CFO Survey

Estonia | June 2013

It's kind of like everybody is expecting something, but don't know exactly what!

Estonia - A 'new normality' has been adopted and economic stabilisation is emerging

It is my pleasure to introduce this survey, which was conducted among Estonian CFOs and is part of a survey carried out by Deloitte across Central Europe.

The survey concentrated on CFOs' views of their own company performance and prospects as well as of the economy as a whole.

In addition to Estonia, Latvia, Lithuania, Bulgaria, Croatia, Hungary, Poland, Romenia, Slovenia, Slovakia, Albania, Serbia and the Czech Republic participated in the survey. It gives us the opportunity over time to measure CFOs' changing attitudes on several strategically important topics, and it will provide a point of comparison between the state of the economy and entrepreneurship in Estonia and Central Europe as a whole.

It's pleasing to note, based on the evaluation of the participants, that difficult times have been passed, that a 'new normality' has been adopted and that economic stabilisation is emerging.

At the same time, the wariness held by the majority of financial leaders shows that the crisis has provided a painful lesson and made most of them extremely cautious. As a result, they predict GDP to grow by a modest 1.5-3%.

You can read more about these and other topics in the main report, which I hope you find an interesting and insightful read.

Veiko Hintsov
Deloitte Estonia, partner

Key findings:

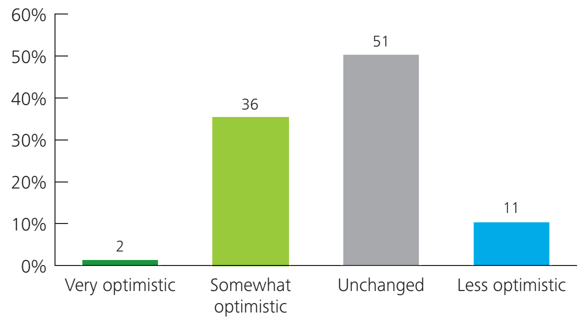
- Estonia’s financial leaders expect greater stability and slight positive GDP growth, with a majority forecasting a modest 1.5-3%.
- Stabilisation of the economic environment testifies to the fact that nearly 40% of financial managers are optimistic about the future compared to the year-ago period and half of Estonia’s surveyed financial leaders consider their company’s financial prospects today to be similar to six months ago and
- 67% of Estonian financial managers predict that there will not be shortages in the near future among finance professionals, although finding good experienced specialists and mid-level managers is not easy.
- Over half (57%) of respondents assess the overall level of financial and economic uncertainty faced by their companies to be normal, making financial uncertainty substantially lower than in Latvia and Lithuania.
- About two-thirds of the surveyed CFOs think that right now is not a good time to take financial risks. The caution of the majority suggests that the crisis provided a painful lesson that has made many very cautious.
- 61% of financial managers believe that their corporate debt and equity ratio will not change significantly during the next 12 months. It can therefore be concluded that the majority short-term business investment plans will be somewhat modest.
- 43% of CFOs expect Estonian corporate financing costs to remain unchanged during the next 12 months. 54% of respondents believe that the costs will increase somewhat.
- It is harder for businesses whose commercial activities do not allow real estate to be used as collateral to get credit - if banks used to require either collateral or cash flow, then now they want both.

Survey results

The economic environment is stabilizing

The fact that a half of the Estonian CFOs consider the financial prospects of their entities to be the same as six months ago indicates that the economic environment has stabilised. At the same time, approximately 40% of the CFOs appear to be more optimistic about their future prospects. Although optimistic and neutral attitudes prevail, 11% of respondents consider their future financial position and prospects to be less attractive.

Graph 1: Compared with six months ago, how do you feel about the financial prospects for your company? (%)

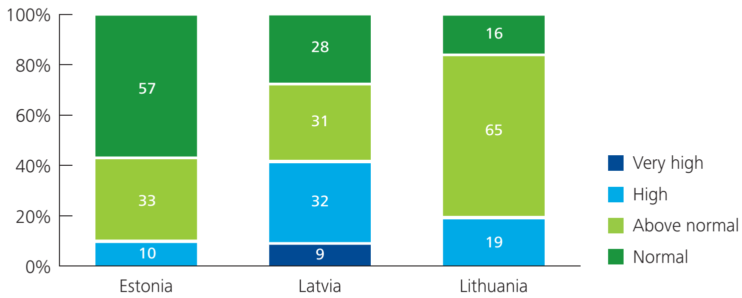


'New normality' is emerging

57% of the Estonian CFOs in the sample believe that the financial and economic uncertainty that their companies are facing is at a normal level. This shows that they have accepted the conditions of the 'new normal.

The rest of the respondents (43%) consider the financial and economic uncertainty to be at a higher level than previously. These companies have assumed a cautious position, seeing it as extremely important to continue monitoring changes in the economic environment due to continuing anticipated uncertainty.

Graph 2: How would you rate the general level of external financial and economic uncertainty facing your business? (%)



The uncertainty among Estonian CFOs is substantially lower than among their Latvian and Lithuanian colleagues. While over half of Estonian CFOs see the uncertainty of the economic environment as normal,just 28% in Latvia and 16% in Lithuania share this view. The number of CFOs in other Baltic countries who consider economic uncertainty to be high is significantly bigger. In an interesting note, 9% of Latvian respondents consider the situation to be very unstable, while no Estonian CFOs do so.

CFOs commented that uncertainty can be felt in the behaviour and mood of customers. “It’s kind of like everybody is expecting something, but don’t know exactly what!” commented the CFO of Estonia’s leading metal-production company.

The crisis has provided a painful lesson

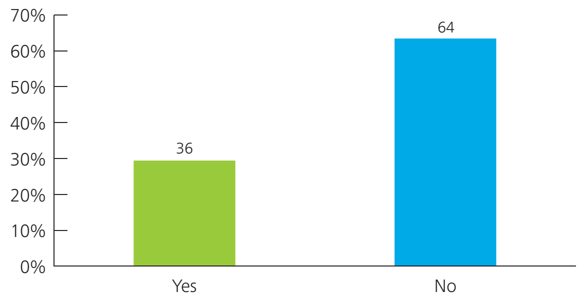
Those CFOs that believe that now is a good time to be taking greater risk on to their balance sheets are clearly in minority. Approximately two thirds of the sample think that now is not the time for financial risks.

This caution is due to the fact that the crisis has provided a painful lesson that has made many financial managersvery circumspect.

At the same time, the proportion (36%) ready to take bigger risks today still totals a significant number. Such enterprises believe that now might be the right time to invest and grow the business thanks to dormant opportunities on the market which a year from now will be significantly more expensive than today.

The CFO of a leading manufacturing company notes that while now is a good time to take a loan, the company can’t do so as its investment plans are constantly being postponed; this in turn is due to the fact that customers are not willing to commit to long-term contracts.

Graph 3: Is this a good time to be taking greater risk onto your company’s balance sheets? (%)



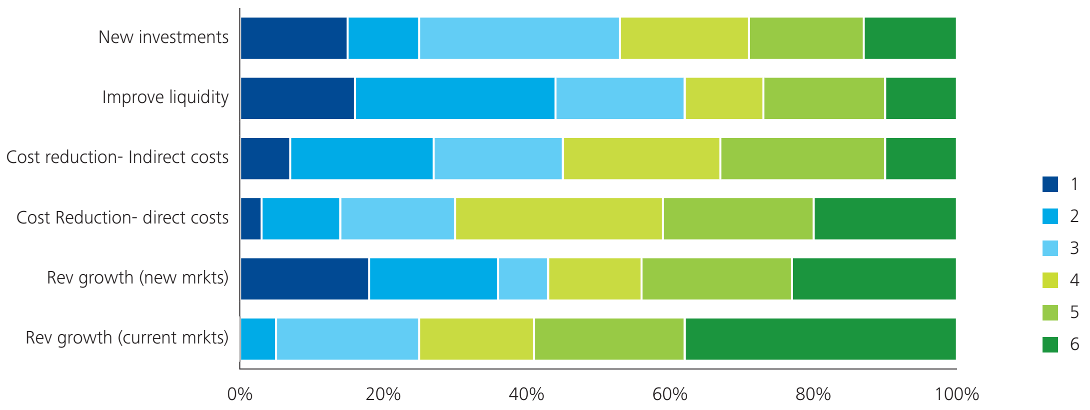
Where is the focus?

We asked the CFOs we surveyed to rank those priority areas on which they plan to focus most of their attention for the next 12 months. The highest ranking was awarded to achieving sales growth in existing markets. The reduction of direct costs is also very important, while growing revenue from entering new markets is a mid-ranking priority.

Less important to Estonian financial executives is making new investments during the next 12 months, which may indicate a cautious mood and a passive attitude towards short-term macro-economic wellbeing. Just 10% of respondents believe that improving liquidity is their greatest priority.

This answer probably reflects the current situation, where the majority of the companies are experiencing difficulties in recovering from the crisis and are fighting for survival on a daily basis.

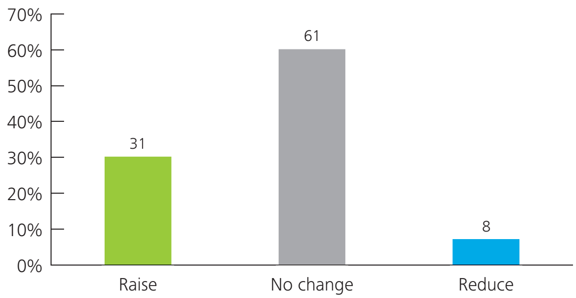
Graph 4: What is your company's business focus for the next 12 months? (1 - least important, 6 - most important)



Investment plans are quite modest

61% of CFOs are not expecting their companies' debt and equity ratio to change significantly over the next 12 months. It can therefore be concluded that the majority of businesses' investment plans for the near future are quite modest. However, 31% of financial managers plan to increase leverage levels in the near future, perhaps as a consequence of implementating their expansion plans. For the next 12 months, 8% of companies will be to reduce the debt/equity ratio on their balance sheets.

