

CFO Survey

Slovenia | July 2013

Our priorities have not changed significantly during the last six months. However, we do notice significantly more pressure from banks to accelerate the deleveraging process of companies. There is also an increased need for companies to make the transition from the classical CAPEX to an OPEX business investment model, which requires greater financial stability and regular cash flows from companies.



A handwritten signature in black ink, appearing to read 'Yuri Sidorovich'.

Yuri Sidorovich
Partner, Deloitte Slovenia

Slovenia in 2013 – further deterioration expected

Welcome to the 2013 edition of the Deloitte CFO Survey for Slovenia. The findings of this edition – the last one was published in November 2012 – show that the Slovenian economy is still in recession. Compared to the 12 economies in the region who also participated in the survey (Albania&Kosovo, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia) Slovenian CFOs remain the most pessimistic about expectations for the country's growth this year.

GDP in the final quarter of 2012 contracted by 3% year-on-year, due to decreased household consumption, a lack of corporate investment activity and the government's austerity programme. The Slovenian credit rating decreased to Baa2 in September 2012, which, together with the overleveraged corporate sector, resulted in restricted access to the international capital markets. All these factors will undoubtedly continue to impact company finances in 2013. It therefore comes as no surprise that all the CFOs interviewed for the survey still think it is an inappropriate time to be taking greater risk on to company balance sheets. CFOs stress that the main priority in 2013 will be improving liquidity.

Slovenia needs to carry out structural reforms, start an extensive programme of privatisation and restructure its banks to stimulate a turnaround in the economy. Slovenia also faces significant challenges in the field of financing the budget deficit and refinancing the current year's maturing debts. Failure to carry out these measures could result in Slovenia's recession lasting well into 2015 and beyond. The time to act is now, as confirmed by the opinions of the surveyed CFOs.

Key findings:

- Falling household consumption
- Rising unemployment
- Falling liquidity of the domestic capital market
- Rising company bankruptcies and filings for insolvency

Slovenia in 2013 - after falling back into recession, the country is braced for a protracted period of contraction that could turn into a full-blown depression

Foreign sources such as the European Commission and the Institute of International Finance (IIF) expect the second part of the double-dip recession that Slovenia entered in 2012 to last at least until 2015. Slovenia is expected to reach foreign debt levels of 92% in this time frame, mainly due to a fall in GDP of approximately 3% in 2013 and 2% in 2014, deficits of around 4.3% and 3.8% in the same two years and a cost equivalent to 11-12% of GDP to rescue the Slovene banking system. Foreign sources agree this could be mitigated by an extensive privatisation programme, which the government should start as soon as possible in order to avoid having to ask for aid from the "Troika".

According to the Slovene newspaper Finance, Slovenia saw a fall in GDP of 3% in 2012, which is significantly higher than the 2.3%, which was previously reported by the Slovene Institute of Macroeconomic Analysis and Development (SIMAD). The contraction was mainly due to a severe fall in investment, which SIMAD reports fell by 9.3%, and in household spending, which contracted by 2.9%.

Household spending in 2013 is expected to decrease by a further 4%, due to higher unemployment, real reductions in wages, and a possible hike in VAT; investment is expected to see a smaller contraction of 0.5% in 2013.

Government spending fell by 1.6% in 2012, lower than the projected 3%, mainly due to the inability of the government to reduce the headcount and cost of the public sector. Government spending is expected to fall by 2.9% in 2013, mainly on account of reducing wages in the public sector. This plan will most likely face renewed opposition from unions representing public sector workers.

SIMAD expects that the 2013 GDP contraction will not exceed 1.9%; this is mainly due to a positive trade balance, in which imports into Slovenia are expected to contract by 0.7% and exports to increase by 1.2%. In 2013, SIMAD expects Slovenia to have a positive trade balance of EUR 1,545 million, almost double the 2012 figure of EUR 874 million. This factor is greatly dependent on the performance of Slovenia's main export markets in 2013, such as Germany and Italy, and their ability to grow and import Slovene products and services.

