

CFO Survey

Slovakia | June 2013

Pessimistic sentiments in Slovakia arise from uncertainty about future macroeconomic trends, as well as external threats that may negatively influence companies.



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Slovak Republic – Scepticism in Top Management Persists Despite Partial Signs of Improvement

It is my pleasure to welcome you to this report on the fourth Deloitte survey of Slovakia's CFOs, itself part of a survey covering a total of 13 countries across the Central European region. In an interesting development, the results this time suggest a continuation of scepticism among the country's most senior financial managers, despite some signs of economic improvement.

The persistence of these pessimistic sentiments appears to stem mainly from uncertainty about future macroeconomic trends, as well as external threats that may negatively influence companies.

A good sign is that the need to decrease company costs no longer has the key role it had early last year. Maximising of effectiveness of companies' inputs has practically become a daily practice, and having made necessary deep changes to their organisations, companies are gradually turning their attention to those existing markets that they wish to focus on more closely. Not even low interest rates have provided enough of an incentive for them to make larger investments. There is no support for adding new risks to company balance sheets.

The Deloitte CE CFO survey identifies the choices CFOs have made for 2013, and I hope that you will find it both interesting and inspirational. I would also like to take this opportunity to invite you to take part in our next survey to be held in autumn 2013.

Key findings:

- 66% of CFOs expect the Slovak economy to stagnate in 2013 (ie to achieve no growth or a maximum rate of 1.5%), which is 30% more than in the survey conducted in late 2012. There are only minimal expectations of economic expansion.
- 84% of CFOs expect an increase in the unemployment rate (70% expect a moderate increase and 14% a significant increase), marking the return of a more pessimistic outlook. In direct connection with the amended Labour Code, 41% of respondents anticipate a decrease in the number of jobs in the upcoming year; 75% also confirmed the financial impact of the amended legislation on employment and social security in the company at which they work.
- 23% of CFOs report an increased need for credit in 2013. The results of the survey prove that as regards the drawing of credit, CFOs do not expect to make more significant new investments in the near future, despite bank interest rates currently being at record low levels.
- The principal priority for companies in Slovakia over the next 12 months will involve achieving deeper penetration into those markets where they already operate. As in the preceding surveys, making new investments was ranked last in terms of key priorities. Companies are planning no major or potentially risk-laden projects, the failure of which could have damaging consequences for their operations.
- Since 2012, companies have gradually moved from a primary focus on decreasing costs (both direct and indirect) to growth targets.
- A third of CFOs participating in the survey envisage a shortage of qualified and talented employees in finance in the short-term future, especially at the mid-management level. The Slovak education system produces enough economy and finance graduates, so companies do not anticipate problems in filling such vacancies in 2013.

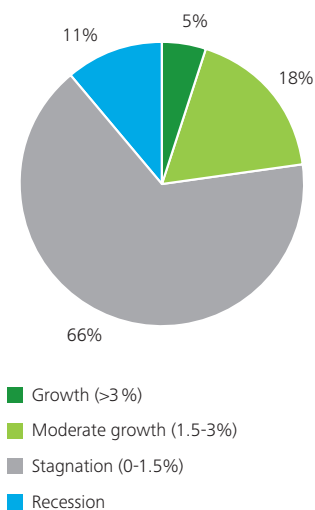
GDP Development – A Sceptical Mood Persists

Q: What are your expectations related to 2013 GDP growth in Slovakia?

66% of CFOs expect the Slovak economy to stagnate in 2013 (ie no growth or a maximum year-on-year growth of 1.5%). This is 30% more than in the late-2012 survey, when 60% of CFOs expected moderate growth. This decline in expectations can also be seen in the share of respondents anticipating economic recession. Recession in 2013 is predicted by 11% of CFOs, compared to just 4% last year. Economic expansion is expected by only 5% of respondents.

GDP increased by 4.2% in 2010 and by 3.3% in 2011, while in 2012 it was around 2.7%; macroeconomic forecasts for 2013 anticipate economic growth of 1.8% generated primarily by vehicle exports. The country's exports reported a year-on-year increase of 7%; but according to our survey results, this fact is neither apparent in Slovak companies nor reflected in CFO expectations for 2013 (although the figure is higher than for other Central European countries).

Graph 1: CFOs' expectations for Slovakia GDP growth for 2013



Household Consumption Factors

Q: How, in your opinion, will unemployment levels change in Slovakia?

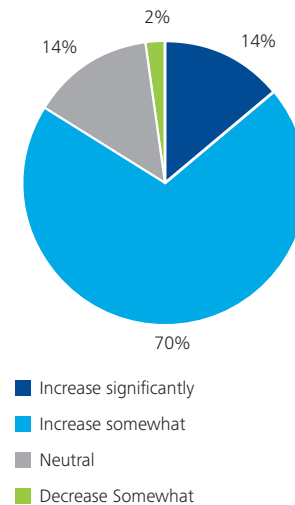
Q: Has your company experienced any financial impacts related to the amended Labour Code and social security?

Q: Are you expecting to see a reduction in jobs due to the amended Labour Code?

84% of CFOs expect an increase in the unemployment rate (70% expect a moderate increase and 14% a significant increase). Looking at the preceding surveys conducted in the second and first halves of 2012, when an increase in unemployment was predicted by 68% and 94% of respondents respectively, this is a return to the more pessimistic outlook of 12 months ago. This may be based on the anticipated direction of gross domestic product, amendments to employment-related legislation and information about intended or planned layoffs in specific companies. 8% of companies are planning to reduce employee numbers.

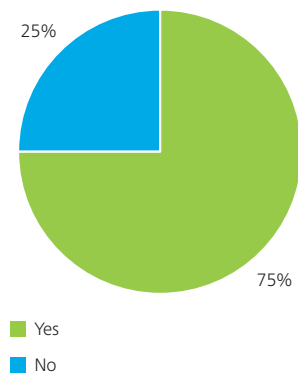
In direct connection with the amended Labour Code, significantly less than half (41%) of respondents anticipate a decline in the number of jobs during the upcoming year; by way of contrast, in the previous survey 72% of respondents expressed pessimistic opinions about labour market flexibility. There was a discussion in late 2012 between legislators and representatives of entrepreneurs on the final wording of the legislation, with sharp exchanges of views concerning its impact on employment.

Graph 2: Expected change in unemployment level in Slovakia over the next 12 months



Moreover, it should be noted that 75% of CFOs confirmed that the amended employment and social security legislation would have a direct financial impact on the operation of their companies.