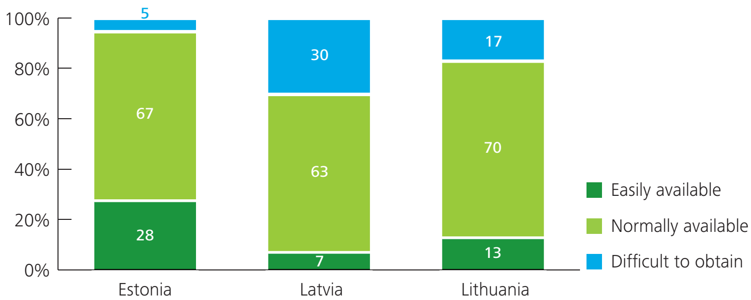
Graph 5: What is your aim regarding your level of gearing over the next 12 months? (%)



Getting a loan is easiest in Estonia

Estonian financial leaders believe it is significantly easier for companies to obtain loans than their counterparts in Latvia and Lithuania. While 8% of Latvian and 13% of Lithuanian CFOs rate credit as easy to come by, 28% of Estonian respondents do so. Just 5% consider obtaining a loan to be difficult, which is significantly lower than their Latvian (30%) and Lithuanian (17%) counterparts. The CFO of Estonia's leading real estate developer believes that those companies that have survived to this point are self-sufficient and don't particularly need loan funds. Conditions have got harsher, however, so smaller companies looking for a loan may not succeed.

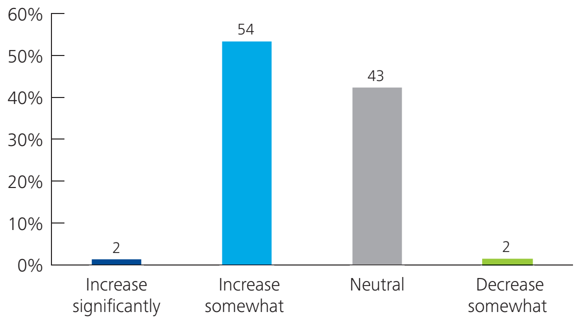
Graph 6: How would you rate the overall availability of new credit for companies nowadays? (%)



Financing costs will probably increase

43% of CFOs expect Estonian corporate financing costs to remain unchanged during the next 12 months. 54% of respondents believe that financing costs will increase somewhat. The expected increase in costs may be due to the gradual increase in bank interest rates, while Euribor has remained at a low level for a long time.

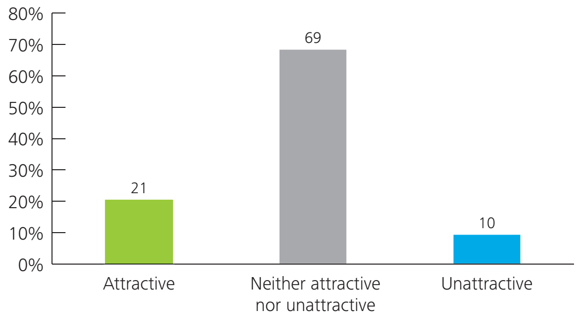
Graph 7: In your view how are financing costs for companies in your country likely to change over the next 12 months? (%)



Real estate as a collateral is the bases for a loan

Many CFOs commented that although the banks used to require either collateral or liquidity, they now want both. It is therefore harder for businesses that do not have real estate to out up as collateral to obtain a loan.

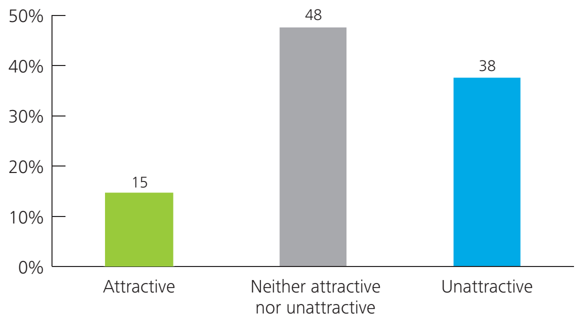
Graph 8: Currently bank borrowing as a source of funding is (%)



CFOs are wary of equity investors

Only 15% out of Estonian financial managers regard equity investors as an attractive capital-raising option. 48% are neutral about equity investor involvement, which may indicate a lack of experience in going through the process. As many as 38% of respondents think that raising capital from equity investors is not attractive. In addition, obtaining a bank loan may be sufficiently easy that the need to increase equity does not arise. Thirdly, there may not be much need for capital in general, as the investment and growth ambitions of businesses are mostly modest in the short term.

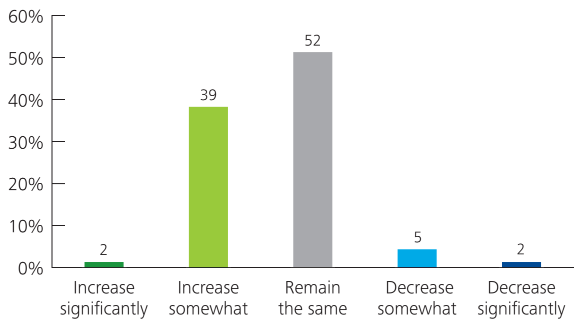
Graph 9: Currently equity raising, as a source of funding is (%)



Managing loans

Half of the respondents expecttheir companies' ability to satisfy their debt obligations over the next three years to remain at the same level. However, a large number (almost 39%) also believe that their ability to service debt in the years to come will improve somewhat. However, 7% of respondents expect their companies to find it difficult to cope with their debt obligations.

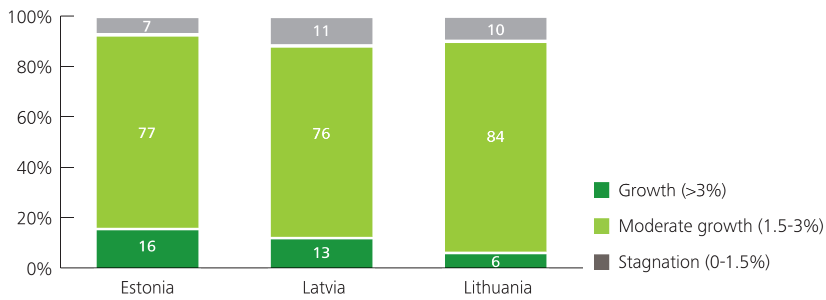
Graph 10: Over the next three years, do you expect your ability to service your debt to (%)



GDP set for modest growth

Based on their experience and the behaviour of the market, a significant proportion of respondents (77%) predict modest GDP growth for 2013 (1.5 - 3%). Similar expectations are expressed in the Bank of Estonia's economic forecasts. A significantly lower proportion of financial managers are more optimistic; 16% of respondents believe that GDP could grow by more than 3% in 2013. Only 7% believe that economic growth in Estonia will not exceed 1.5%. Overall, Estonian CFOs are tending to anticipate stability and moderate growth. Forecasts from the Latvian and Lithuanian CFOs we surveyed follow the same trend as in Estonia, except that Lithuanian CFOs are even more firmly convinced (84%) that Lithuania's GDP will grow modestly (1.5-3%) in 2013.

Graph 11: CFOs' expectations for their country's GDP growth in 2013 (%)



The Estonian unemployment rate will not change in the short term

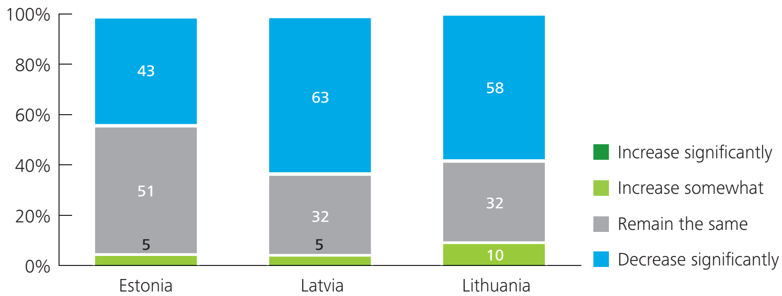
Financial managers do not expect the unemployment rate in Estonia to change in the short term. Half of respondents think that the level of unemployment in Estonia will not change in the next 12 months from the level at the end of 2012. The so-called 'calculated unemployment' means that household income, in the form of all kinds of subsidies, are at the same level as per capita net earnings for people in work. However, a little less than half of the surveyed financial managers in Estonia (43%), are a little more optimistic, expecting the unemployment rate to decline moderately in the next 12 months.

Also, the CFOs of major Estonian companies share a sense that behaviour in the labour market is similar to the level of 2007-2008, when staff turnover was high, commitment to an employer was lower and workers were constantly looking for better deals for themselves.

CFOs believe that it's currently difficult to find mid-level managers. It's not uncommon that once a company has found a suitable candidate, their salary expectations are significantly higher than the company's ability to pay.

More than a half of Latvian and Lithuanian financial managers (62% and 58%) were more optimistic than their Estonian peers in believing that unemployment in Latvia and Lithuania will fall somewhat.

Graph 12: Over the next 12 months, how do you expect levels of unemployment to change in your country? (%)



Corporate business renewal or restructuring is not an important priority

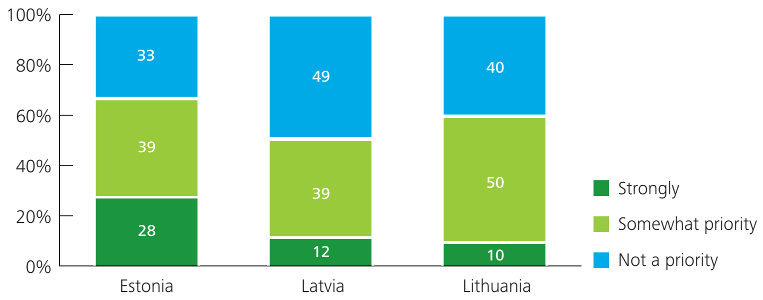
Estonian financial managers do not consider corporate business renewal or restructuring to be a major priority within the next 12-months, although they do prioritise it to an extent. Business renewal or restructuring is a high priority for 28% of the respondents. However, 39% consider it a moderate Priority, while 33% do not consider such activities to be priority for their business over the next year.

