



Things are getting back to normal  
Presenting the results of the Deloitte  
CE CFO Survey, conducted among large  
companies in Poland and Central Europe

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The economy is getting back to normal and appears to be stable enough for Polish businesses to focus on priorities like growing revenues and restructuring.



**Krzysztof Pniewski**  
Partner, Finance Transformation Leader  
Deloitte Poland

# Introduction

Dear Sir/Madam,

It is my pleasure to present the results of the fifth edition of the CE CFO Survey that Deloitte has conducted among the CFOs of large companies in Central Europe. Our regular publication focuses on the predictions and challenges faced by Polish CFOs. It also serves as a means of comparing the sentiments of Polish CFOs with those of their peers from 13 other CE economies: the Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Lithuania, Romania, Serbia and Slovenia, Slovakia.

The latest predictions regarding the future of the Polish economy show growing optimism among Polish CFOs. Over 60% of them expect GDP growth to exceed 1.6%. The economy is getting back to normal and appears to be stable enough for Polish businesses to focus on priorities like growing revenues and restructuring. In addition, Polish CFOs are ranked in the top three of the 13 countries covered by the survey in five categories: plans for increasing financial leverage (1); intention to increase risk appetite (2); availability of new bank loans (3); GDP growth (3); and decreasing unemployment (3).

The main concerns among Polish heads of finance are price pressures and liquidity problems. In many CE countries, businesses are planning to continue the strategy of exercising strict controls on costs and financial liquidity as well as reducing investment. However, an appetite for risk is returning to some countries, including Poland, with a particularly strong focus on growing revenues from existing and prospective markets. This is clearly a positive indication, which promises economic and market improvements in these countries.

I hope you find our report interesting and inspirational, and I would like to take this opportunity to invite you to take part in our next survey.

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## Key trends and comments on the results of the CFO Survey in Poland – a significant improvement in sentiment:

- CFOs' predictions for the economic realities of the Polish economy are proven – their forecast of 1.5% GDP growth in 2013 was accurate.
- According to our respondents, the situation is returning to normal for the Polish economy and companies: CFOs predict: a sustainable level of growth at 2% (60.7% predict growth to exceed 1.6%); a low inflation rate of under 3% (88% of CFOs); stable foreign exchange rates around PLN/EUR 4.1-4.2 (56% of respondents); attractive (42%) or relatively easily available and reasonably priced (80%) bank loans; and good investment prospects and risk appetite for most businesses (39%).
- We have seen a further improvement in the net optimism of Polish CFOs, up from +24% to +44%.
- Price pressure (according to 34% of CFOs) and maintaining financial liquidity in a time of economic growth (20%) are the main challenges for 2014. Some of the key strategic priorities resulting from these challenges are: pressure on revenue growth in existing (84%) and prospective (70%) markets. There will also be a strong focus on cutting direct costs (the main priority for over 80% of respondents) and indirect costs – this is a result of the pressure on prices and striving for operational excellence to ensure profitability and competitiveness in the face of falling prices.
- The percentage of CFOs who see the recession and a fall in demand as the main risk has fallen from 48% to 17%.
- Polish companies are satisfied with the current level of their investment in R&D. 68% do not plan to increase the level of their R&D spending during the next year.
- The percentage of negative responses naming regulatory change as the main obstacle to the development of Polish companies has increased. This is a result of the numerous changes made to the CIT, VAT and PIT provisions that companies have to comply with. VAT regulations (81%) and CIT regulations (58%) are quoted as the key administrative obstacles to business activities.
- Finding the right employees is also becoming increasingly difficult (24% last year compared to 37% this year).

# CFOs forecasts for 2014

Economic growth expectations for 2014 in Poland are optimistic. Only in Poland, Lithuania and Latvia more CFOs forecast slight or dynamic growth of GDP than would expect recession or stagnation. Slovenian, Croatian and Bosnian are on the other side of the scale.

In five categories CFOs from Poland are ranked in the first three places out of 13 surveyed countries: willingness to increase the financial leverage (1), ability to increase risk (2), availability of new loans (3), increase of GDP (3), decrease of unemployment (3).

**Chart 1. GDP forecast**

What will GDP dynamics be in the opinion of CFOs?



**Chart 2. Appetite for risk in selected Central European countries**

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



# Evaluation of the economic situation

## Introduction

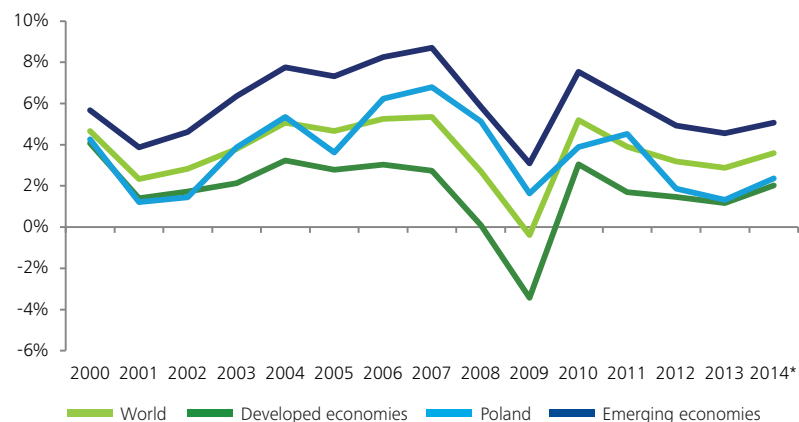
The International Monetary Fund's 2014 GDP growth forecast is as follows:

- Global – 3.6%;
- Developed economies – 2%;
- Emerging economies – 5.1%;
- Poland – 2.4%.

This is particularly interesting, because we have historically noticed a strong link in Poland between the level of CFO optimism and actual GDP increase. In the current survey, the level of optimism continues to grow. Should we therefore expect 2014 to be a good year?

**Graph 3. Global increase of GDP**

GDP increase according to IMF



Source: WEO, IMF data.

\* IMF projection

**Graph 4. CFOs' optimism versus GDP**

Are CFOs right in their forecasts as to GDP increase?



Source: Deloitte analysis based on WEO, IMF data.

## Moderate GDP growth, a low inflation rate and a small fall in unemployment

The macro-economic forecast of Polish CFOs shows a moderate level of optimism.

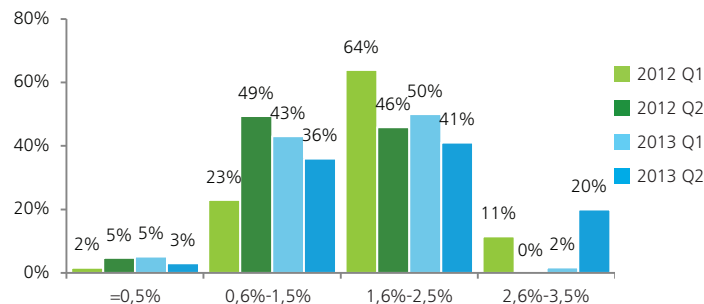
The majority (61%) of CFOs in Poland predict economic growth of 1.6% or over. In the opinion of as many as 20%, the growth rate will exceed 2.5%. The proportion of CFOs who meanwhile expect the unemployment rate to fall a little (46%) was almost three times greater than those who expect a slight increase (15%).

The inflation rate is expected to be low. A total of 88% of CFOs believe that the inflation rate will be below 2.9% next year. 49% expect it to be in the 2%-2.9% range and 39% predict it to be under 2%.

Respondents also predict the EUR/PLN exchange rate to be in the 4.1-4.19 range, which is close to the current rate (as of 14 January 2014).