Graph 3: Have you experienced any financial impacts on your company that relate to the amendment to the Labour Code and social security?

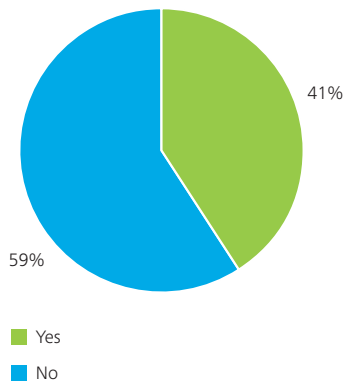


The unfavourable labour market conditions are also affecting household consumption, which continues to decrease (showing a year-on-year decline of 0.6%). 2012 was the fourth successive year in which this consumption has fallen, and recovery is not expected in 2013 as the unemployment rate has been over 14% for several months¹.

The constantly-decreasing confidence of consumers may represent another negative impact on the unemployment rate if the current weak trend in industrial orders continues in future.

The real wages of the population continue to decrease (showing a year-on-year decrease of 1.6%) primarily as a result of a higher inflation rate at 3.4% in the short term absorbing any minor increase in nominal wages.

Graph 4: Are you expecting to see a reduction in jobs due to the amended Labour Code?



¹ Source: CEEMEA: Slovakia Business and Economic Outlook – January 2013

Corporate Spending and Financing

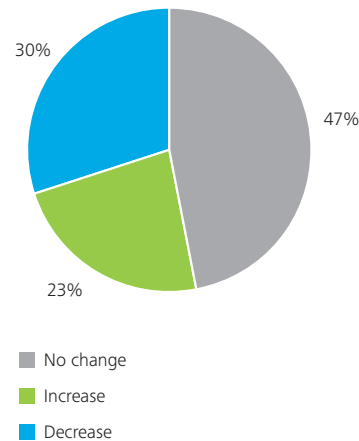
Q: How would you assess the current availability of new credit for companies?

Q: What are your plans for the gearing level in the next 12 months?

To date, developments in corporate spending have been more positive than in household spending. After dropping substantially (by 20%) in 2009, corporate spending increased by 12% in 2010 and by a further 6% in 2011. In late 2012, this indicator decreased by 2%. Given the developments in the eurozone, no year-on-year movements in total corporate spending are expected next year².

It is planned that the gearing level of companies will reduce over the next 12 months, according to 30% of CFOs; in 2012, 24% of respondents selected this answer. In 2013, 23% of CFOs are reporting an increased need for credit (last year: 12%). The survey results also indicate the fact that, as regards the drawing of credit, CFOs do not anticipate making more significant investments in the near future despite bank interest rates currently being at record low levels.

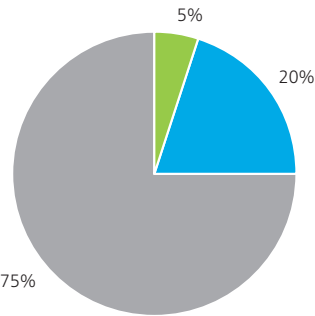
Graph 5: CFOs' aim for the level of gearing over the next 12 months



² Source: CEEMEA: Slovakia Business and Economic Outlook – January 2013

There were no significant changes in corporate financing in 2013. In Slovakia, bank credit continues to be a more attractive source of financing than increasing equity, which is considered attractive by just 18% of respondents (16% in the previous survey). For 20% of CFOs, movements in equity are out of the question (in 2012: 16%). This result is primarily caused by the country's poor level of public trading in corporate debt securities and the highly positive relationship companies enjoy with the banking model of financing.

Graph 6: Overall availability of new credit for companies nowadays

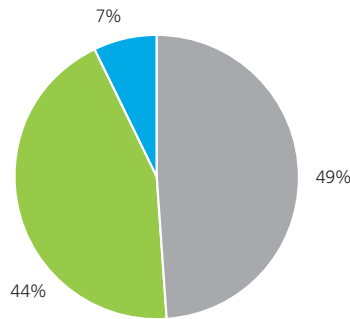


■ Easy availability
■ Hard availability
■ Normal availability

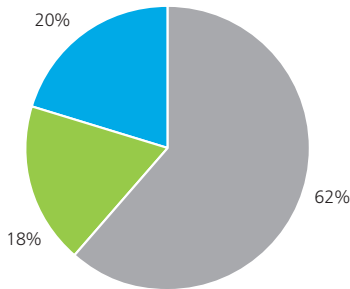
Similarly, in the medium term, CFOs expect there to be no significant changes in the ability of companies to repay their debts. Based on the survey, as many as 89% will settle what they owe at least at 2012 levels or slightly better. Only 5% suggest a pessimistic view of future developments in this field.

Graph 7: Sources of funding

Bank Loans



Increase in Equity



■ Neither attractive or non-attractive
■ Attractive
■ Non-Attractive

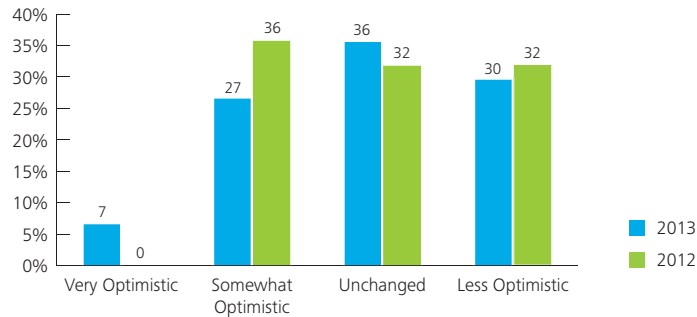
Sales and Profit Trends – Looking for Funding Close to Home

Q: How do you assess your company's financial prospects compared to six months ago?

As indicated in the chart below, CFOs do not feel that the prospects of Slovak companies have changed particularly since our last survey six months ago.

Only 7% of respondents (0% in 2012) see their sales and profit in a highly optimistic light. 27% of respondents (36% in 2012) see a slightly more optimistic financial prospect (ie single-digit growth). The across-the-board increase in corporate income tax rate from 19% to 23%, and the introduction of special taxes for companies operating in regulated industries have already been specified in previous surveys as the greatest threats to growth³.