Household consumption and unemployment

Household consumption for 2013 is expected to continue contracting at an increased rate of 4% (2.9% in 2012) mainly due to contracting real wages and increasing unemployment. SIMAD expects inflation in Slovenia to be relatively low at 1.9%, while nominal wages are expected to fall by 1.8% or by some 3.7% in real terms.

SIMAD expects unemployment in Slovenia for 2013 to reach 13.4% (although by the end of February 2013 it was already 13.6% according to the Slovene statistics office), a projection that's 1.4 percentage points more than in 2012 (12.0%). The growth in unemployment is projected to come mainly from the private sector due to further company bankruptcies, the poor performance of the past couple of years and a need to carry out significant restructuring, which should have happened during the 2009 and 2010 recession. The utilisation of Slovenia's total production capacity in 2013 is estimated to be 76.9%, down from 78.3% in 2012, which suggests that companies will not be investing in new facilities for a number of years to come.

SIMAD notes that the unemployment rate would be higher if it were not for the reduction of the "available-for-work" population in Slovenia, where job-seekers are deleted from the unemployed lists after prolonged periods of unemployment. Since the start of the recession, the available-for-work population in Slovenia has fallen from around 1.01 million to 913,000, or by around 100,000 (9.9%). The number of employed people in Slovenia fell to 793,000 by the end of 2012, which represents only 38.6% of the total population.

Employment numbers are not projected to improve by the end of 2015, which suggests that households will continue to reduce spending on durable and fast-moving consumer goods for the foreseeable future.

Debt and the availability of credit

SIMAD notes that the availability of credit for Slovene organisations is still highly restricted for a number of reasons, among them the falling credit rating of the state and the state-owned banks. Moody's rates the Slovene state-owned banks between Ca1 and Ca3, meaning there is a considerable risk of default unless rescued by the state. In addition, the Slovene corporate sector is also overleveraged compared to its European competitors, with numerous companies seeking to restructure their debt to avert forced settlement or bankruptcy proceedings. All these factors mean that Slovenia has significantly restricted access to the international capital markets. The only sources of funding available to the state have been ECB facilities; these are being used by state-owned banks to access liquidity, which is then mainly channelled to finance the state's budget. It is estimated that Abanka, NLB and NKBM banks, which are controlled and owned by the state, have possible access via long-term refinancing operations (LTROs) to a further EUR 2 billion (having already accessed EUR 2 billion). This could significantly change if Slovenia is downgraded from its current Moody's Baa2 rating, which could occur in June or September of 2013.

The required yield on Slovene 10-year government debt is around 6.5%, but this figure is additionally affected by the fact that more than 90% of current outstanding sovereign debt is held by local Slovene entities, which are less demanding than foreign investors.

Accordingly, international interest in financing Slovenia is extremely low, and the state has as yet to attempt to issue long-term debt on the international capital markets in 2013. To finance its budget deficit and refinance maturing debt, the state relies heavily on short and medium-term financing, via the issue of Treasury bills to, and taking loans from, the Slovene-controlled banking and insurance sectors. This activity has effectively crowded out the corporate sector as banks prefer financing the state at relatively high yields (4.15% per annum in the latest 18 month T-bill issue) instead of lending to companies. This has driven better Slovene companies to seek financing abroad, so prompting the start of a migration of financial operations out of Slovenia.

Due to EC comments, in which Slovenia was compared to Cyprus, the retail banking sector has been stimulated to also migrate deposits across the border. The Slovene banking sector is under additional pressure as retail depositors migrate accounts to banks in Austria, which in turn reduces the liquidity available on the local credit market.

In April 2013, the state completely exhausted the availability of financing on the Slovene credit market, when it managed to raise only 56% of the funds it sought. This was almost exclusively (around 98%) financed by the Slovene banking trio of Abanka, NLB and NKBM. These three state-controlled banks account for 60% of the Slovene banking system.