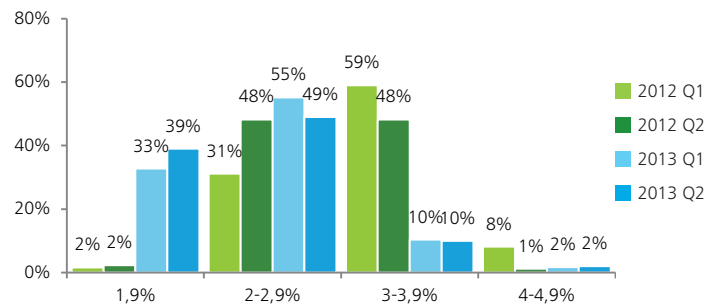
**Chart 5. Forecast GDP change in 2014**

What will GDP dynamics be in the opinion of CFOs?



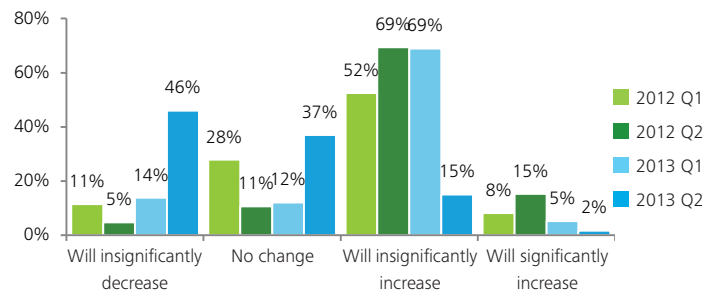
**Chart 7. Forecast inflation for 2014**

What will inflation be in opinion of CFOs?



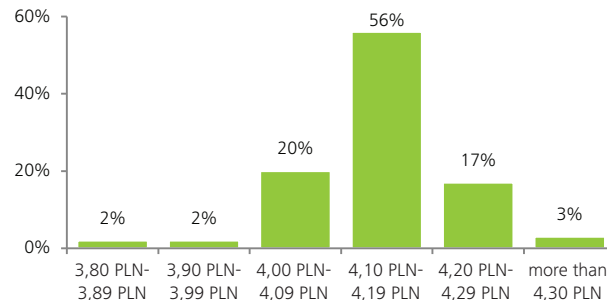
**Chart 6. Forecast unemployment within the next 12 months**

What will the unemployment rate be in opinion of CFOs?



**Chart 8. Forecast exchange rate at the end of 2014**

What will exchange rate be in opinion of CFOs?



# State of uncertainty or normality?

## The economic prospects of Polish companies are returning to normal

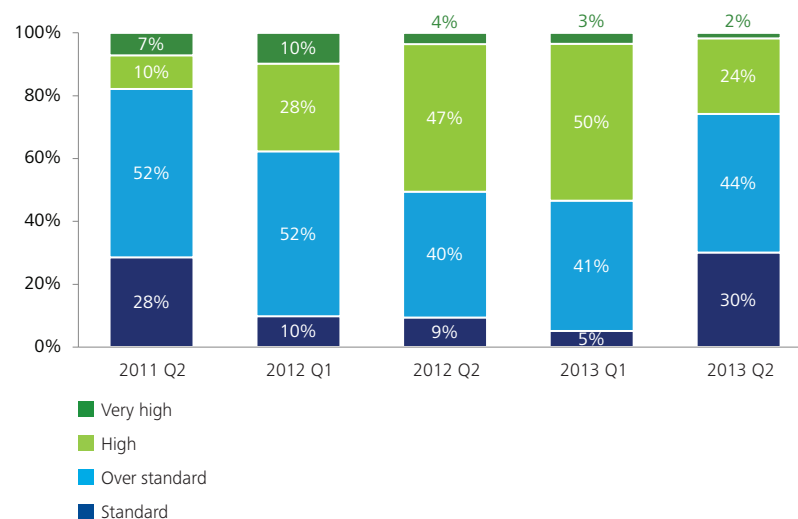
The net optimism, expressed as the percentage of respondents who anticipate an improvement minus the percentage of those who predict a deterioration, has gone up from +24% to +44%. The percentage of CFOs who are optimistic about the prospects for growth of their companies has increased to 54% over the past six months.

More and more CFOs feel the level of uncertainty is normal (up from 5% to 30%). The number of CFOs who see the level of uncertainty as normal had halved (from 53% to 26%).

Optimism can be seen across the whole region, especially in those countries predicting economic stagnation (Bosnia, Bulgaria, and Serbia).

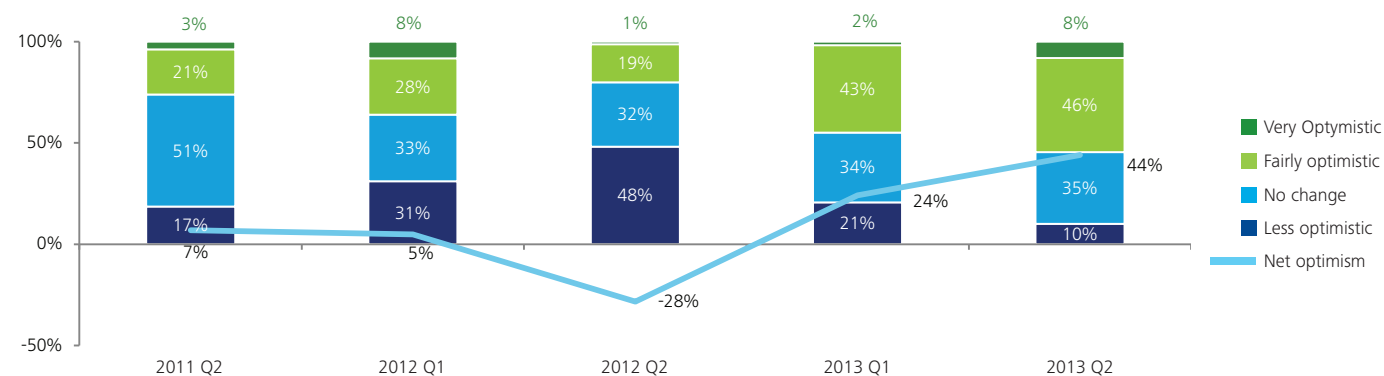
**Chart 9. Economic uncertainty**

Evaluation of economic uncertainty by CFOs



**Chart 10. Financial perspectives for Poland**

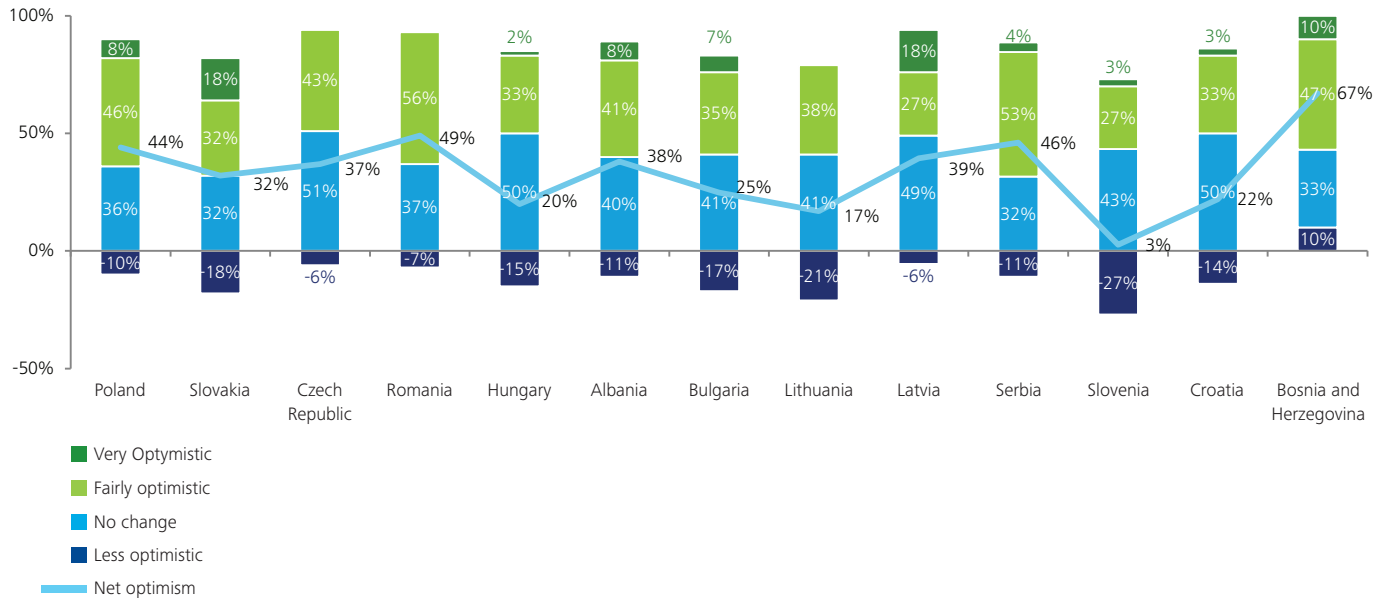
Financial perspectives comparing to situation 6 months ago