Graph 8: Outlook on financial prospects (compared with 6 months ago)



³ CFO Survey Slovak Republic 3rd Edition, November 2012

Business Focus of Companies

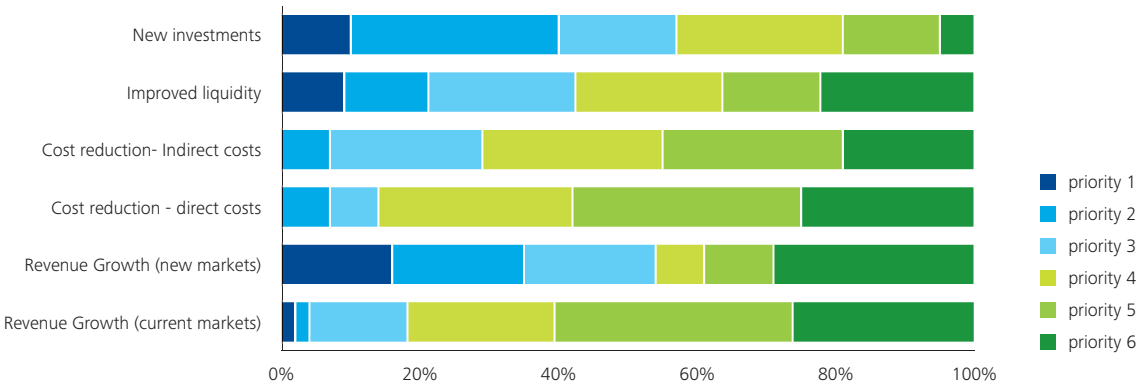
Q: What will be your company’s business focus for the next 12 months?

Q: Is it the right time to expose your company’s balance sheet to greater risks?

According to participating CFOs, the main points of interest in the next 12 months for Slovak companies will mainly involve increasing their sales from existing markets (ie achieving an increase in market penetration).

61% of CFOs indicated that this option is the most or second-most important area for their company. Companies will therefore strive at all costs to maintain their position in the domestic market, which is likely to result in fiercer competition between major players.

Graph 9: Business focus for the upcoming year (1 - least important, 6 - most important)



Reducing direct corporate costs, which was ranked as either the highest or second-highest priority by 59% of respondents, continues to be a key priority this year. Reducing indirect costs ranked third.

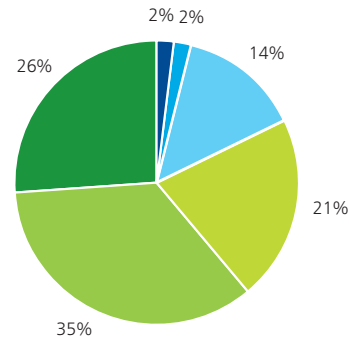
Compared to our 2012 surveys, there has been a gradual shift by companies from their primary focus on reducing costs (both direct and indirect) towards growth targets. That said, the effort to decrease indirect costs will also continue throughout 2013;

CFOs still believe their companies have weaknesses in this respect.

As in the preceding surveys, making new investments was ranked lowest of the analysed objectives. As indicated in the chart below, 18% of CFOs, compared to only 8% last year, consider that the time is right to expose their companies' balance sheets to increased risk in 2013.

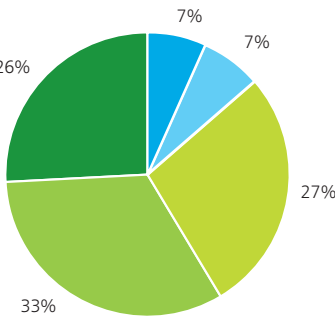
Graph 10: What is your company's business focus for the next 12 months?

Increase in sales (existing markets)



- priority 1 (min)
- priority 2
- priority 3
- priority 4
- priority 5
- priority 6 (max)

Cost reduction - direct costs

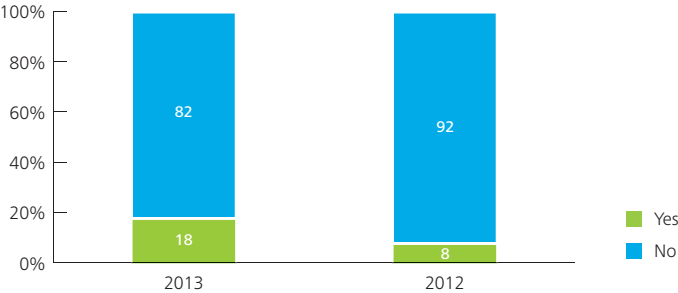


- priority 1 (min)
- priority 2
- priority 3
- priority 4
- priority 5
- priority 6 (max)

Similar opinions on the importance of modifying business models over the next 12 months also persist. While business restructuring is a high priority for only 20% of CFOs, as many as 39% consider restructuring not to be a priority at all.

The results therefore underline the fact that the majority of companies in 2013 will not attempt to implement any major or potentially risky projects that in the event of failure would squander corporate funds and potentially have destructive consequences.

Graph 11: CFOs' view if now is a good time to be taking greater risk on their companies' balance sheet



Searching for Talent

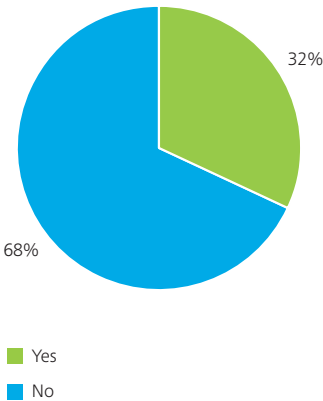
Q: Do you expect talent shortages in the finance area over the next year?
Q: At what levels do you expect a significant shortage of finance talents next year?

Approximately one third of CFOs expect to see a shortage of a qualified and talented workforce in finance next year (the same as in the previous survey). The greatest shortages are anticipated at middle (42%) and senior levels (36%).

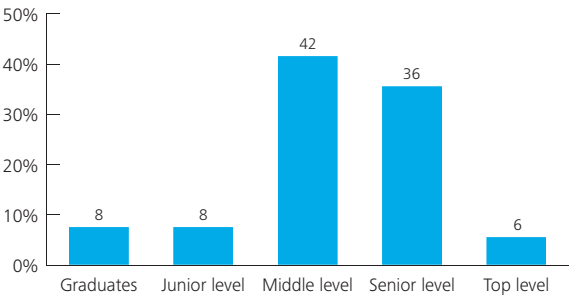
Traditionally, respondents have been least concerned by prospects at the highest levels of management and the numbers of recent graduates in economic sciences.

The results of the survey from 2012 reflected an almost identical situation, with a shortage of talent being expected by a third of respondents, of which 42% anticipated a shortage among the middle levels and 37% at senior positions.