CFOs believe that the crisis period, when such activities certainly were priorities, is now behind them. They feel it is important to maintain the restructured operations from that time, refreshing them somewhat.

CFOs say that many companies have achieved significantly greater efficiency since the pre-crisis period, but it's still considered important to continue seeking resources that provide additional effectiveness.

Nearly half of Latvian CFOs do not consider the renewal or restructuring of their businesses to be a priority for the next 12-month period, while half of the Lithuanian respondents feel that these activities are priorities of some level for their companies.

Graph 13: To what extent is business remodelling or restructuring likely to be a priority for your business over the next 12 months? (%)

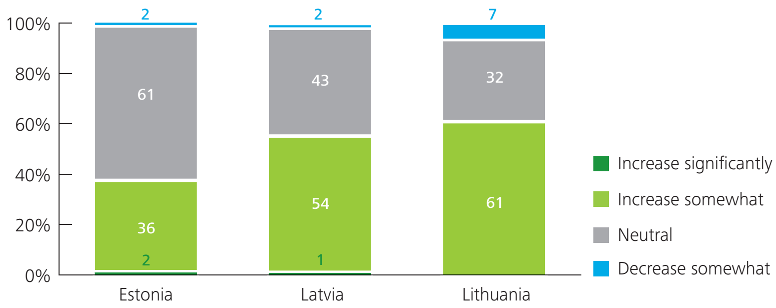


The level of mergers and acquisitions will remain unchanged

61% of Estonian CFOs do not think that the level of mergers and acquisitions will change from last year's level in the next 12 months. 36% of the sample, however, have noticed a slight movement in the Estonian market and predict that the level of mergers and acquisitions may be sat to grow somewhat. 2% of respondents each predict a significant increase or a slight decline in the volume of transactions. A somewhat positive expectation of a stable or slightly increasing transaction volume therefore dominates the thinking of Estonian CFOs.

Latvian and Lithuanian CFOs, on the other hand, anticipate bigger mergers and acquisitions volume growth - these expectations are certainly justified through the differences in the size of the national markets.

Graph 14: Over the next 12 months how do you expect levels of M&A to change in your country? (%)

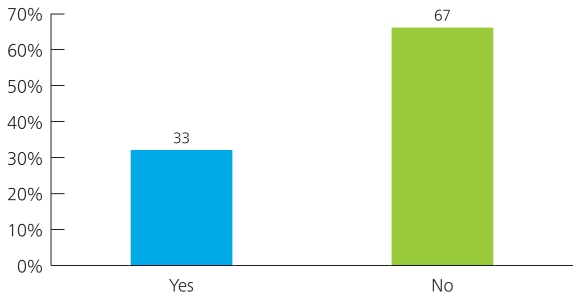


There are sufficient numbers of finance professionals

Estonian financial managers do not expect to see shortages among finance professionals during the next year. While 67% of Estonian financial managers believe there will be no shortage of finance staff in the near future, respondents also stress the complexity of finding good, experienced specialists and mid-level managers. Often, after a long search, a candidate's salary expectations are higher than the company's ability to pay.

Since the economic crisis began, finance departments have constantly sought ways to organise their work more efficiently; as a result, professionals have been dismissed and are now looking for new roles. Looking for new efficiencies finance departments is no longer an important priority, but if opportunities are found for more effective organisation, CFOs are quick to act on them. As CFOs are not predicting a significant decline in unemployment, major new recruitment initiatives are not planned, meaning there is no current perceived shortage of finance professionals.

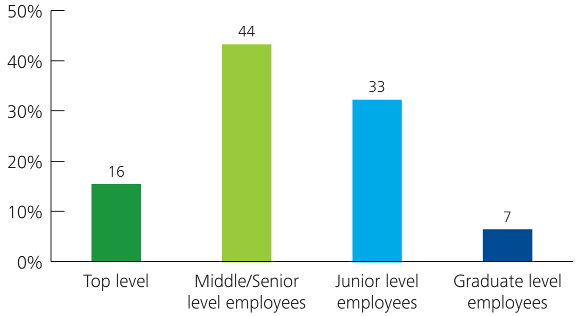
Graph 15: Do you expect talent shortages in the finance area over the next year?



Financial managers expect that in the near future the greatest shortage will be among senior staff. 44% of respondents believe that a greater shortage of good senior and experienced staff (chief accountants, area managers etc.) will emerge in the near future. 33% of respondents anticipate a labour market shortage of mid-level workers, but finding them is not seen as easy. CFOs judge that the smallest shortage and greatest availability is among lower-level employees.

It follows that good and experienced professionals are finding work relatively easily. However, the search for the best specialists has also become more aggressive; the 'head hunting' services offered by recruitment companies or other relatively aggressive measures are used. Companies that use conventional methods to find good professionals may therefore fail to find quality workforce due to their lack of agression.

Graph 16: Where do you expect significant shortages in talent in finance over the next year? (%)

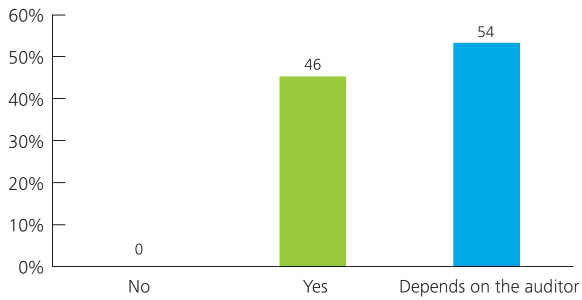


The auditor’s contribution to improving the reliability of the financial statements are coded in the auditor’s work goals. However, it should be noted that the auditors’ customer base, that financial executives are definitely representing, have come to think that trust depends on who is the auditor. Estonia is a small market for audit services - currently 224 sworn auditors are concentrated into 162 existing licensed auditor bureaus, out of which majority are one man companys.

Audit firms, into which are concentrated several sworn auditors, that represent one or another brand, can usually create and design their audit firm’s reputation based on the market participants and among other things being flexible with different competencies offered to customers. If the information is shared from several areas, it reflects back from customers by appreciation of the audit of financial statements.

In Estonian auditing context it is worrying that Estonian financial managers see the benefits of auditor brand or a specific person, rather than through the profession. It is possible that so the good are separated from the bad, but from the professional reputation point of view the sworn auditors themselves have a lot of work still to be done.

Graph 17: Do you consider the audited financial statements to be more reliable? (%)



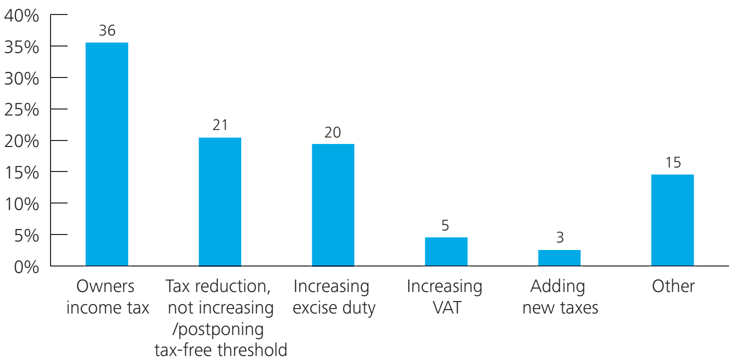
36% of respondents agreed that if needed, company tax burdens could be primarily increased through greater taxation on the owners' income. It is very likely that they were not referring to the increase of 21% nominal tax rate applicable to distributed profits. This is because this rate is already higher than the 15% levied in Latvia and Lithuania and is on a comparable level to those countries that are known for having relatively high corporate tax rates (e.g. Finland, Sweden, the United Kingdom). At first glance, such answers may appear surprising, particularly taking into account the issues described above and also the message from Estonian tax experts – that the competitiveness of the Estonian corporate income tax system needs to be improved.

On the other hand, such an answer is explicable because CFOs understand the tax burden affecting different aspects of business. For example, the tax burden on labour is very high in Estonia, and legal opportunities to reduce it are limited. At the same time, the 21% tax rate on distributed profits is very widely reduced through intercompany loans granted by Estonian companies. Although officially the accounting profit of an Estonian company remains in place, and the borrower is obliged to repay the loan to the Estonian company, the loan could be effectively prolonged for an indefinite period. The Estonian tax authorities have not demanded that an actual interest payment be received by the Estonian lender (accrued interest could be capitalised i.e. added to the loan principal). In this way, it has been easily possible to indefinitely postpone the Estonian corporate tax liability that would arise upon profit distribution. In principle, intra-group loan arrangements are a natural part of business activity, but the steady growth of intra-group loans granted by Estonian subsidiaries indicates that the issue has increasing significance.

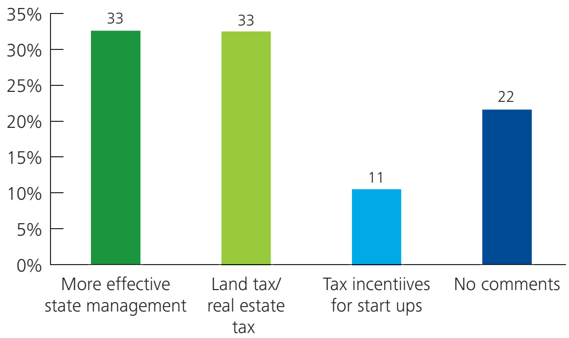
Should the existing loophole be limited by the state then the increased tax revenue could be used to improve the competitiveness of the Estonian corporate income tax regime in a more transparent way (e.g. reducing the tax rate on distributed profits; to attract holding companies to Estonia, any capital gains realised by Estonian companies through the sale of shares in subsidiaries could be exempted from the Estonian corporate income tax, etc.)

When analysing other answers to this question, one may note that the next (but less widely supported) options would be to postpone the forthcoming income tax rate reduction (according to the law, the income tax rate will be reduced from 21% to 20% in 2015 for individuals and companies alike) and not to increase thebasic allowance for individuals. Increasing excise duties is another option, according to the CFOs.