**Chart 11. Financial perspectives for Central Europe**

Financial perspectives comparing to situation 6 months ago



# Key business risks and priorities

## There is growing pressure on prices and less concern about recession

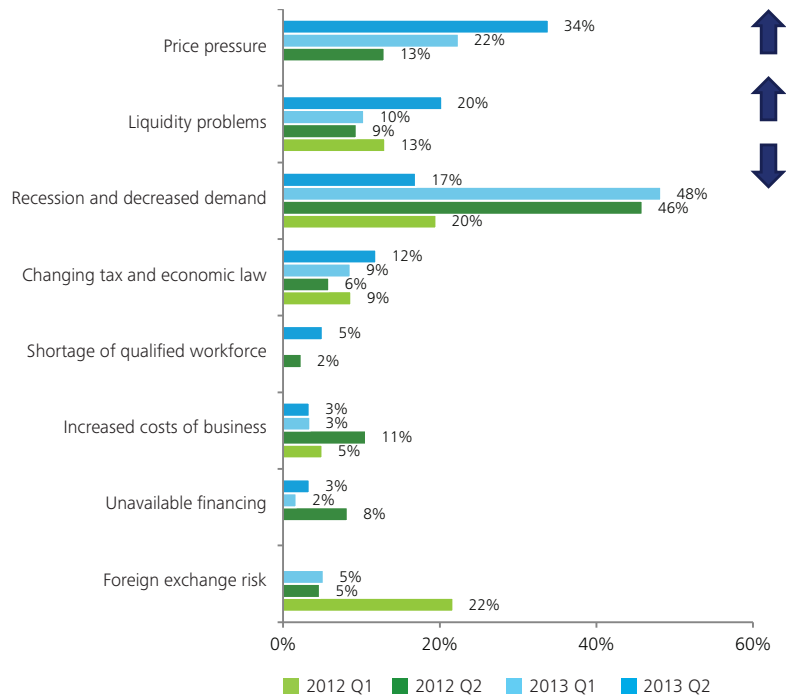
Price pressure, payment gridlocks and liquidity problems are seen as considerably greater key risks than in the previous survey of May 2013. The percentage of respondents who see the recession and falling demand as the key risk, however, has reduced from 48% to 17%.

Pressure on prices is a result of tougher competition in the market as well as the struggle for market-penetration and growth. Growth is fuelled by working capital, which encourages businesses to focus on maintaining financial liquidity.

The types of risks taken are typical of a growing business that is vying for market share and which needs cash to fund its inventory and liabilities.

**Chart 12. Risk**

What risk factors do CFOs perceive as the most important?



# Businesses' strategies for 2014

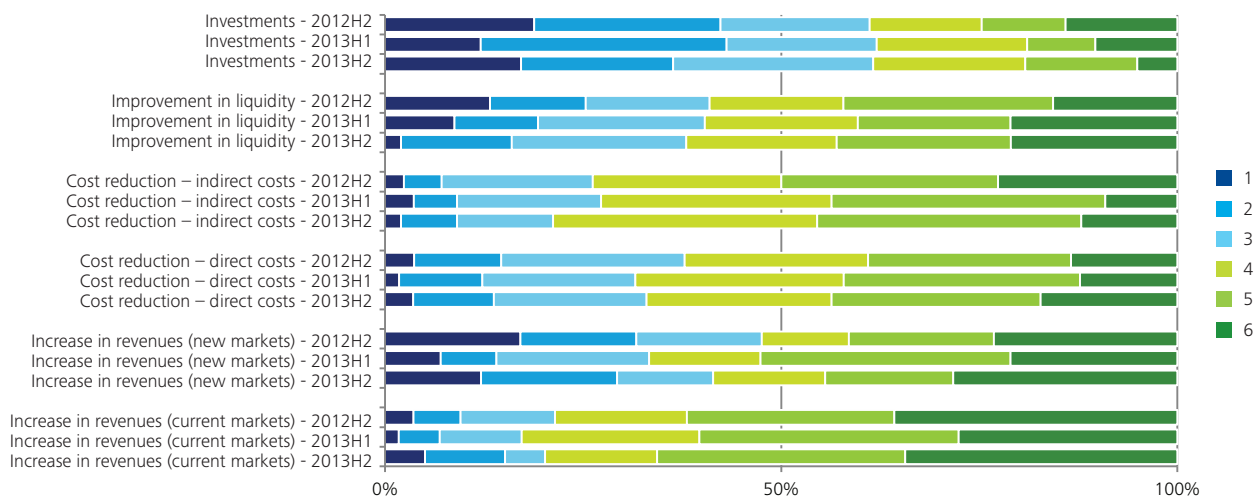
## Revenue growth and savings are the priority

Revenue growth continues to be one of the top priorities for Polish firms. Over three quarters of respondents will generate growth in their existing markets, whereas 70% will generate revenue from prospective markets. Revenue can be hard to earn, however, due to the growing pressure on prices, slow economic growth and falling investments.

Interestingly, there is a stronger focus on cutting direct costs, which is the main priority for over 80% of businesses. It seems as though this is an effect of the crisis period, which has highlighted the need to invest in the competitiveness of a business in a time of prosperity. Consequently, we should expect companies to implement operational excellence, lean manufacturing and ongoing improvement in their core operating areas.

### Chart 13. CFO priorities

CFO priorities for the next 12 months (1 - the lowest, 6 - the highest)

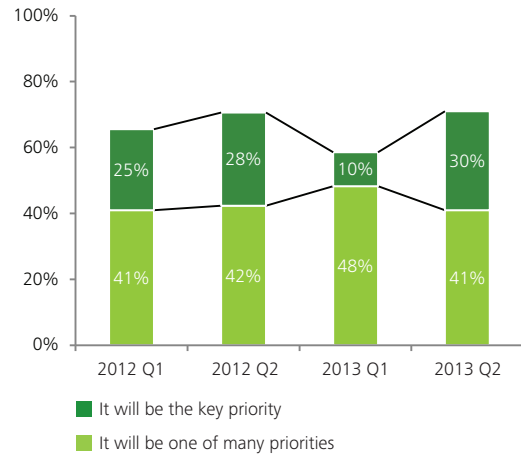


## New dimension to restructuring – continuing improvement

Business restructuring is becoming increasingly important as a key strategy (involving changes to the business model). In 2014, restructuring will be the key priority for 30% of the Polish respondents, a fact that is true of all countries in the survey except Lithuania.