Graph 12: Expectation of talent shortages in the finance area over the next year



Graph 13: Positions in which significant shortages in talent in finance are expected over the next year



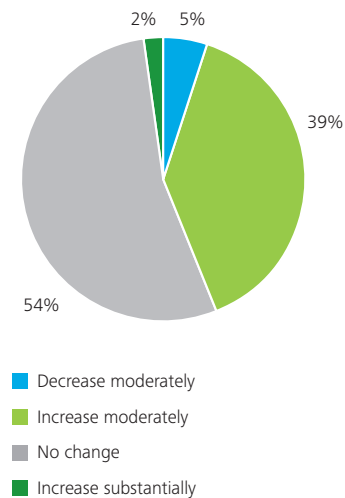
Mergers and Acquisitions Activities

Q: How, in your opinion, will the level of mergers and acquisitions change in the coming 12 months?

41% of CFOs expect an increase in corporate transactions in the coming 12 months, while 54% of respondents envisage no change from the current situation.

These results are in line with those of previous surveys; in 2012, 58% of CFOs anticipated an increase in the number of mergers and acquisitions and the remaining 42% expected numbers to stay the same.

Graph 14: Expected change in M&A levels in Slovakia over the next 12 months



Central European economic and business overview

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 15: 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

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 expect 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 16: 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 17: 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.

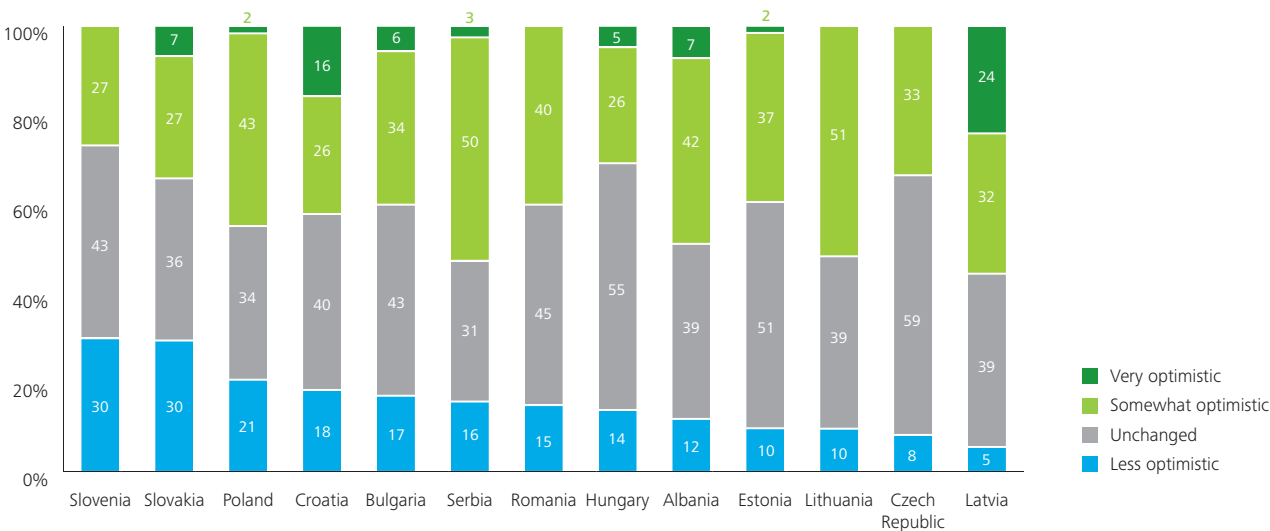
But right across the region, embracing Bulgaria and Romania, Slovakia and Albania, Serbia and Croatia, CFOs continue to rise to the ever-evolving challenges whose roots can still be traced to the global financial crisis of 2008 and 2009. While there appears to be an emerging consensus that recovery will 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 18: Financial prospects for companies (%)

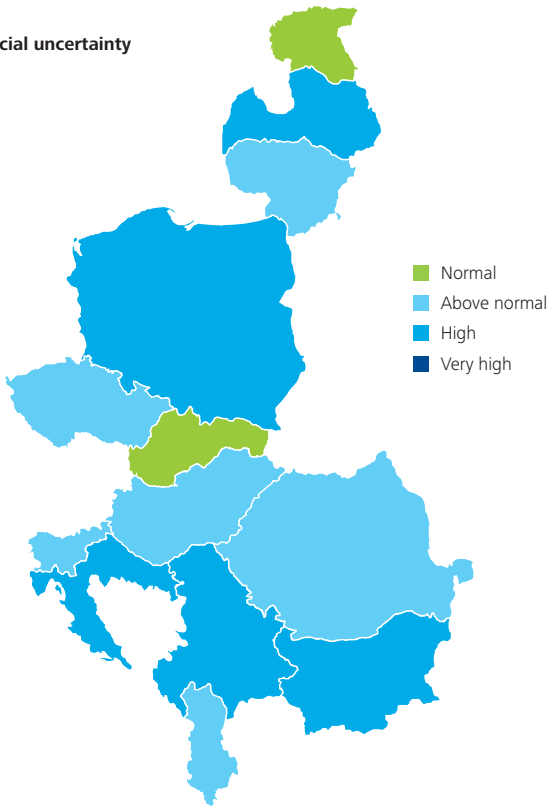


Living in uncertain times

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 19: General level of external financial uncertainty