Graph 18: If the country needs higher tax revenue, then in what areas you will accept the higher tax burden on companies?

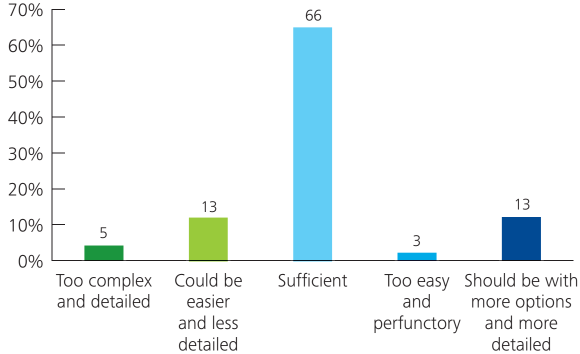


Other



It is good to note that financial executives have given an overwhelmingly positive assessment of the current financial reporting arrangements - this after the rather painful transition to an electronic reporting environment of a couple of years ago. However, when combined with other finance-related processes (eg, taxes, statistics), it would probably be possible to strengthen further the management of the state. In addition, the information in financial statements can be considered from two perspectives: that of the compiler (which is quite sufficient for a minimum amount of information disclosure); and from that of the consumer. For a financial statements consumer (suchas a potential investor, partner or competitor) the existing form of financial disclosure does not give a sufficient overview of potential risks. When there is a need to assess the risk involved in merging two companies, it is probably financial executives and their teams who work on the company's risk assessment. Hopefully, our companies have sufficient skill to do so successfully.

Graph 19: In your opinion, are regulation and requirements governing annual reporting (Estonian good practice or IFRS) and published information? (%)

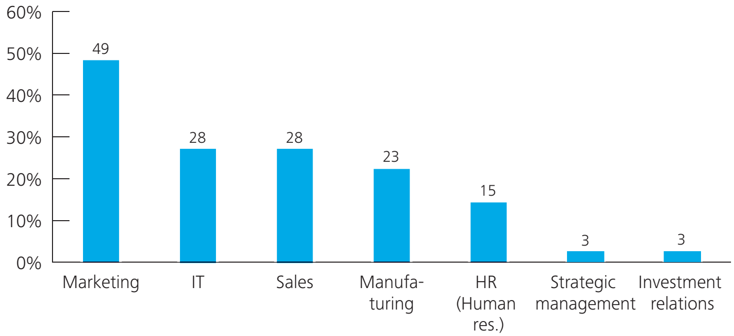


The role of the CFO today includes many different facets; to manage finances well, the CFO needs a thorough understanding of the company's various functions and what they involve.

Our survey, not surprisingly found that financial leaders are most lacking in their knowledge of soft areas like sales and marketing, where they can cost items that are needed, but whose effectiveness is difficult to measure.

In terms of cost savings, the marketing budget may be EUR 0, but whether it also supports the company's continued ability to grow and increase capacity is another matter.

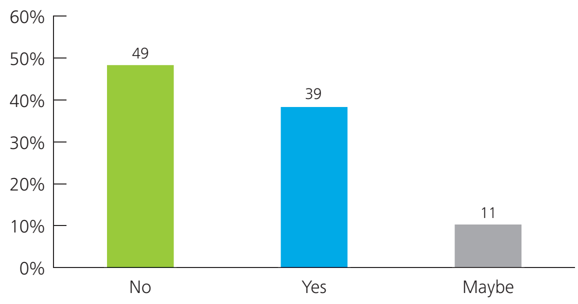
Graph 20: The CFO has several different roles to fulfil in the company. In which area do you consider CFO knowledge most to need strengthening to enable the best financial management and to ensure the best use of resources? (%)



In Estonia, there is a six-month deadline for the preparation and submission of the annual report, while in neighboring Latvia and elsewhere it is four months. Estonia is debating whether or not to shorten the time taken; based on our inquiry, financial executives are in favour or somewhat in favour of doing so. The main reason given is that compiling the annual report involves drafting a historical financial position; operational issues should be instead addressed - so it should be fixed quickly and moved on.

The information disclosed in the financial statements is very quickly out of date, meaning it cannot be regarded as a reliable source for evaluating a company's solvency or assessing its current market capitalisation. For example, if a company prepares and submits its 2012 annual report on time (by 30 June 2013) then without further supporting informationit is of no practical help to the company's creditors.

Graph 21: Are you in favor of the reporting period to be reduced? (%)



Central European economic and business overview

This section of the report was prepared by Dr Daniel Thorniley, President, DT-Global Business Consulting, exclusively for Deloitte Central Europe.

The outlook for Central Europe

The global business and economic outlook is strained and under pressure. We probably have several more years of sub-par growth ahead of us. In the short-term the second half of 2013 could be better than the first half but sustainable, solid growth is unlikely to return until at least 2017. Companies and CFOs need to manage their own expectations and those of their customers.

The final quarter of 2012 was extremely difficult for the global economy and for the CE region, with nearly all markets reporting significant slowdowns, but Poland and Ukraine in particular. The first quarter of 2013 has been mixed at best.

Given the business cake is not growing much globally, western companies are doing two things:

1. Moving to emerging, faster-growth markets; and
2. Engaging in best practice wherever they can. Unfortunately the CE region is performing more weakly than most other 'non-developed' markets. Core CE grew by only 0.6% last year, and we estimate that GDP growth this year will be a mere 0.8% thanks to a slower Polish outlook: for comparison, Asia Pacific will grow by 4.8% this year and Latin America by 3.4%.

Table 22: Growth trends in CE

	GDP 2013 (%)	When does GDP return to 3%	Long-term growth trend to 2023 (%)
Albania	2.2	2014	3.9
Bulgaria	1.3	2016	3.4
Baltic States	3.2	now	3.6
Croatia	-0.4	not before 2023	2.6
Czech Republic	-0.1	not before 2023	2.5
Hungary	-0.1	2017	2.8
Poland	1.4	2015	3.4
Romania	1.3	2015	3.6
Serbia	1.4	2018	2.8
Slovakia	1.0	2015	3.6
Slovenia	-1.2	not before 2023	2.4

Source: Eurostat, IMF

Central Europe is next to the crumbling eurozone, and CE exports are heavily dependent on that market. The eurozone declined by -0.4% last year and this year a best case is zero growth; another mild recession of -0.5% is more likely, however. The eurozone has gone from critical illness phase to chronic debility, although crises like Cyprus intermittently raise the level to one of intensive care.

In terms of the best-performing business sectors in the CE region, these can be categorised as:

1. Pharmaceuticals and medical equipment
2. Luxury products
3. IT products and services (although these have tumbled badly in the last 15 months)
4. Retail
5. Food & beverages
6. General consumer products and FMCG
7. Beer industry (as a sub-sector)
8. B2B (engineering, manufacturing, equipment, chemicals)

Five major factors are holding back the global economic recovery including that of the CE region.

1. Banks are not functioning properly and not lending enough to the corporate sector and end-consumers. This is a global feature; new bank loans in the USA are a bare 2-3% of the total, but in the UK they are negative and in the eurozone close to flat while loans to SMEs are -4%. Across much of core CE region new loans are only rising by 1-2 %, while in Hungary, for example, they are down by -10% to 20%. Western investor banks are downsizing their assets in the CE region to protect their home balance sheets. Banks are also tending not to finance local CE firms, and this is making sales difficult for western and local supplier companies into the B2B sector.

2. The austerity programmes that many CE governments are currently engaged in are not balanced with any growth element, and some might argue that this is exacerbating an already weak outlook in markets such as the Czech Republic, Bulgaria and Romania. Poland is something of an exception; following an initial commitment to austerity measures in early 2012, the government has changed direction and is now working with the National Bank to support the country's crumbling GDP growth. While this might enable Poland to write out its 'mini-crisis', falling sales mean that many companies are already suffering.

3. Consumers are neither happy globally nor in the CE region: they are worried about elevated levels of unemployment, ranging from 5-8% in Romania and the Czech Republic to 14-17% in Slovakia and Poland. Indirect taxes are rising, social benefits are being cut and pensions are losing their value – so it is unsurprising that consumers fear for their future and are alienated by rampant public corruption.

Consumer confidence indicators in selected markets in 2013 (where zero = contentment)

China	+12 (happiest people in the world)
Sweden	+11
Germany	-5
Eurozone	-23
Spain	-32
Greece	-72 (unhappiest people in the world)
Bulgaria	-42
Czech Rep.	-20
Hungary	-36
Poland	-30
Slovakia	-29

Source: DT Global Business Consulting

Household spending in most core CE markets is currently close to zero and has been strained for several years: in Hungary, household spending has been flat or negative for close to seven years, and markets such as the Czech Republic are currently reporting retail sales have fallen by 5% in the last year.

4. Companies are not spending; eurozone companies are sitting on 1.5 trillion euros because they are not confident enough to invest, to spend or to hire workers. This trend is also visible right across the CE region. If governments engage in austerity and consumers are not spending, then the future is highly uncertain. This means that companies too are not confident enough to invest and we see this in the survey results below. Uncertainty and lack of confidence are damaging company financing and the outlook of CFOs.

5. Finally, global and regional export trade slumped last year. This trend applies to ALL CE markets, but Romania is a particularly powerful example where exports have slumped brutally in recent years:

This is a significant downward slide, but it is one that reflects global/European trends. We do except a mild export recovery this year to +2.0%, but even this presumes that there is a steady recovery in the euro-zone driven by Germany; this is not guaranteed. As in other markets, industry and investment struggle when exports fall, another source of pain for the B2B sector.

Table 23: Exports (% change annually)

Country	2010	2011	2012
Romania	15%	10%	-4.0%
Hungary	12%	6.5%	2%
Poland	15%	7.5%	0.5%
Czech Republic	12%	4%	5%
Slovakia	16%	13%	9%

The dependency on exports has also warped the structure of some economies, of which Slovakia is a very good case study. Here, strong export growth spurred industrial output to feed external demand that provided the confidence needed for investment (but even this export growth started to slow in 2011/2012).