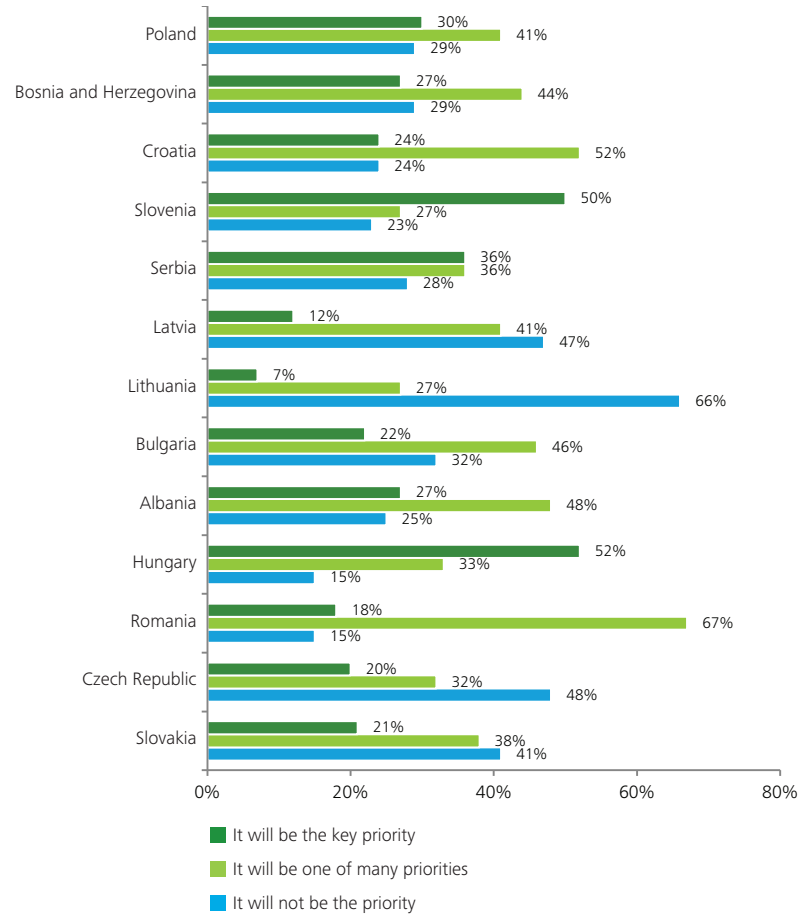
**Chart 15. Restructuring as a priority in Poland**

To what extent will restructuring be a priority over the next year?



**Chart 14. Restructuring as a priority in Central Europe**

To what extent will restructuring be a priority over the next year?



## Risk appetite is rising – are things getting back to normal?

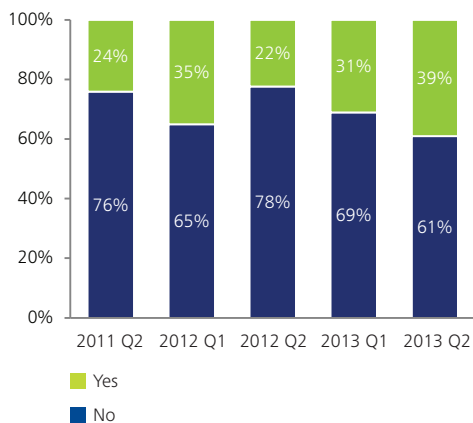
We have seen a further rise in the appetite for risk among Polish CFOs. 39% of those we surveyed believe now is a good time for increasing risk, the highest level. Lithuania is the only country with a greater number of CFOs than Poland who are ready to take risk.

The Czech Republic (30%) and Romania (30%) are ready to make investments, too. In spite of a positive attitude towards risk, investments are not the top priority for Polish CFOs. Some investments will get the go-ahead, but heads of finance in Poland will look more closely to revenue, costs and profitability.

The risk appetite level in the 30-50% range should be considered average, which is another sign that things are getting back to normal.

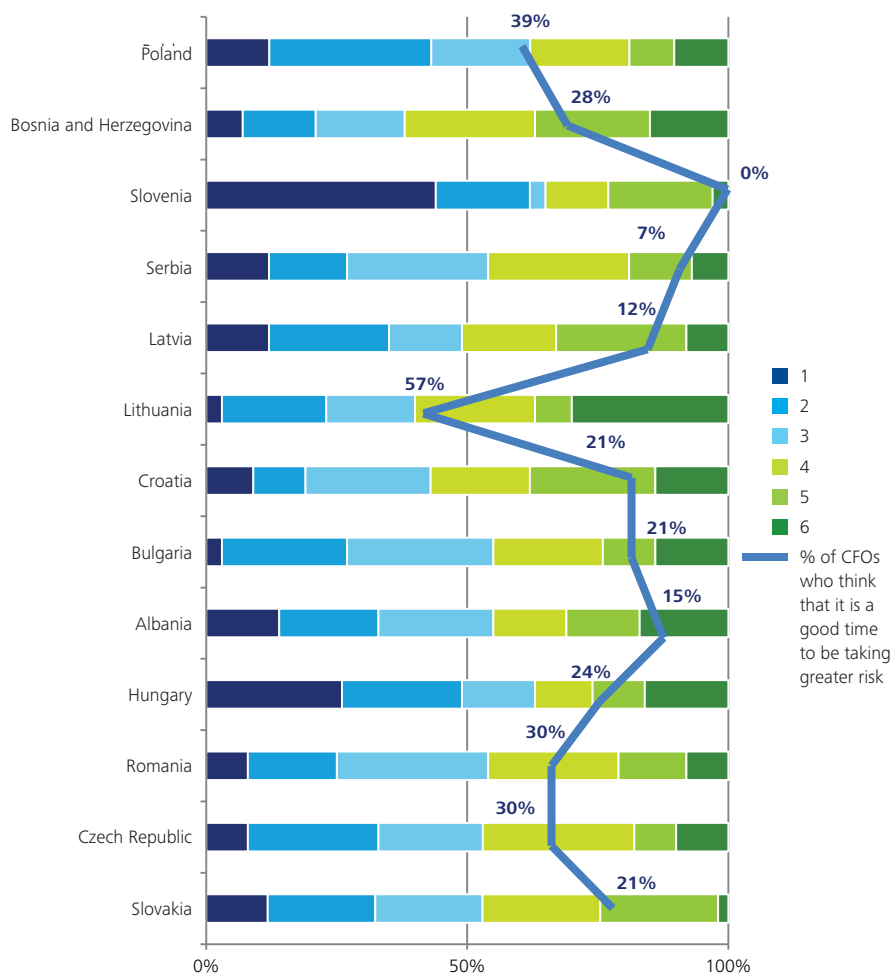
**Chart 17. Appetite for risk**

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



**Chart 16. CFO priorities in Central Europe**

To what extent are new investments a priority for the next 12 months (1 – the lowest, 6 – the highest)

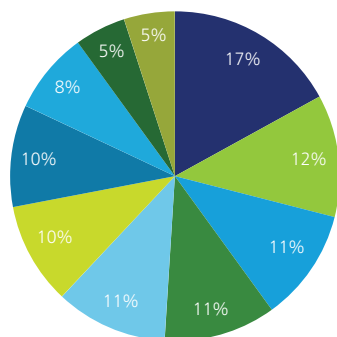


## Level of R&D expenses unchanged

According to CFO forecasts, 68% of Polish businesses have no scope to increase their R&D budgets for the next year. Only 22% of large companies in Poland are set to increase their R&D spending during the year, whereas 10% predict their R&D expenses will actually fall. In addition, 60% of finance heads claim that their companies' expenditure is the same as that of their closest competitors.

The largest single proportion (17%) of Polish CFOs believe that financing an organisation's internal R&D resources is the best way to improve its innovativeness. Only 5% of respondents said their R&D projects were financed with EU funds or state aid.