It is expected that the state will ask the EU, EC and IMF for assistance in the current year if a new financing source cannot be found. The high-yield US debt market was used as a lender of last resort in October 2012, when the state came within weeks of defaulting on its pension liabilities; the Japanese debt market is seen as a possible alternative source of financing for 2013.

An extensive privatisation plan of state-owned assets could alleviate the situation as the state has assets worth between EUR 6 and 8 billion, which could be sold to raise financing. Unfortunately the government coalition is not prepared to start privatisation due to the reservations of the extreme left party SD.

In summary, SIMAD notes that Slovenia is expected to remain in recession for a further two years, and the recovery of the Slovene economy in 2015 is mainly dependent on the country's ability to finance its current budget, refinance its debt in the next two years, carry out structural reforms, and possibly start extensive infrastructure programmes in the energy and rail transport sectors. At the same time, Slovenia will also continue to be significantly dependent on the economic fortunes and growth of its main trading partners, Germany, Italy and other European economies. Success in all these areas would enable the Slovene economy to recover.

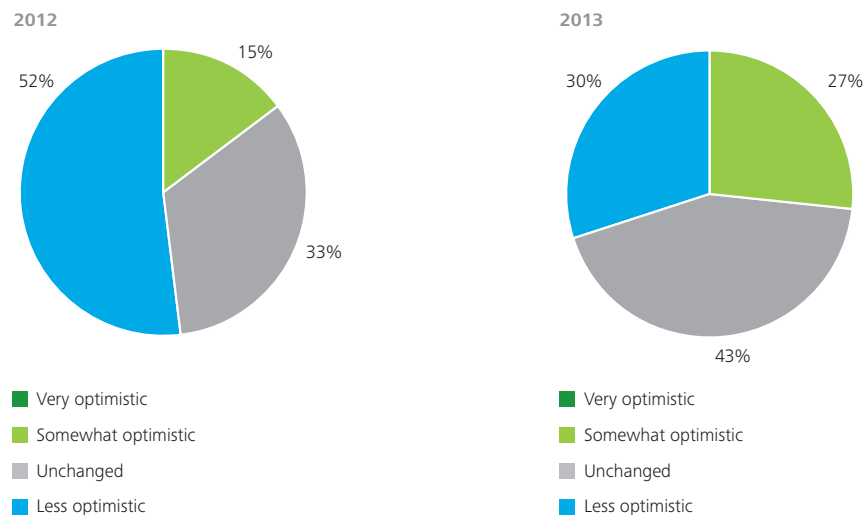
The Survey Findings

CFO sentiment in early 2013

In spite of the dire projections and expectations for 2013 of local and international bodies, CFO sentiment has improved significantly since late 2012 (at least in relation to the companies the surveyed CFOs work for). Almost 27% of CFOs now feel somewhat optimistic about the financial prospects of their companies, which is up by 12 percentage points from the previous survey.

The proportion of CFOs who are less optimistic about the future decreased from 52% in late 2012 to just 30% in March 2013. This may be related to the ever-cheaper financing that can be found outside Slovenia, which is available for financing the Slovene subsidiaries of large international companies. This gives international companies a significant advantage over locally-owned companies, which have access only to the expensive and severely restricted credit on the Slovene market.