Table 24: Slovakia GDP growth and by sector, 2010-12

	2010	2011	2012
GDP	4.4	3.2	2.0
Industrial output	18.9	7.1	10.1
Fixed investment	6.5	14.2	-3.7
Exports	16.5	12.7	8.6
Household spending	-0.9	-0.5	-0.6

It is clear from the table above that Slovak consumers were left out of the Slovak growth story. This was because wages were not rising, companies were squeezing productivity out of the existing workforce and unemployment was elevated at 12-17%, so undermining any consumer confidence and spending.

The bad news for the Slovak economy is that exports are set to slow further in 2013 to 4%.

Overall the business outlook will remain challenging until 2016-17, given that the eurozone will be weak for at least as long.

But in terms of business the CE region does have some pluses as well as minuses:

- Brand penetration is weak, and western investors have room to expand strongly
- Companies can look to expand sales in rural areas outside the capital cities
- There are opportunities for affordable innovation of products and services in the region
- EU funding does and will provide a buttress to growth and infrastructure spending
- While south-east Europe is particularly weak, closer ties with an eventually recovering EU and improved trade links by 2015-16 will act as some support.

The region remains attractive for out-sourcing as western firms look for service centres which are physically close to their European bases. The quality of human resources in the region is good to very good.

Central European comparative

This section of the report compares the expectations of CFOs from the 13 Central European countries that participated in the survey (Albania & Kosovo, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia). It is based on answers of 668 CFOs from a broad range of industries.

How CFOs are rising to the challenge

CE businesses are operating in difficult times, so it is unsurprising that a lack of confidence permeates the responses of participating CFOs from most of the markets across the region. There are exceptions, of course – to the north of the region, the mini-boom in the Baltic states is supporting more positive attitudes to risk and expectations for the future that are above average across many metrics.

But the recent rapid slowdown of the Polish economy and continuing negative pressures in the Czech Republic are nonetheless causing uncertainty for finance professionals across the region as its two largest economies falter in the face of continued pressures among the key trading partners of Western Europe.

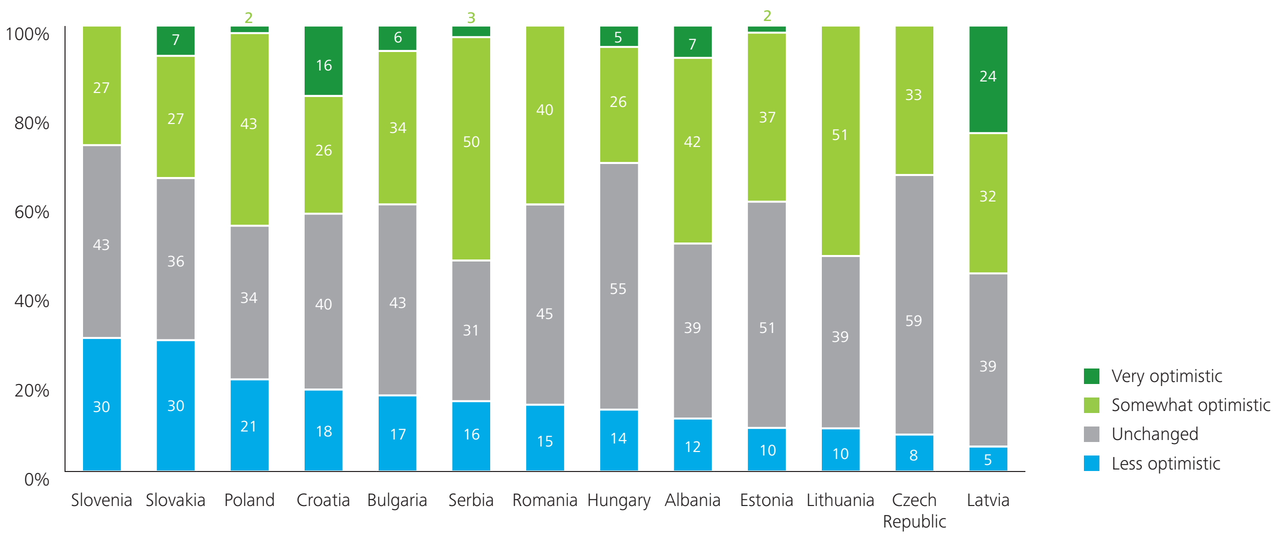
Further south, CFOs in the troubled market of Slovenia can see little prospect of improvement as the country's woes continue. Those in Hungary have only, meanwhile, raised their expectations for a less uncertain economic future because of the exceptional depths they had already plummeted.

But right across the region, embracing Bulgaria and Romania, Slovakia and Albania, Serbia and Croatia, CFOs continue to rise to the ever-evolving challenges whose roots can still be traced to the global financial crisis of 2008 and 2009. While there appears to be an emerging consensus that recovery will be well on track for most by 2017, this still represents close to a 'lost decade' for today's generation of senior financial managers. So their determination to lead their companies through such turbulent times remains impressive and inspirational.

Optimism in short supply

Quite understandably, few companies are 'very optimistic' as there are no grounds for excessive confidence. The large number of companies who expect little change in main markets such as the Czech Republic, Hungary, Romania and Slovakia is understandable as several drivers here are static. Some 43% of Polish companies are fairly optimistic about their home market compared with six months ago. The moderate/good opinion of the Baltic markets is also understandable as these markets undergo a mini-boom as they recover from deep lows. Serbian CFOs share upbeat opinions, but again a very recent softening in this market could raise doubts.

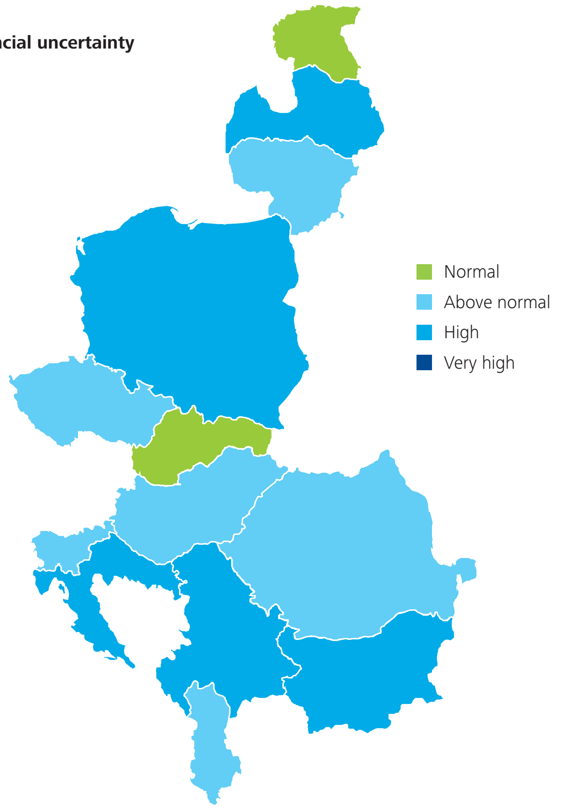
Graph 25: Financial prospects for companies (%)



Living in uncertain times

The great majority of companies express elevated levels of uncertainty, which are particularly high in Slovenia. Hungary is only less uncertain because companies have already lowered their expectations. While Croatia is feeling high levels of uncertainty as the market deteriorates, Slovakia is rightly judged as a more stable market than its neighbours. The Czech Republic has changed from a stable, even traditionally well-performing market to a much weaker one with downside risks; respondent opinions reflect this.

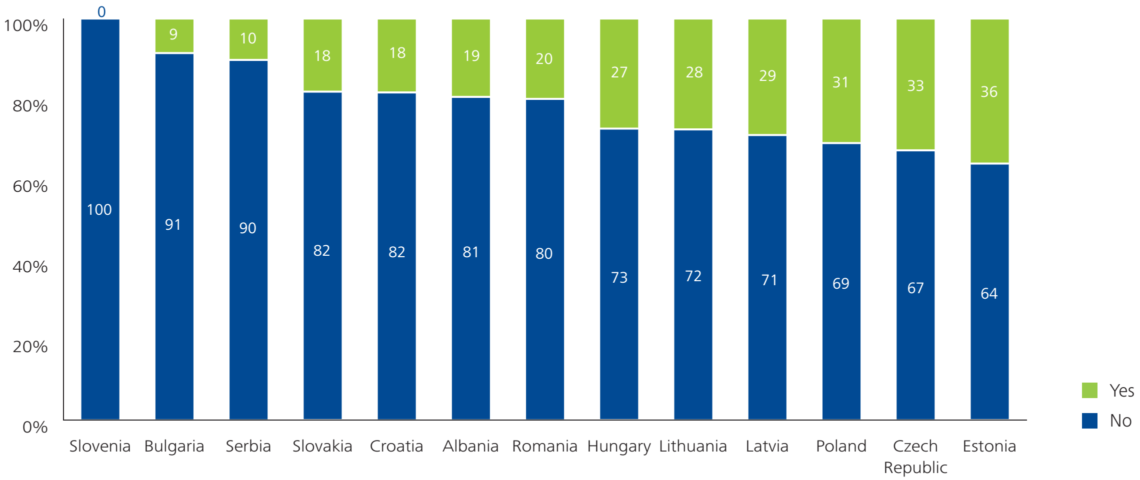
Map 26: General level of external financial uncertainty



Risk-aversion rules

Right across the region, the response is perfectly clear: companies and CFOs want to avoid risk on the balance sheet. The relatively high number of Czech CFOs who feel differently may reflect the view that while the market is currently weak, now is the time for risk in the expectation of returning stability in the medium and longer terms – and the same arguments apply to Poland.