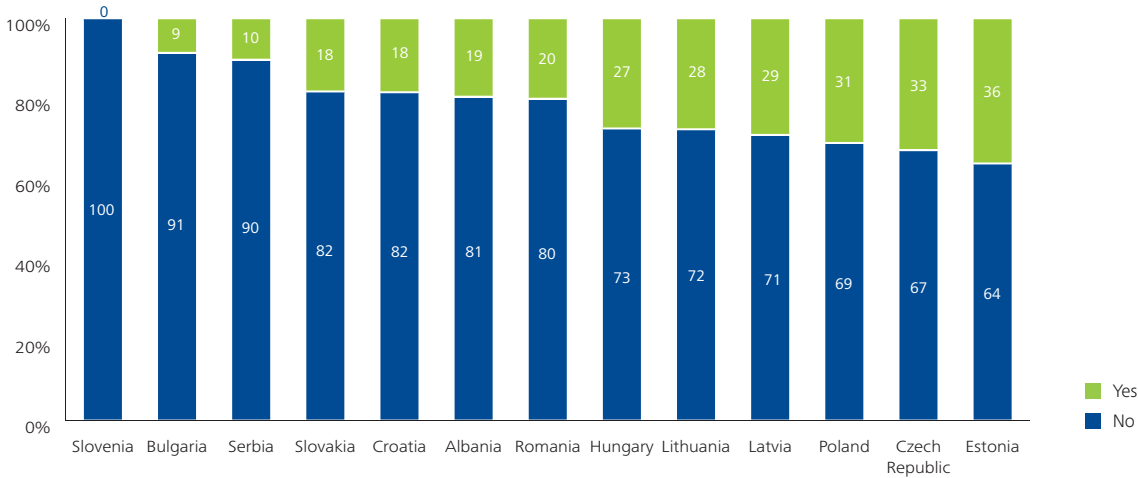


Risk-aversion rules

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



Business focus for the year ahead

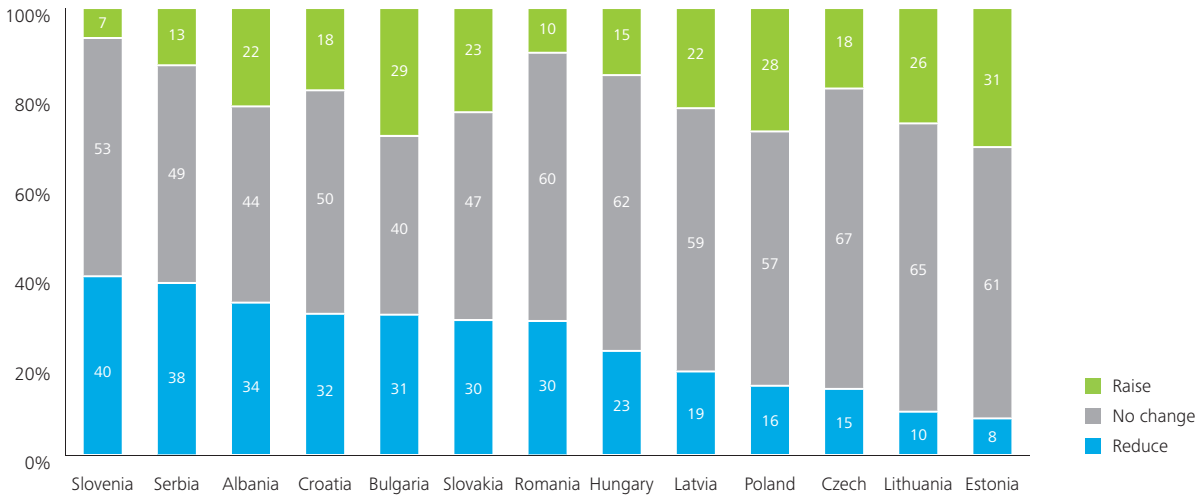
When searching for revenue growth, most CFOs across Central Europe’s markets mix their priorities between domestic growth and expansion in foreign markets, which may include other core CE markets and those such as Russia and Turkey. CFOs outside Poland may be looking to the Polish market for future growth, 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 21: CFOs' aim for the level of gearing over the next 12 months (%)

