago. This may reflect their expectation of economic stagnation and the above normal levels of economic and financial uncertainty that they feel. It is unsurprising that CFOs in Slovenia are the most pessimistic, given the deteriorating economic and financial environment in the country.

The majority of Slovene CFOs (52%) are currently “less optimistic” about their companies’ prospects than they were six months ago.

The most optimistic CFOs are in Bulgaria, where 67% of respondents are more hopeful about their prospects than six months ago.

**Graph 20: Views on the financial prospects**

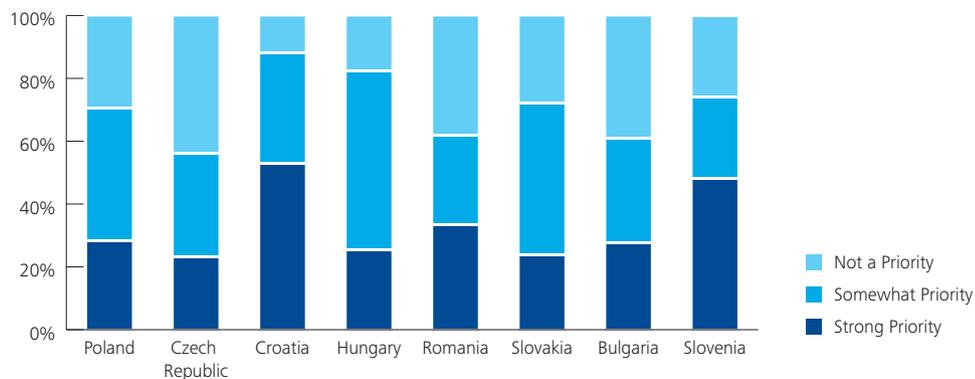


**The extent to which CFOs see business remodeling or restructuring as a likely priority for their business over the next 12 months**

When it comes to business remodeling and restructuring, it is difficult to find common ground in the findings from across the region. Business remodeling seems to be high priority mainly for CFOs

in Croatia (53%) and in Slovenia (48%), whereas only 23% of respondents from the Czech Republic see it as strong priority and 44% do not see it as priority at all.

**Graph 21: Importance of business remodeling or restructuring over the next 12 months**

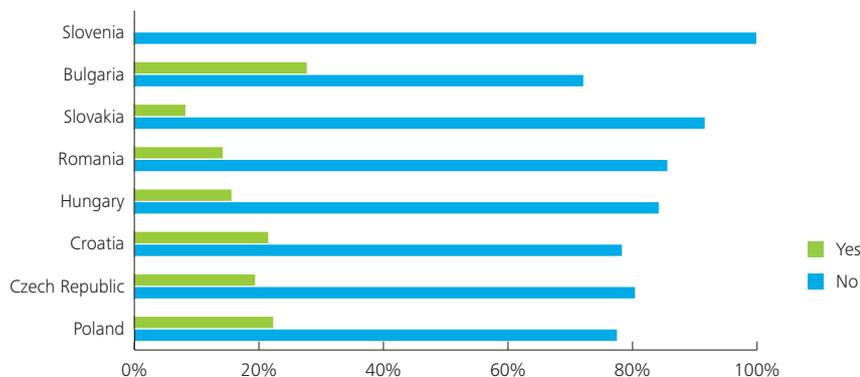


### CFO views on whether this a good time to be taking greater risk onto their company balance sheets

For all the countries, this is not seen as a good time to be taking risks. Five out of eight score well over 80% in saying that now is not the moment to assume more risk on their balance sheets, demonstrating a shared sense of risk-aversion across the board.

Slovenia is the most risk-averse of the eight countries, with 100% of CFOs agreeing that this is a time above all for caution. This matches the Slovenian belief that their businesses face high economic and financial uncertainty. The most positive CFOs from any country are Bulgarian, but even here only 28% feel that now is an appropriate time to take more risk.

Graph 22: CFOs' view if now is a good time to be taking risk on company's balance sheets

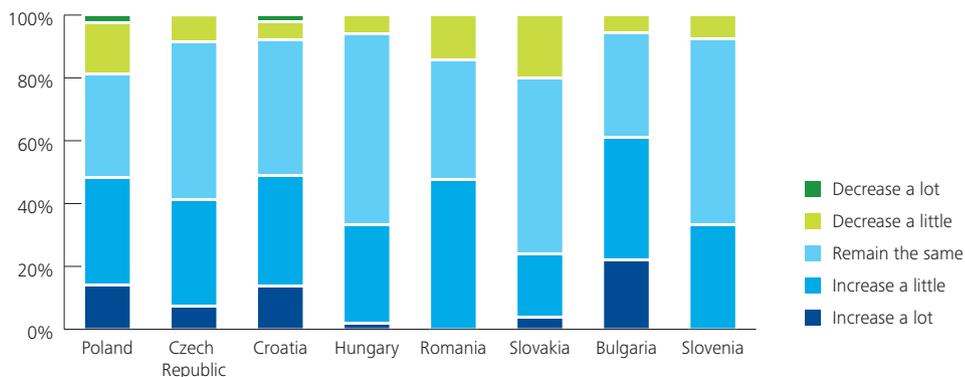


### CFO expectations of their ability to service debt over the next three years

Five of the eight countries are in broad agreement in expecting that their ability to service debt will remain largely unchanged over the next three years.

Once again the exception is Bulgaria, where over 60% of our sample anticipate either a moderate or significant increase in their companies' ability to service debt.