Graph 27: CFOs' view if now is a good time to be taking greater risk onto companies' balance sheets (%)



Business focus for the year ahead

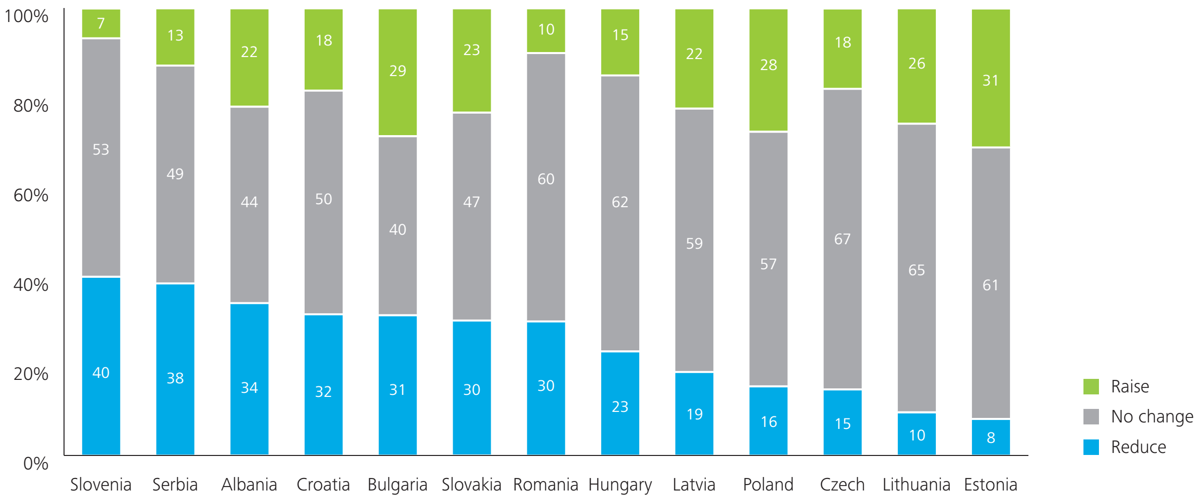
When searching for revenue growth, most CFOs across Central Europe's markets mix their priorities between domestic growth and expansion in foreign markets, which may include other core CE markets and those such as Russia and Turkey. CFOs outside Poland may be looking to the Polish market for future growth, but this remains tight and competitive.

Reducing fixed and indirect costs is important to most CFOs in the core CE markets; an exception is Poland. However, cost reduction is increasing even here. Again, the Baltic states are more focused on growth at the moment than cost cutting. Improving liquidity remains moderately important or more across nearly all CE markets.

Gearing up for no change?

Most CFOs remain cautious on the subject of gearing, with large majorities in most markets anticipating no change. Poland and the Baltics emerge as markets where gearing may be raised, while around 40% of CFOs in Slovenia and Serbia are planning to reduce their gearing.

Graph 28: CFOs' aim for the level of gearing over the next 12 months (%)



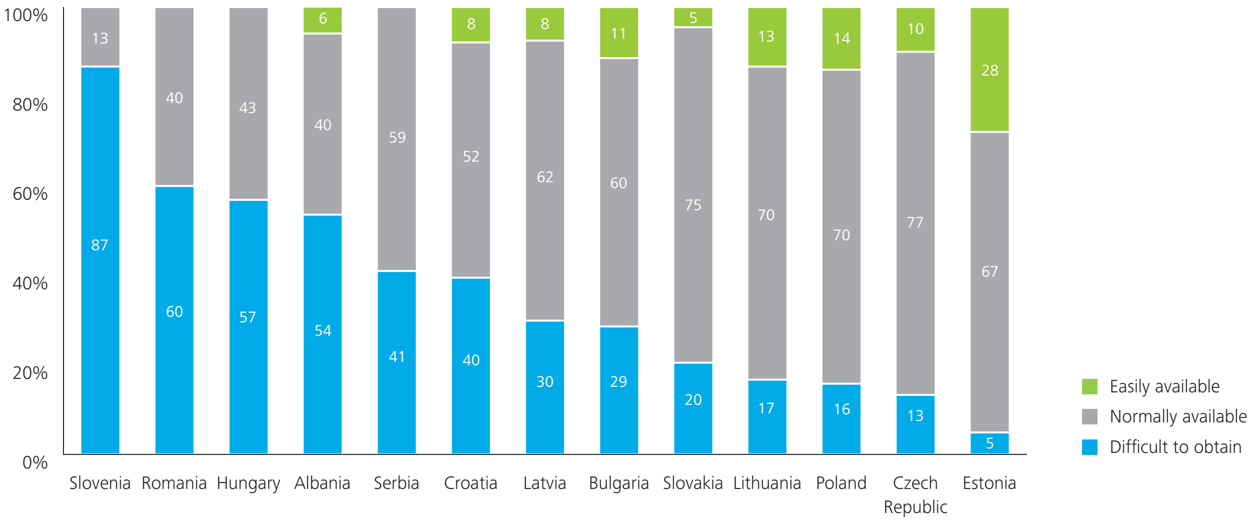
	Slovenia	Serbia	Albania	Croatia	Bulgaria	Slovakia	Romania	Hungary	Latvia	Poland	Czech	Lithuania	Estonia
Raise	7	13	22	18	29	23	10	15	22	28	18	26	31
No change	53	49	44	50	40	47	60	62	59	57	67	65	61
Reduce	40	38	34	32	31	30	30	23	19	16	15	10	8

A mixed credit picture

It is a pleasant surprise that so many CFOs rate new credit as 'normally available' given the low amounts of new credit released in most core CE markets. Some of this response may be due to companies not wanting to borrow, but feeling that funds are 'on the table' if required.

That said, in Hungary, Romania and Albania more than half CFOs state that new credit is hard to find, which echoes common complaints in these markets. The worst situation seems to be in Slovenia, where almost 90% of CFOs claim that credit is difficult to obtain.

Graph 29: Overall availability of new credit for companies nowadays (%)

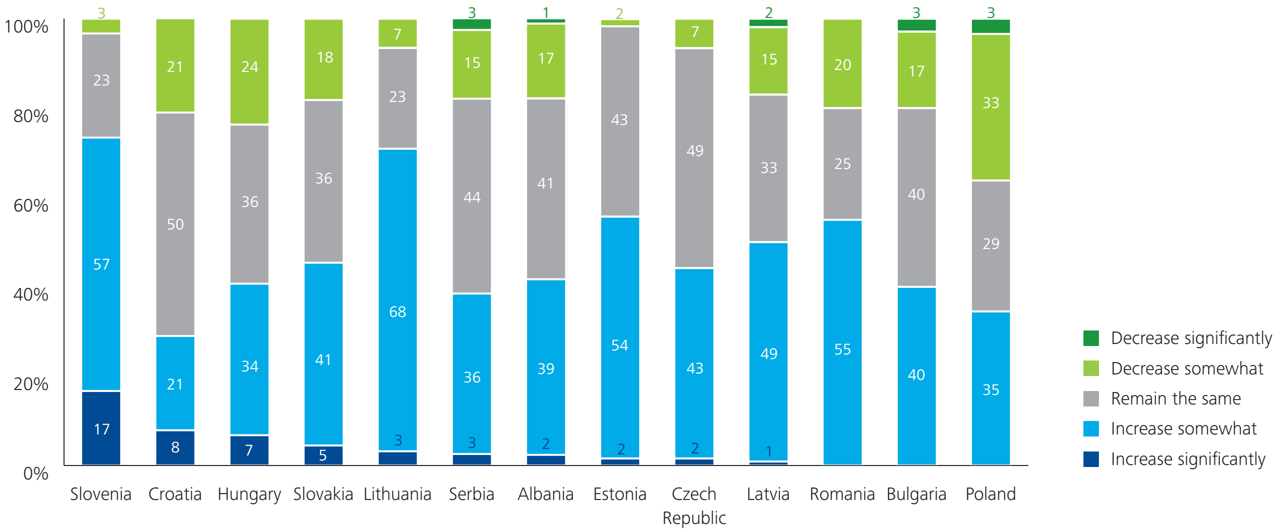


Recovery will drive up finance costs

Broadly, CFOs feel that the costs of finance are set to rise. Interest rates are low or very low in most markets; rates will start to rise, possibly slowly, whenever the economic cycle picks up, and this is reflected in most responses.

One exception is Poland where the National Bank is embarking on a cycle of interest rate cuts in response to the country's sharp economic slowdown.

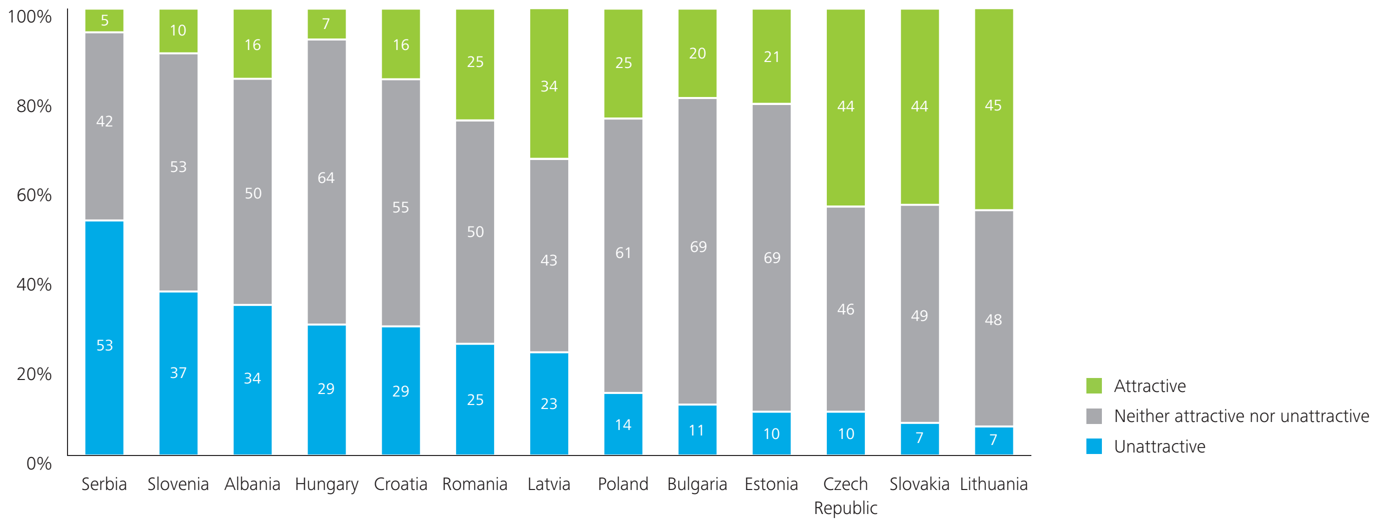
Graph 30: Expected change in financing costs for companies over the next 12 months (%)



Most CFOs are banking neutral

Most CFOs are neutral about the attractiveness of bank borrowing. This fits in with the financing and growth picture across the region, with its combination of banks not lending and some companies not wanting or needing to borrow. Several markets across the region, such as the Czech Republic, Slovakia and Lithuania regard it as more attractive than others, but there is no discernible logical pattern and variations are probably driven by specific corporate needs in those markets.