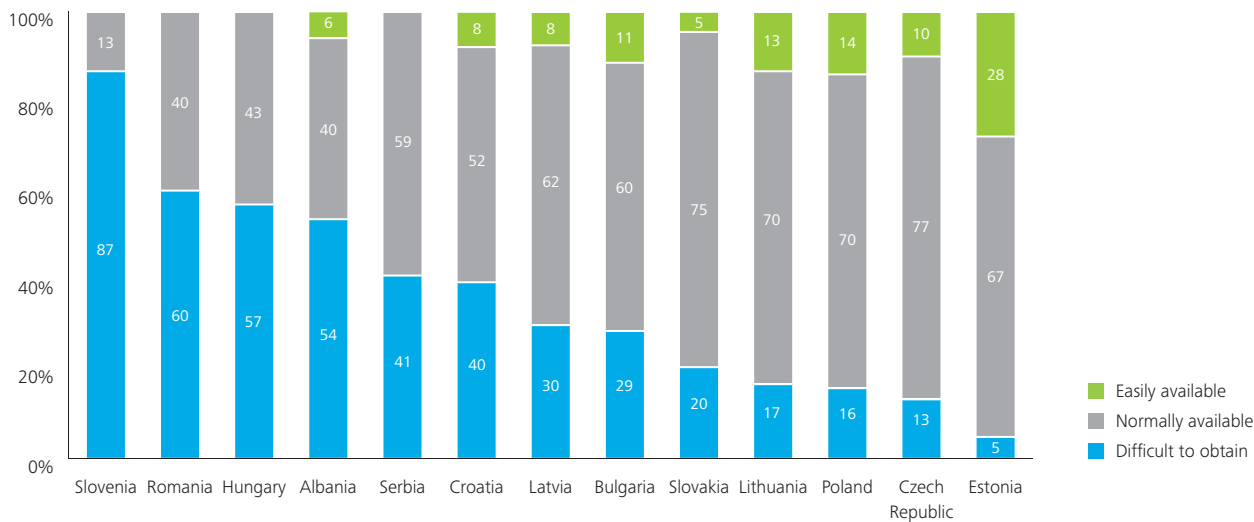


A mixed credit picture

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

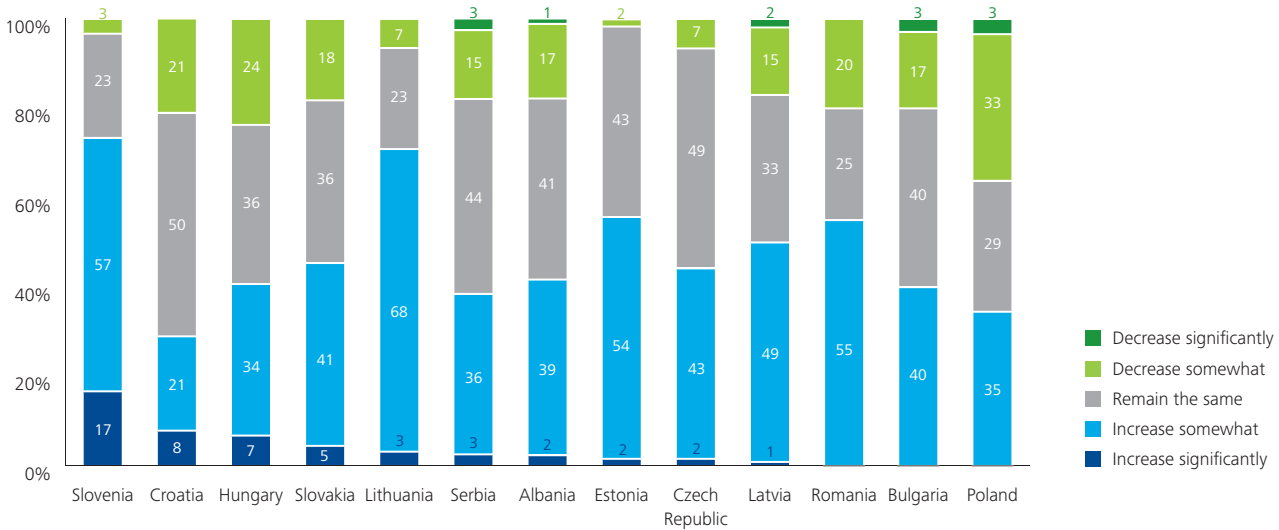


Recovery will drive up finance costs

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

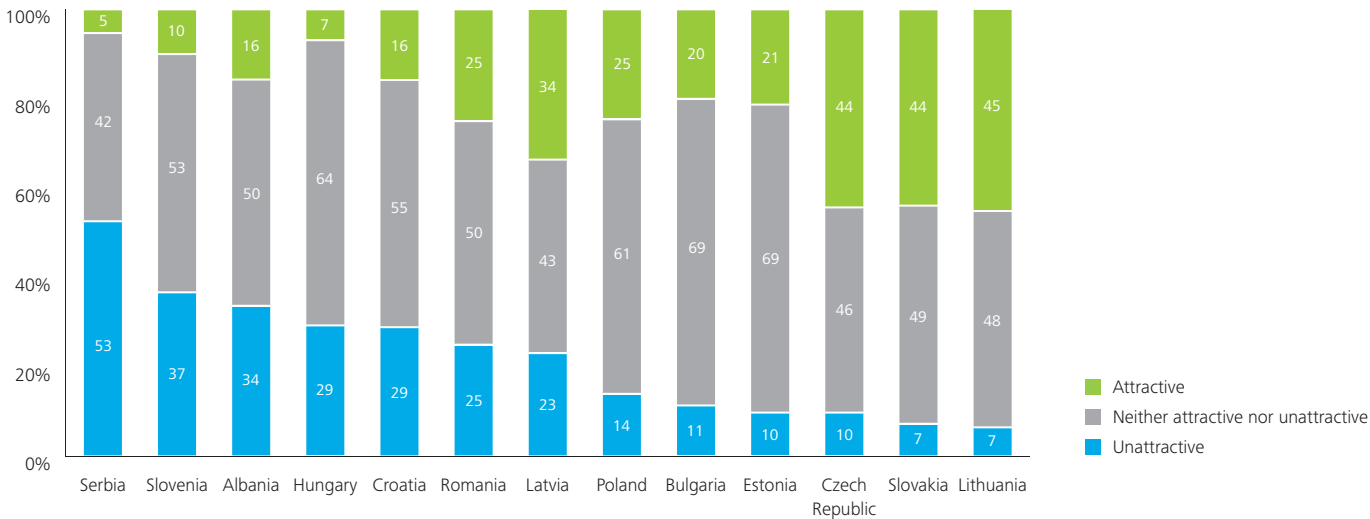


Most CFOs are banking neutral

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

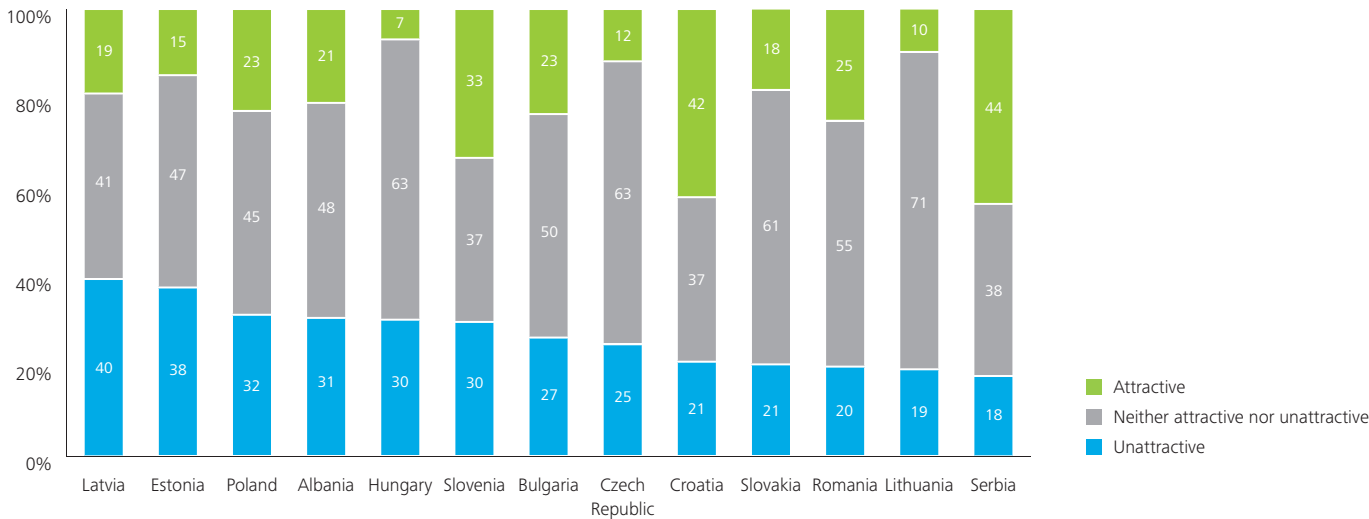