**Graph 23: Expected ability to service their debt over the next 3 years**

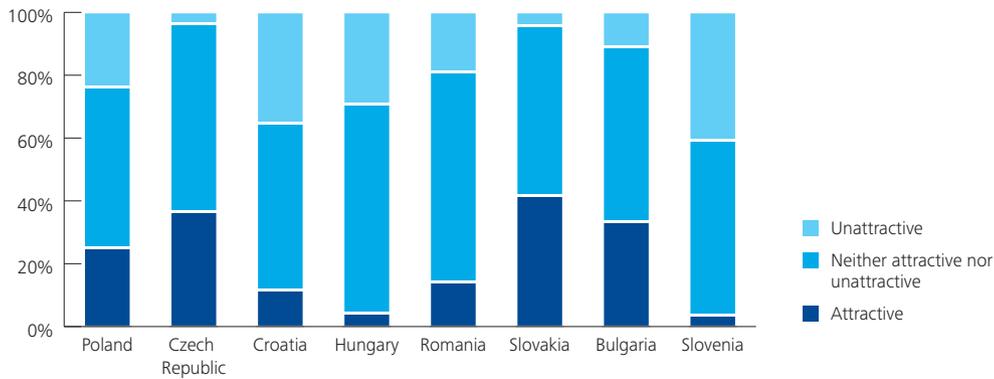


### CFO attitudes to bank borrowing as a source of funding

Most respondents are neutral in their attitude to banking finance as a source of funding, with more than 50% of CFOs in each country viewing it neither attractive nor unattractive. As in the last survey, it is in Slovakia and the Czech Republic that CFOs have

the most positive approach to bank financing (42% and 36% respectively). This can be explained by the traditional relationship banking model in their countries. The most negative attitude is in Slovenia, where around 41% find it unattractive.

**Graph 24: Attractivity of bank borrowing as a source of funding**

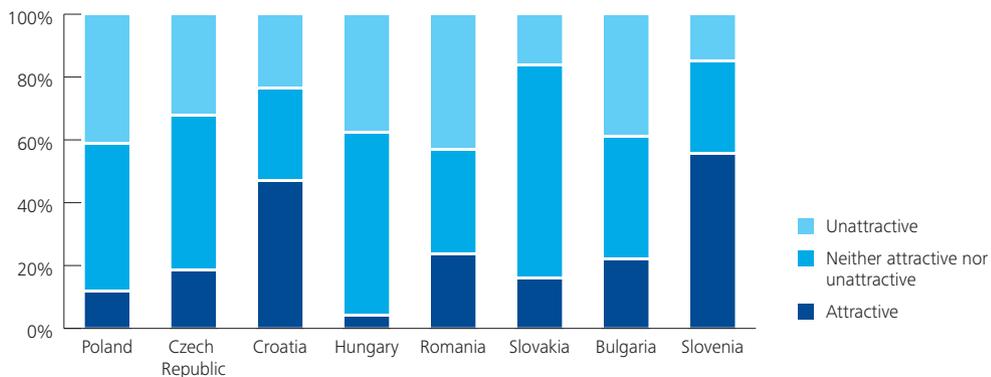


## CFO attitudes to raising equity as a source of funding

Similarly to their attitudes to bank borrowing, most CFOs are also neutral regarding the use of equity as a source of funding. This may reflect the fact that for many this is not a good time to raise money, regardless of its source.

However, there are significant differences between the countries. CFOs in Slovenia and Croatia are the strongest supporters of raising funds through equity sales (56% and 47% respectively), while a high proportion of Romanian, Polish and Bulgarian CFOs see it as unattractive.

Graph 25: Attractivity of equity raising as a source of funding

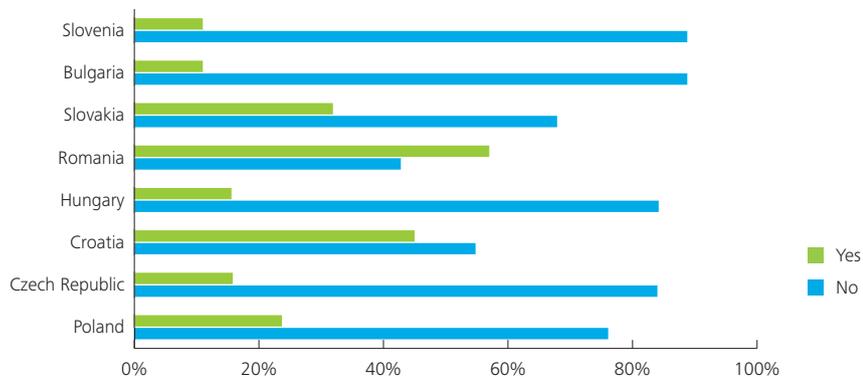


### CFO views on talent in finance

The great majority of the surveyed CFOs are not worried about a prospective lack of talent and do not expect talent shortages in the finance area in the upcoming year. The only exception is in Romania,

where 57% of respondents expressed their concern about the issue. The shortages in Romania are expected mainly on the middle management level.

**Graph 26: Expected talent shortage in the finance area**



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# Contacts

## CFO Program leaders

**Vasko Raichev**  
Chairman  
vraichev@deloittece.com

## Country Managing Partner

**Sylvia Peneva**  
speneva@deloittece.com

## Clients & Markets

**Dessislava Kirkova**  
C&M Manager  
dkirkova@deloittece.com

## Function leaders

**Assen Dimov**  
Partner  
Audit & Enterprise Risk  
Services  
adimov@deloittece.com

**Todor Todorov**  
FAS Director  
ttodorov@deloittece.com

## Methodology

The 3rd CE CFO survey took place between 1st of September and the 1st of October 2012. A total of 362 CFOs across 8 countries completed our survey. The survey is divided into two parts, first - local analysis based on responses from Bulgaria and the second part is based on all the responses across the region. Not all survey questions are reported in each bi-annual survey. If you were interested to see the full range of questions, please contact [ifiserova@deloitteCE.com](mailto:ifiserova@deloitteCE.com).

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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