Graph 31: Attractiveness of bank borrowing as a source of funding (%)

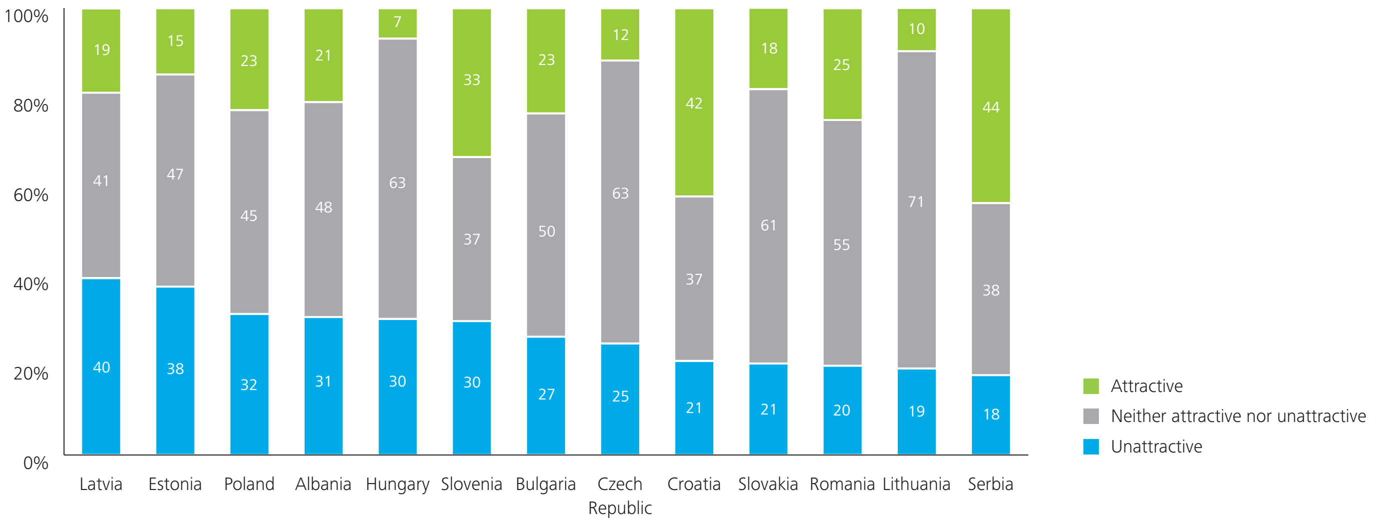


Opinions split on equity funding

Most CFOs currently find raising equity as neither an attractive nor an unattractive source of funding, but those in Croatia, Serbia and Slovenia stand out as mild exceptions and those in Latvia find it less appealing.

Responses from Poland are quite mixed, which reflects the country's shifting economic direction and increasing uncertainty.

Graph 32: Attractiveness of equity raising as a source of funding (%)

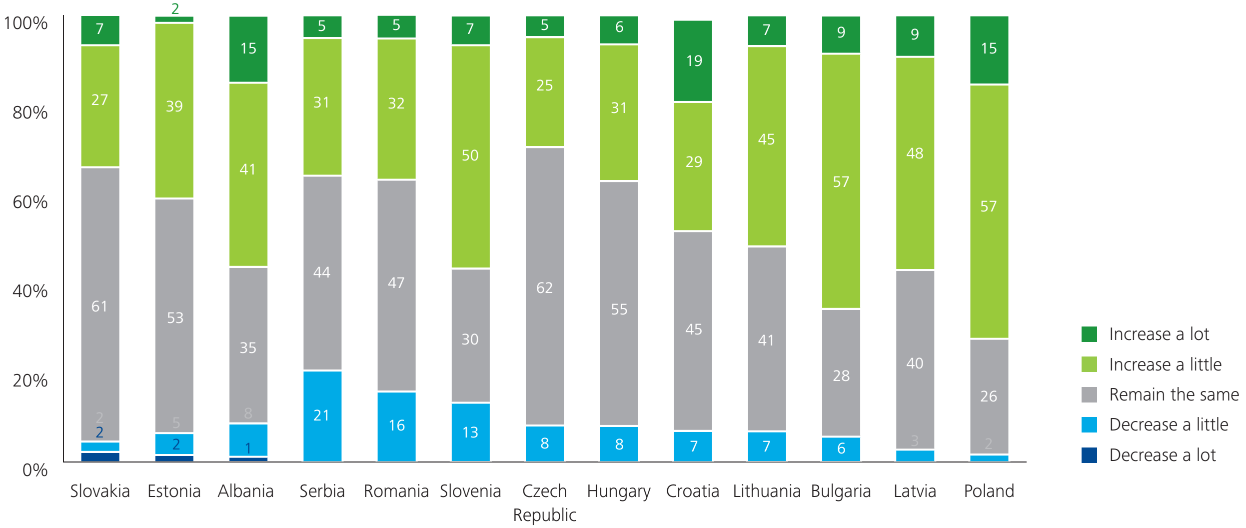


Servicing debt

Regarding companies' ability to service their debt, responses are much as expected: most CFOs predict an unchanged environment while almost the same proportion expects an improvement.

This is based on the view that markets will improve moderately over the next three years. Rising interest rates may prove a hindrance here, but it appears unlikely that rates will rise fast enough to be a problem in this period.

Graph 33: Expected change in companies' ability to service their debt over the next 3 years (%)

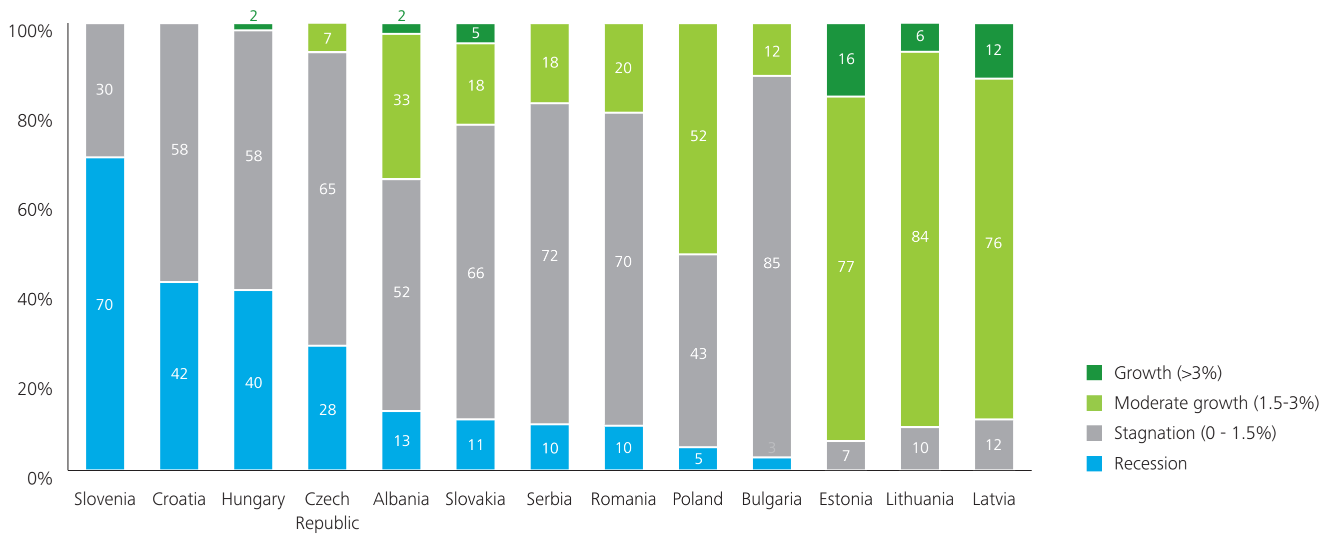


Expectations for growth

CFOs expect low single-digit GDP growth across the region, with a weaker performance expected in the Czech Republic, Croatia and Hungary and a somewhat stronger than average return from the small Baltic markets.

As last year, Slovenia is once again the most pessimistic country in the sample, with 70% of CFOs expecting recession.