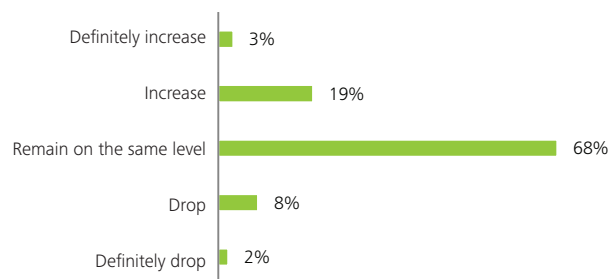
**Chart 20. Most effective methods in improving the innovativeness of a business**



- Funding internal R&D in the company
- Training and development of the existing workforce
- Hiring highly qualified specialist
- Purchase of latest machines and equipment
- Increasing investments in IT and informatization of business activities
- Funding projects in respect of R&D cooperation with R&D institutions and higher education institutions
- Co-funding innovation development programmes from EU and local funds
- Acquisition of and integration with innovative companies
- Co-funding R&D or work on implementation of new standards by a consortium of companies
- Purchase of patents and licences

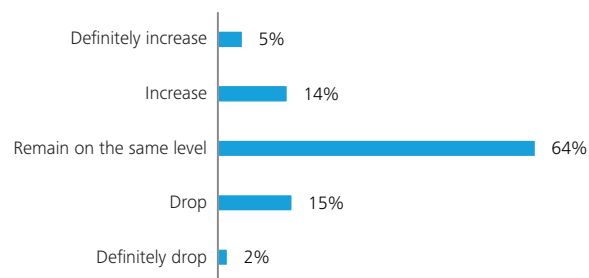
**Chart 18. R&D investments**

Compared to the past 12 months, your R&D investment next year will:



**Chart 19. R&D investments**

Compared to its immediate competitors, R&D investments in your Company will be:



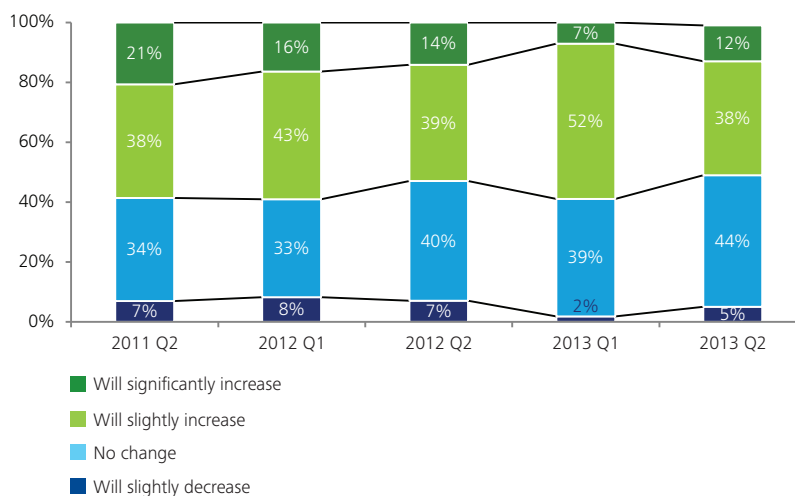
## Strategic projects for Polish CFOs: level of M&A activity

50% of the CFOs we surveyed predict a small increase in the level of M&A activity in Poland. Over the past six months, the number of CFOs expecting the level of M&A activity to rise has gone down by 9%, while the number of those predicting only a slight fall has gone up by just 3%.

Poland and Slovenia are the countries with the biggest proportions of CFOs predicting a material increase in the level of M&A activity (up from 5% to 12% in Poland over the last year).

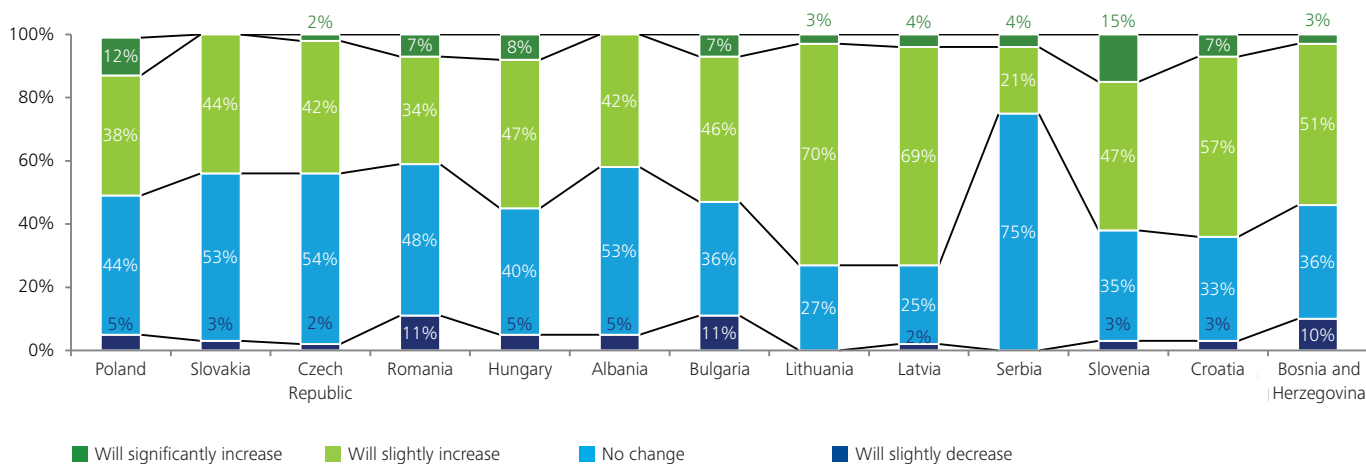
**Chart 21. Change in M&A level in Poland**

What changes do CFOs expect at the level of mergers and acquisitions?



**Chart 22. Change in M&A level in Central Europe**

What changes do CFOs expect at the level of mergers and acquisitions?



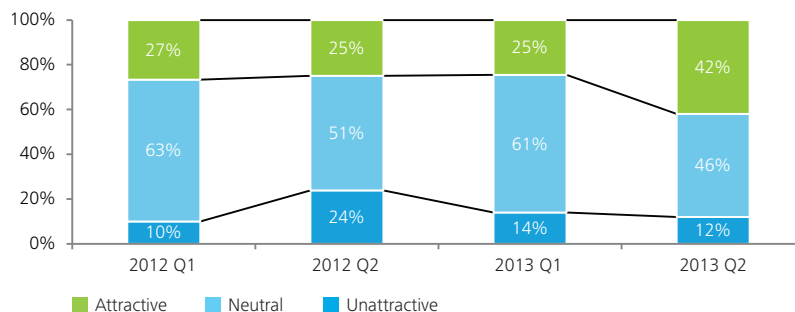
## Financing – bank borrowing is more attractive and available

The debt financing market has returned to normal. Bank loans are an attractive source of finance in the opinion of 42% of Polish CFOs. This result should not come as a surprise considering that borrowers in Poland are enjoying the lowest interest rates since 1989.

Polish CFOs are the second largest group in the region claiming that new bank loans are easily available for businesses (20%). Nearly 60% of CFOs in Poland claim that availability of bank loans is at a normal level. Compare this with Romania and Slovenia, where none of the surveyed CFOs believes that bank loans are easily available, and about 40% and 20% respectively believe the availability of bank loans is at a normal level.