Opinions split on equity funding

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

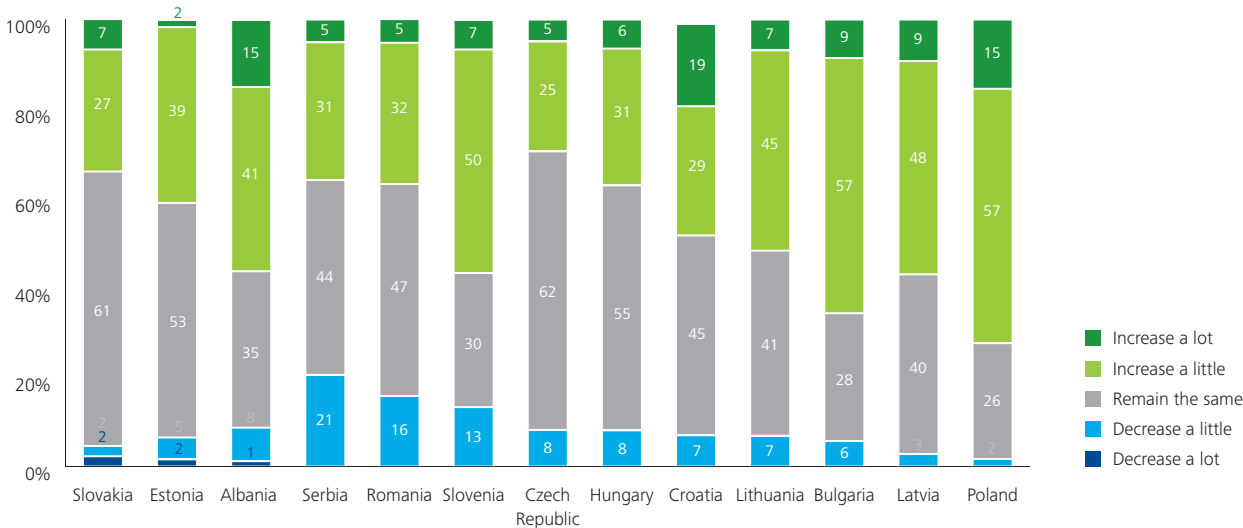


Servicing debt

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

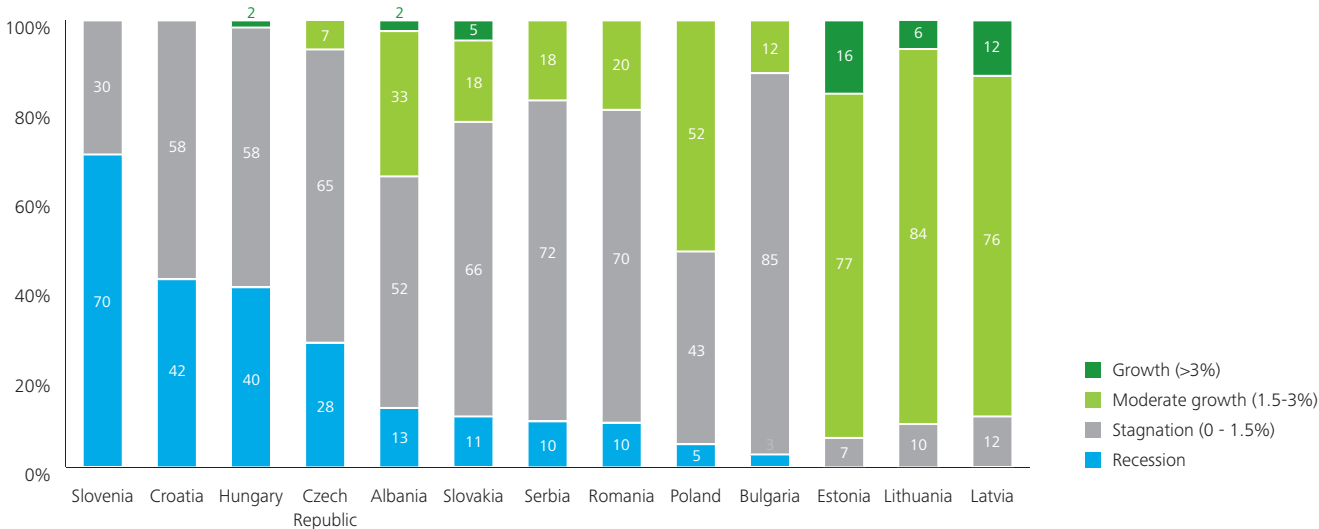


Expectations for growth

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.

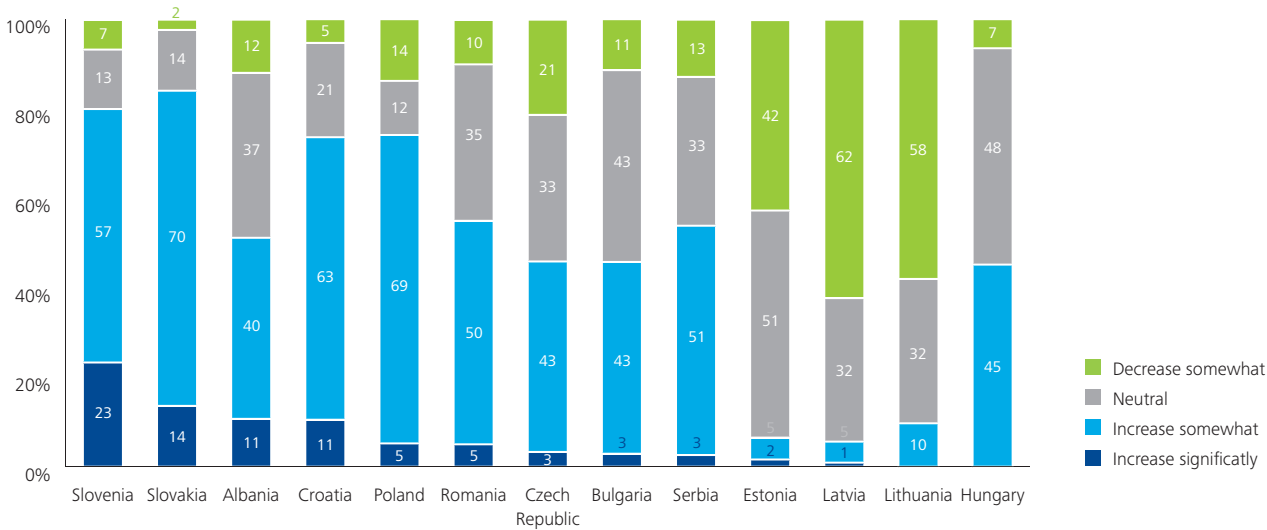
Graph 27: CFOs' expectations for the country GDP growth in 2013 (%)