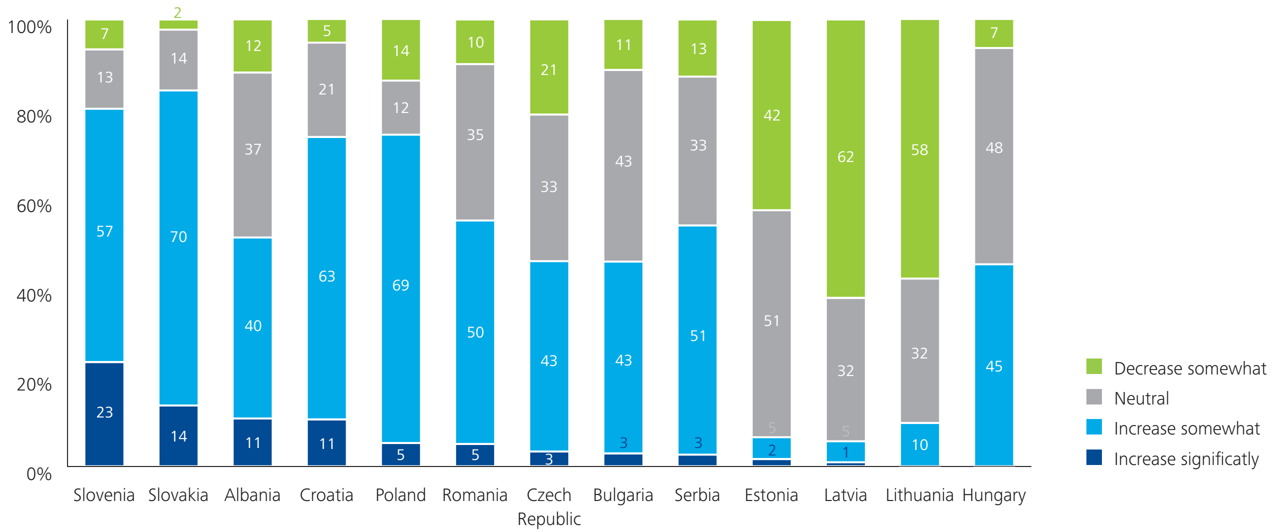
Graph 34: CFOs' expectations for the country GDP growth in 2013 (%)



Expectations for unemployment

Most CFOs expect unemployment to increase somewhat or at best remain neutral in most markets; the exception is the again Baltic states, where a majority of CFOs forecasts that unemployment will fall.

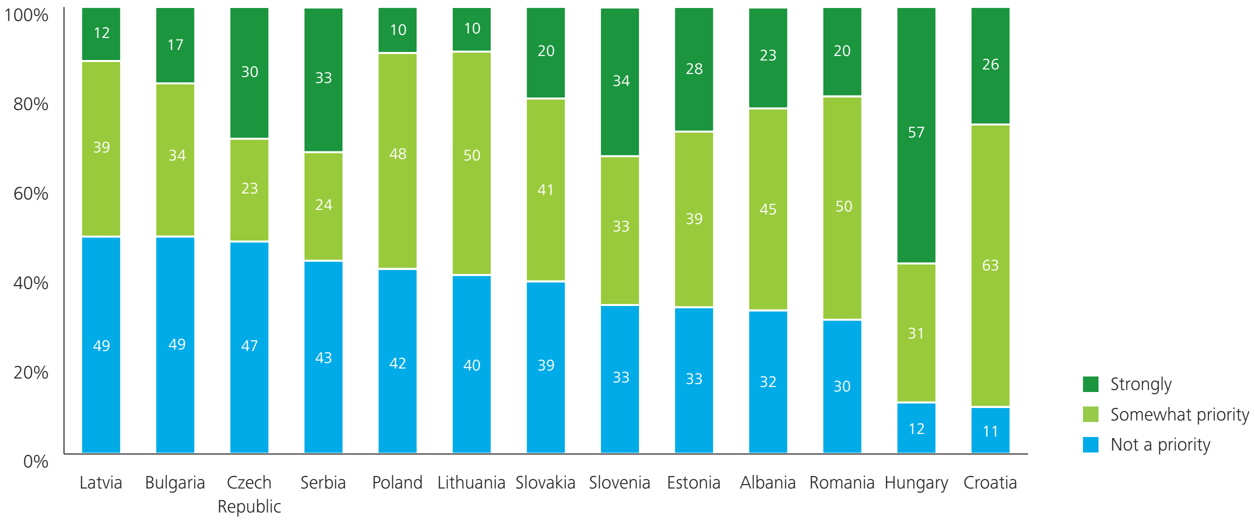
Graph 35: Expected change in unemployment level over the next 12 months (%)



A question of remodelling

CFOs are split as to whether remodelling or restructuring will be a priority for their business in the near future. This partially reflects a desire to remain stable as they wait and see how things develop; it is also partly because much has already been done in most markets. Hungary and Slovenia stand out as two markets where one third to more than half of executives expect to remodel; in Slovenia, this relates to the possible need for a bail-out and even a longer-term recession, while in Hungary the ongoing slump and government regulations also encourage further right-sizing. CFOs will also monitor developments in the Czech Republic and Croatia to see whether they need to downsize or, in Croatia's case, adapt to the EU.

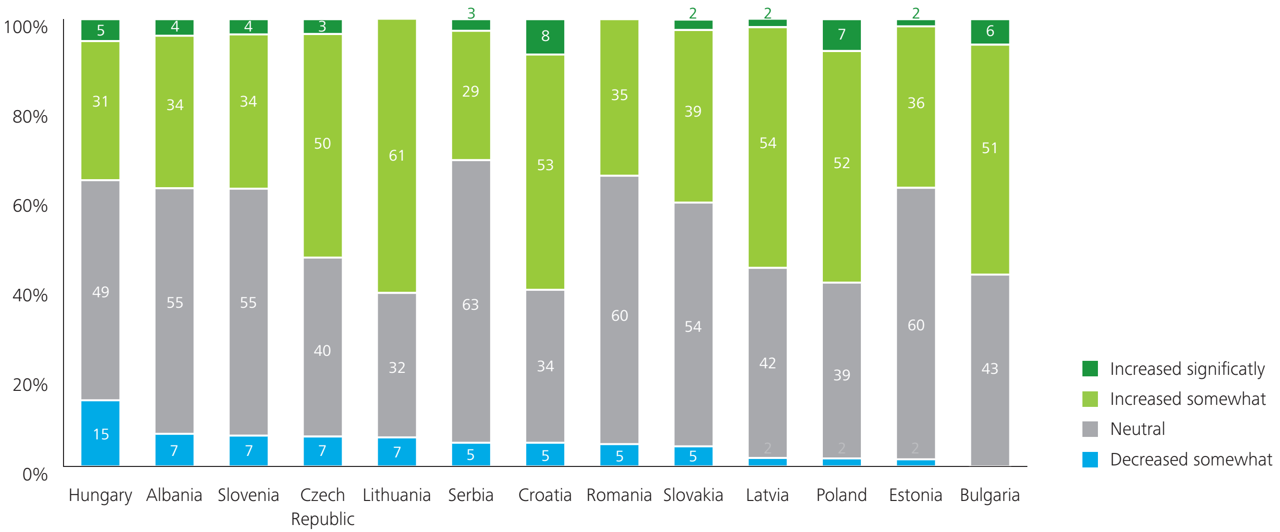
Graph 36: Expectations to what extent is business remodelling or restructuring likely to be a priority for your business over the next 12 months (%)



A marginal increase in M&A?

Regarding M&A, the respondents' outlook fits with their responses to other questions. In fact, with almost half of executives replying that they will see some slight increase in M&A this year, there is a marginally optimistic view. Some of this anticipated M&A activity will be due to sales of distressed assets, Western investors divesting and private equity playing a larger role. Again, however, almost half the CFOs from across the region expect the flat trend to continue. Moderately increased activity in Poland could be due to executives responding to the current slowdown by planning to buy and sell.

Graph 37: Expected change in M&A levels over the next 12 months (%)

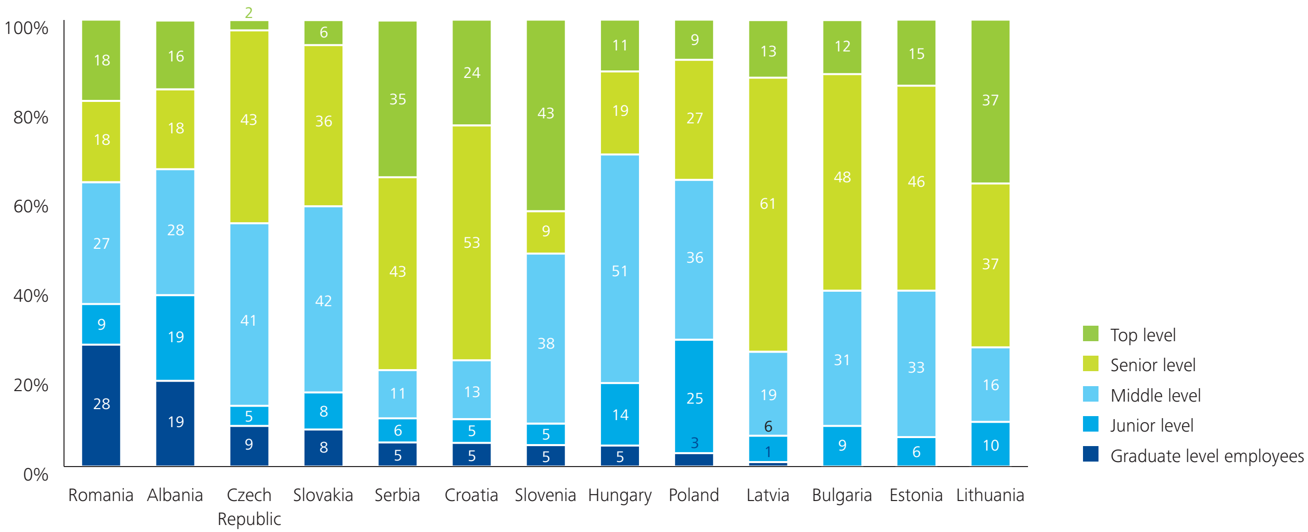


Talent in finance

Around two thirds of all respondents do not expect any talent shortages in financial roles across the region. This makes sense; there is not much of a talent shortage at the moment, and a fragile business outlook puts most power in the hands of the employers. (For comparison, this is not the case in Russia where talent shortages exist across the board and salaries remain elevated.)

That said, almost one third of CFOs do feel that there will be shortages, and this possibly includes top-quality people in key roles. This conclusion is reflected in the final question of the survey, where CFOs indicate that shortages will apply to the more senior levels. However, Romania and Albania stand out with 28% and 19% of CFOs respectively predicting quite significant talent shortages at the graduate level, which contrasts with the other countries.

Graph 38: Expected talent shortages in finance over the next year (%)



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Methodology

The 1st CFO Survey took place between the 18th of February and the 1st of April. A total of 668 CFOs across 13 countries completed our survey. The survey is divided into two parts, first - local analysis based on responses from Estonia 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.

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.