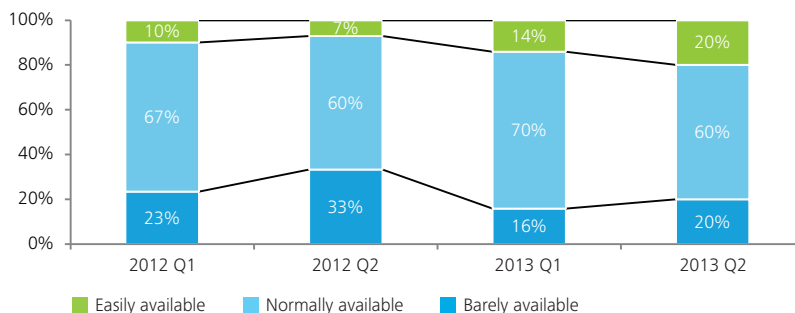
**Chart 23. Attractiveness of loans**

How attractive are loans as a source of financing?



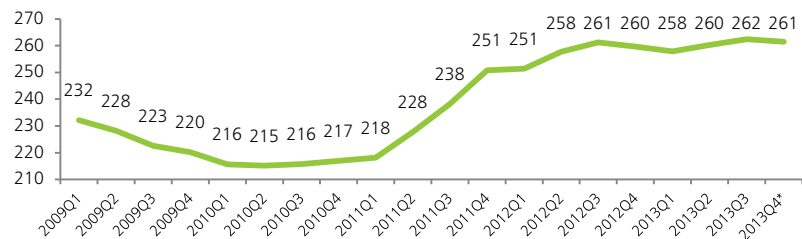
**Chart 24. Availability of loans**

How do CFOs evaluate the loan availability?



**Chart 25. Granted loans**

Size of bank receivables from enterprises





### Debt fluctuations are at a normal level

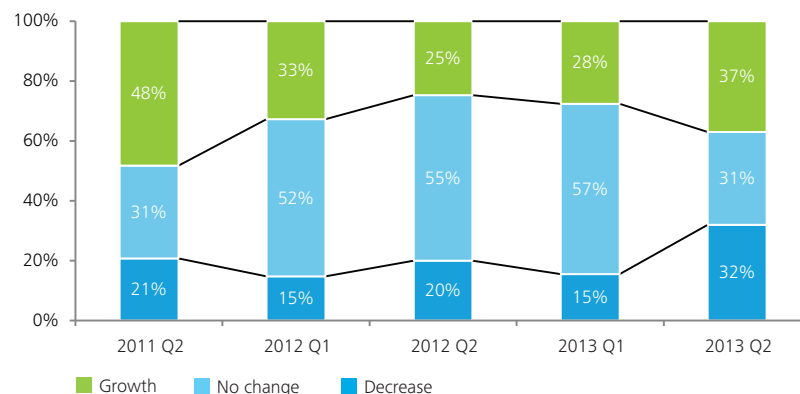
The number of CFOs predicting lower costs of finance is falling (only 10%), in this edition while a growing number (39%) expects the cost of borrowing to go up. Clearly, CFOs are not expecting any further interest rate cuts or tougher competition in the banking sector which would trigger a drop in interest rates.

The percentage of CFOs predicting an increase in debt has gone up from 28% to 37%, as have those who are planning to reduce their debt (from 16% to 32% of respondents). This is typical and shows that business funding patterns are getting back to normal.

Sentiments in other countries in Central Europe are similar to those prevailing in Poland.

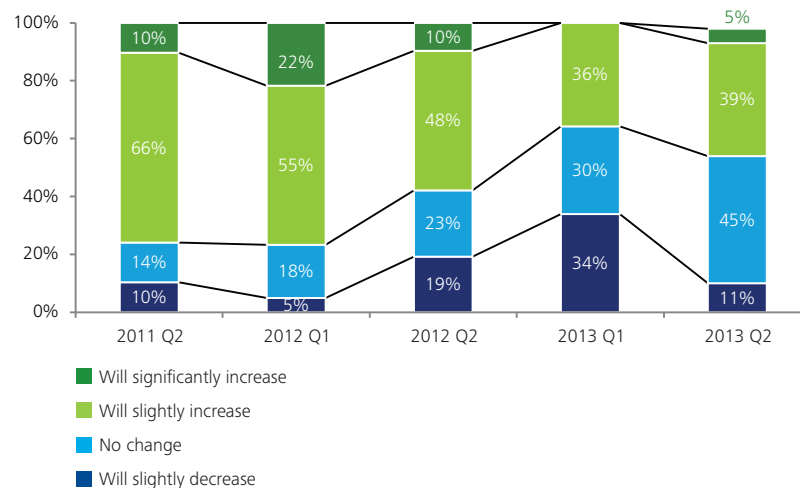
**Chart 26. Planned level of indebtedness in Poland**

What is the planned level of indebtedness within 12 months



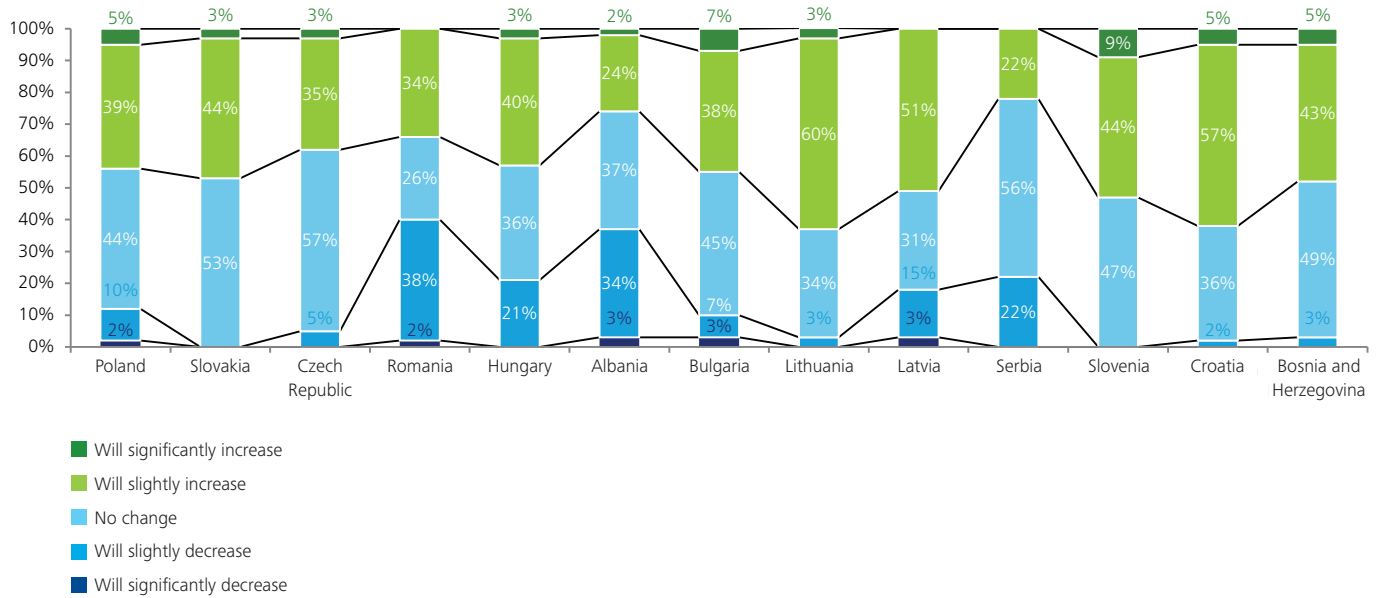
**Chart 27. Financing costs in Poland**

Forecast of changes in financing costs within 12 months



**Chart 28. Financing costs in Central Europe**

Forecast of changes in financing costs within 12 months

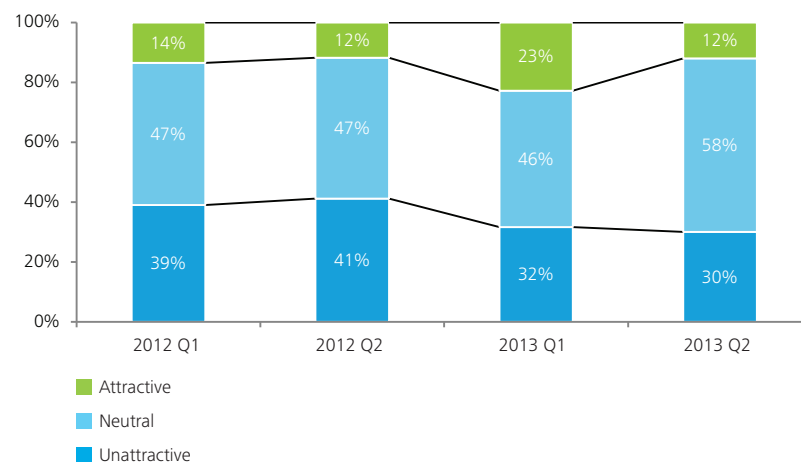


## Few IPOs on the capital market

Equity financing is not seen as an attractive source of financing and is rarely used. After a short period of heightened IPO activity in the second half of last year, we should not expect the same level of IPO activity on the Warsaw Stock Exchange in the first half of 2014.