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

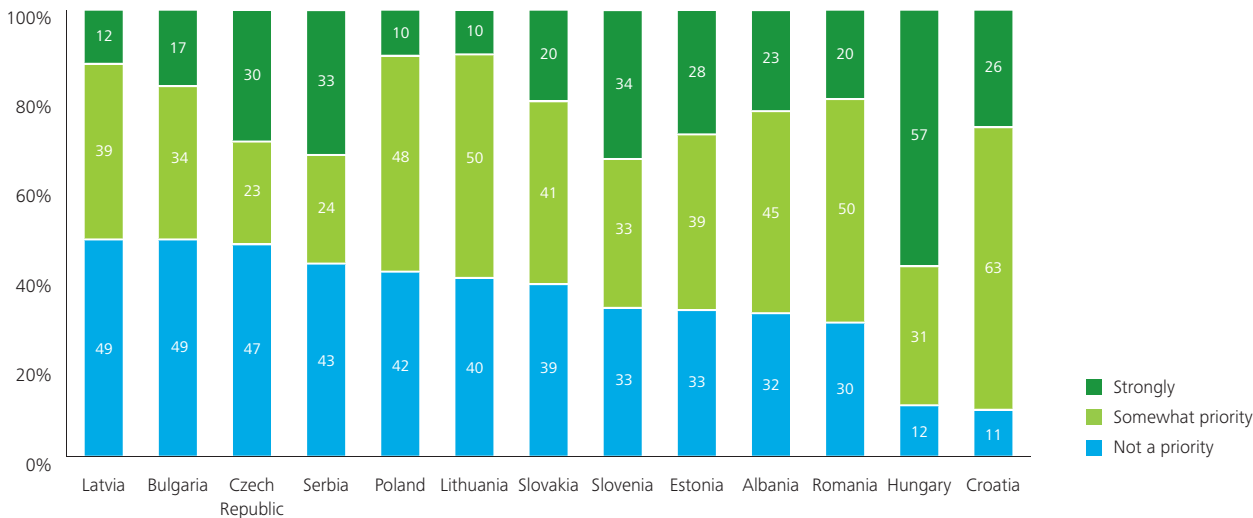


A question of remodelling

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

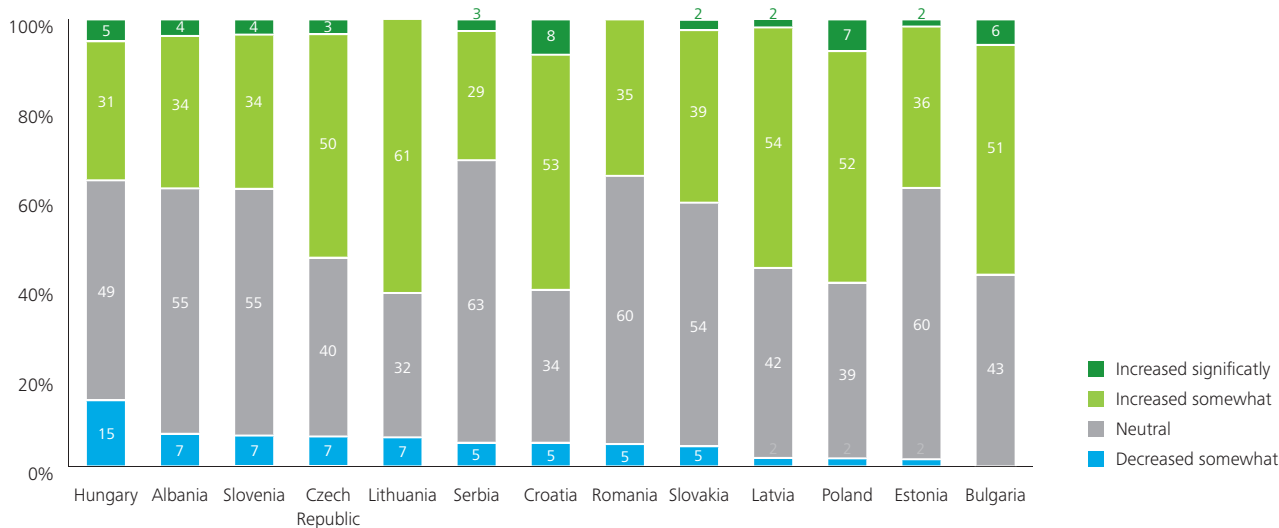


A marginal increase in M&A?

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

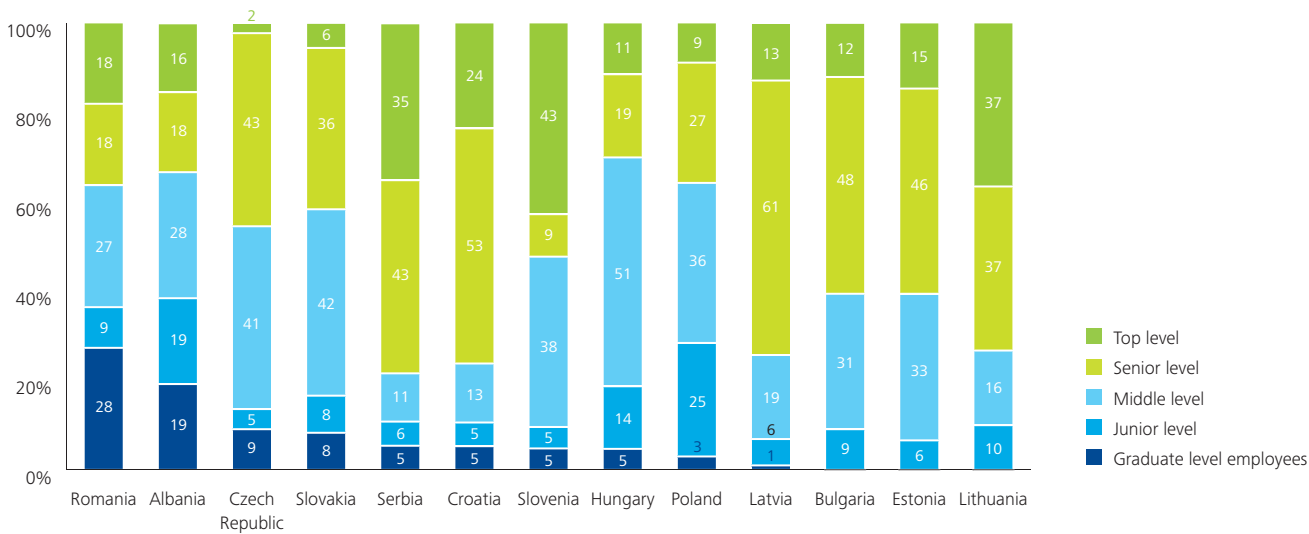


Talent in finance

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



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Methodology

The 4th 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 Slovakia 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.

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