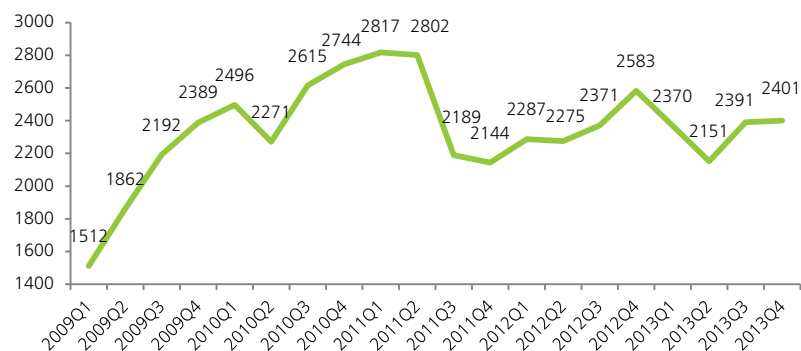
**Chart 29. Attractiveness of share issues**

How attractive are share issues as a source of financing?



**Chart 30. WIG20**

Situation at stock exchange - WIG20 index



# Obstacles to business

## Complex VAT procedures are considered the main obstacle to business

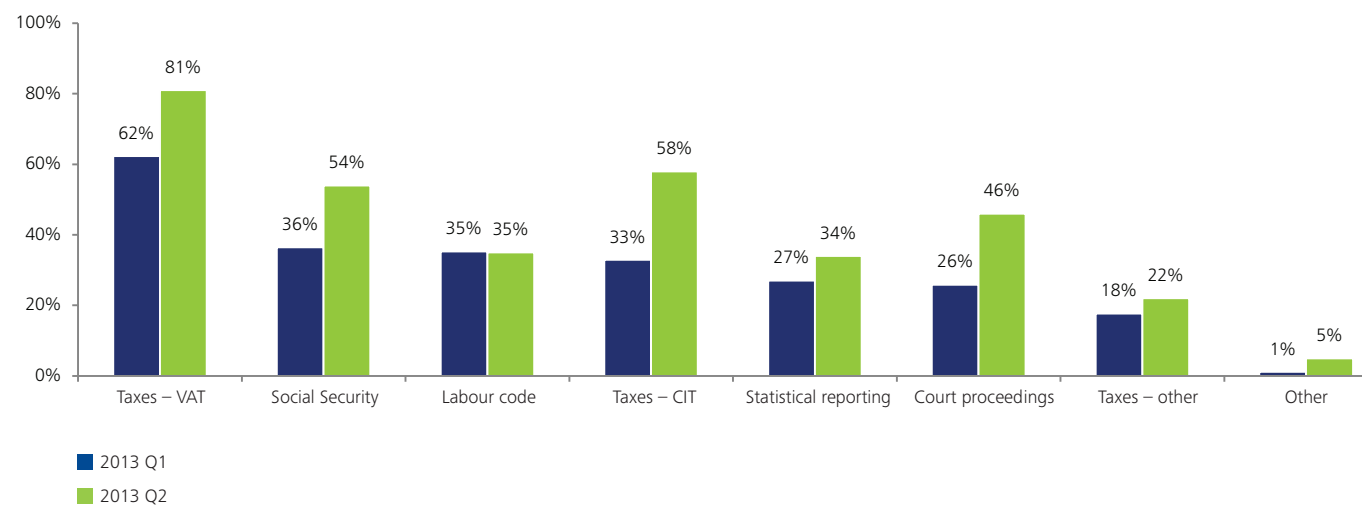
CFO's believe that VAT reform and simplification would do most to facilitate business activity. 81% of respondents name VAT as one of the five main regulatory systems that need to be changed.

*System simplification plans have been discussed for years. The European Commission has launched a number of projects to measure VAT-related administrative burden and costs. Still, no breakthrough proposition has been put forward. Most spectacular changes implemented in the last few years concerned rates and they were mainly rate growths. Local tax authorities, however, are increasingly interested in the opinion of entrepreneurs. If the system cannot be changed, we should strive to find areas for improvement in regulations in order to eliminate unclear and ineffective solutions resulting in additional tax risks for businesses from the existing law, says*

**Joanna Stawowska**, Partner, Indirect Tax Team Leader Deloitte.

**Chart 31. Barriers for business**

What areas do CFOs believe to be the most important obstacles to running a business?



# Good employees are harder to find

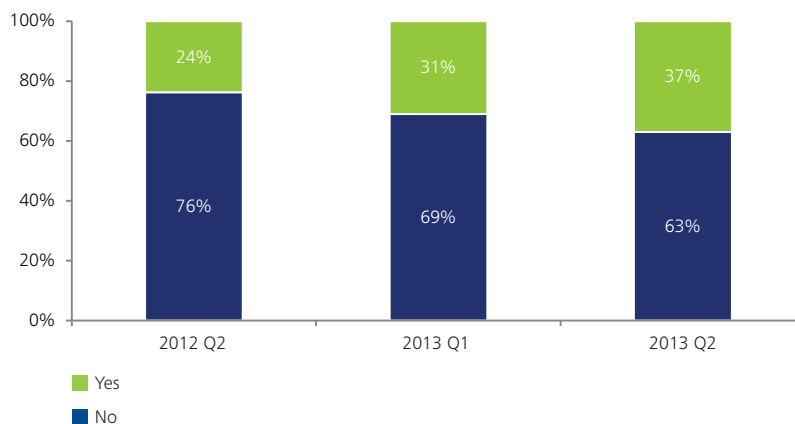
More and more businesses are finding it hard to recruit new employees, with the right set of competencies (a 37% increase, compared to just 24% last year).

Turning to the most sought after finance specialists, this shortage is greatest in middle-ranking (42%) and high-level (23%) positions. It is also becoming slightly more difficult to find the right employees among university graduates.

Specialists in modern finance and treasury (30%) and financial control (29%) are the hardest to find.

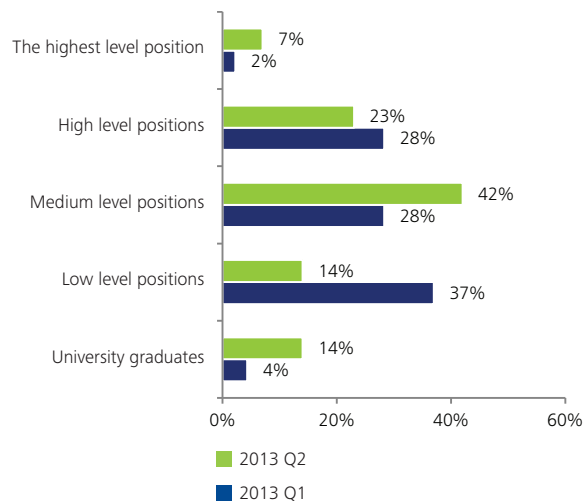
**Chart 32. Availability of employees**

Do CFOs expect difficulties in finding employees?



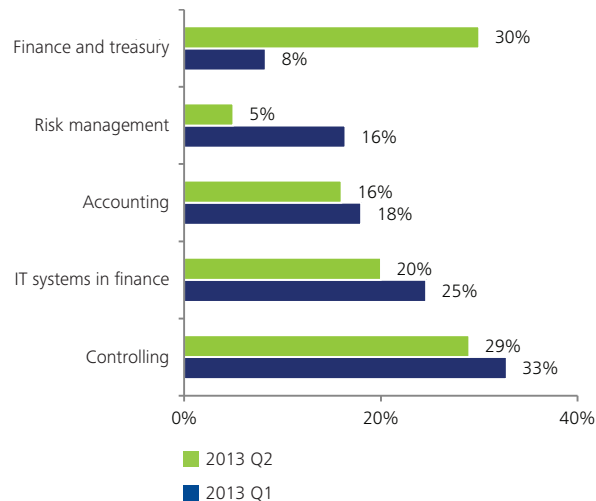
**Chart 33. Labor market**

At what levels do difficulties in finding employees occur?



**Chart 34. Labour market**

In what areas do most difficulties in finding employees occur?



## Talent management in finance – the challenges

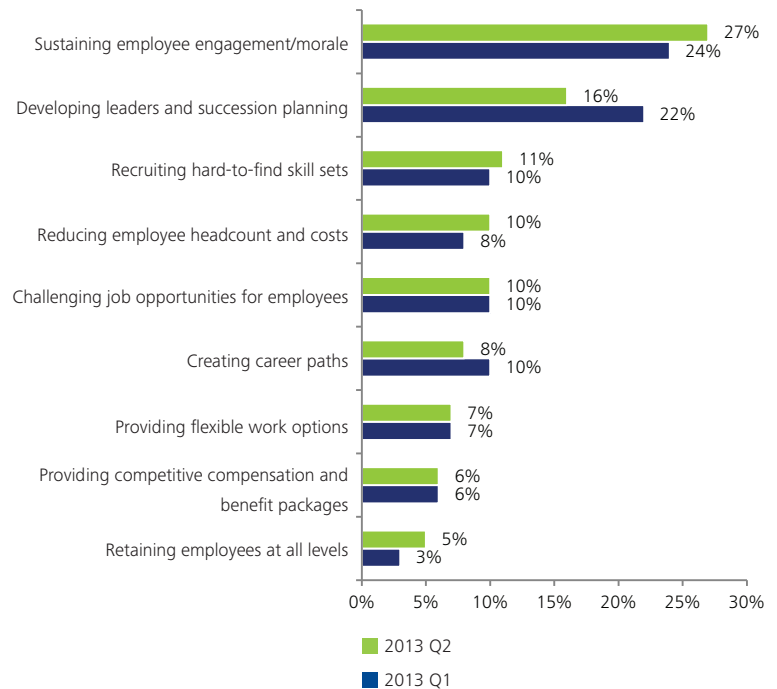
By ranking the talent management challenges that CFOs say they face, we can see that the main theme is around sustaining employee engagement/morale. This challenge is hardest for businesses during a period of investment freeze.

CFOs named the following as the three biggest talent-management challenges in finance for 2014:

- sustaining morale by creating opportunities and challenges for employees
- developing leaders and succession planning
- recruiting hard to find skill sets.

**Chart 35. Talent management**

What are the most significant challenges in talent management?



# Positive long-term perspectives

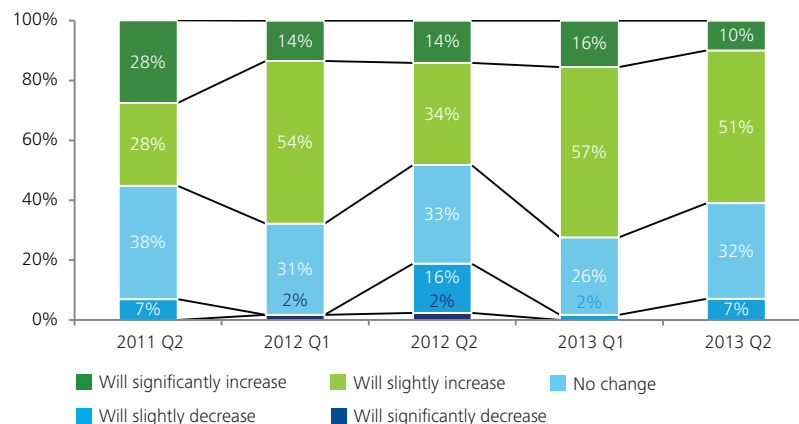
## Long-term perspectives are still are of the best in Central Europe

We can see a clear improvement in the long-term outlook of Polish CFOs. 61% (compared with 73% in the previous survey) predict a further improvement in their ability to service debt over the next three years.

The long-term outlook is therefore still positive. In fact, Poland is second on the list of 13 countries with the highest percentage of CFOs who have a positive long-term outlook.

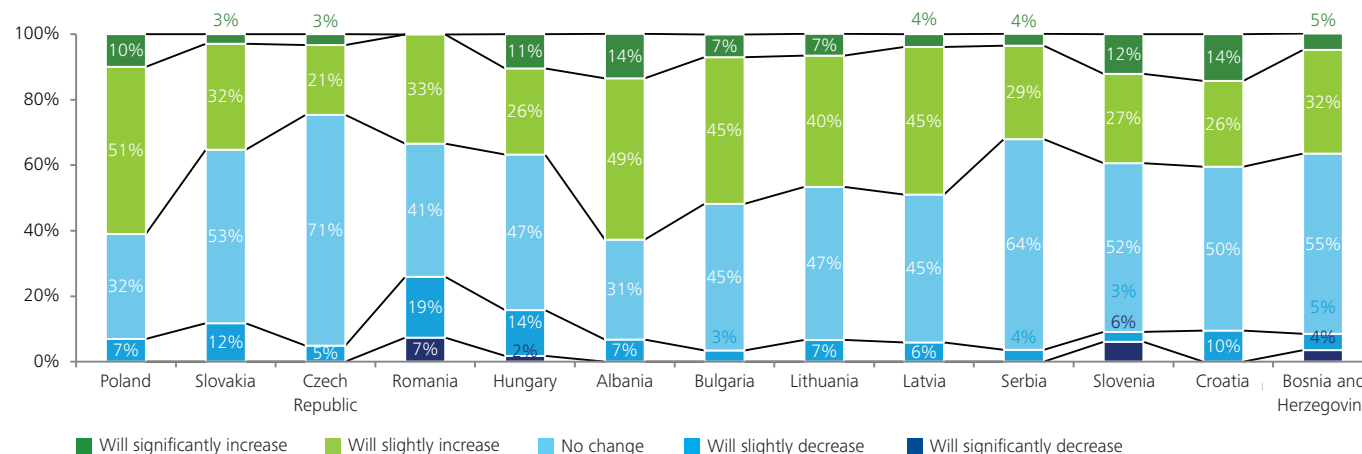
**Chart 36. Ability to service debt in Poland**

Evaluation of three-year perspective of the ability to service debt in Poland



**Chart 37. Ability to service debt in Central Europe**

Evaluation of three-year perspective of the ability to service debt in Central Europe







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## Methodology

The 5th CE CFO survey took place in October & November 2013. A total of 580 CFOs across 13 countries completed our survey. The survey is divided into two parts, first - local analysis based on responses from Hungary and the second part is based on all the responses across the region. Not all survey questions are reported in each annual survey. If you were interested to see the full range of questions, please contact [mnagy@deloitteCE.com](mailto:mnagy@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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