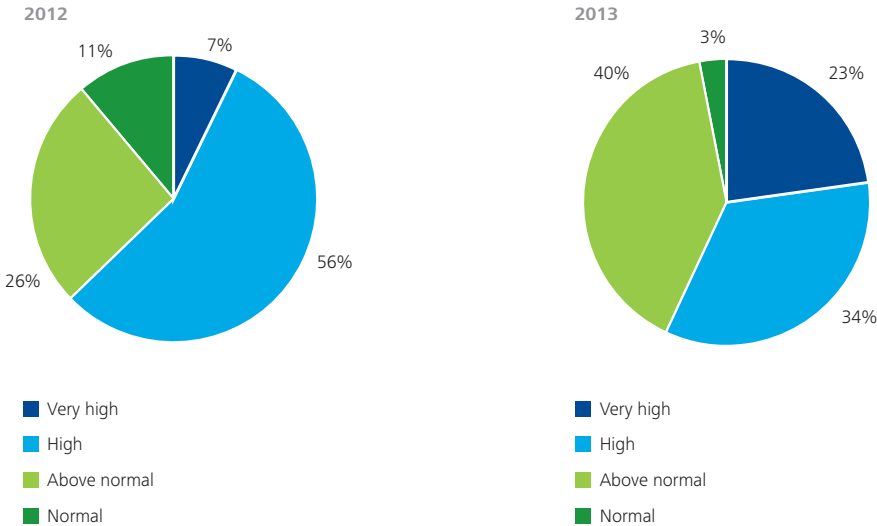
Graph 1: Outlook on financial prospects (compared with 6 months ago)



The number of CFOs who feel that the current level of financial and economic uncertainty is normal has fallen from 11% in 2012 to 3% in 2013. More CFOs feel uncertainty is very high, 23%, up from 7% from the previous survey. 57% of CFOs believe that uncertainty is high or very high, which is down from 63% in the previous survey.

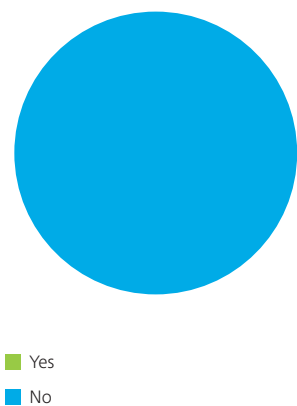
This suggests that there is a greater diversity of opinion between CFOs, and we can again see that CFOs of multinational subsidiaries are less concerned about uncertainties on the market than the CFOs of local Slovene companies.

Graph 2: General level of external financial and economic uncertainty



When asked if it is a good time to be taking on more risk, all CFOs were again unanimous in giving a resounding “no”, which means that their risk appetite has remained unchanged in its negativity since the 2012 survey.

Graph 3: CFOs’ view if now is a good time to be taking greater risk on their companies’ balance sheet

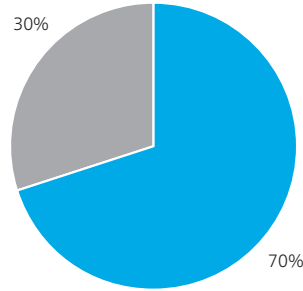


Our priorities and challenges have not changed dramatically over the last six months. In our case, implementing a financial restructuring is the most important measure to be carried out.

In terms of expectations for the country's GDP growth in 2013, 70% of CFOs agree with the national and international institutions that forecast that Slovene GDP will decline further in 2013. Expectations regarding GDP are somewhat better than in 2012, as 30% of CFOs believe that Slovenia will manage to grow between 0 and 1.5% in 2013 despite all the concerns about the state of the economy.

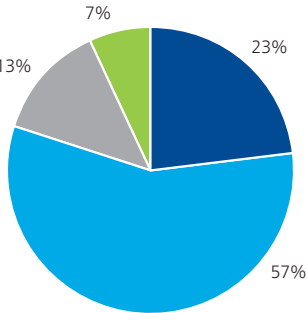
80% of CFOs agree with forecasts and expect unemployment in Slovenia to increase in 2013, down from the 96% of CFOs that correctly anticipated that unemployment would increase in 2012. 23% of CFOs expect a significant increase in unemployment that will bring about a decrease in disposable income and household spending. Surprisingly, 7% of CFOs expect unemployment to decrease somewhat in 2013.

Graph 4: CFOs' expectations for Slovene GDP growth in 2013



- Recession
- Stagnation (0 - 1.5%)
- Moderate growth (1.5-3%)
- Growth (>3%)

Graph 5: Expected change in unemployment level in Slovenia over the next 12 months



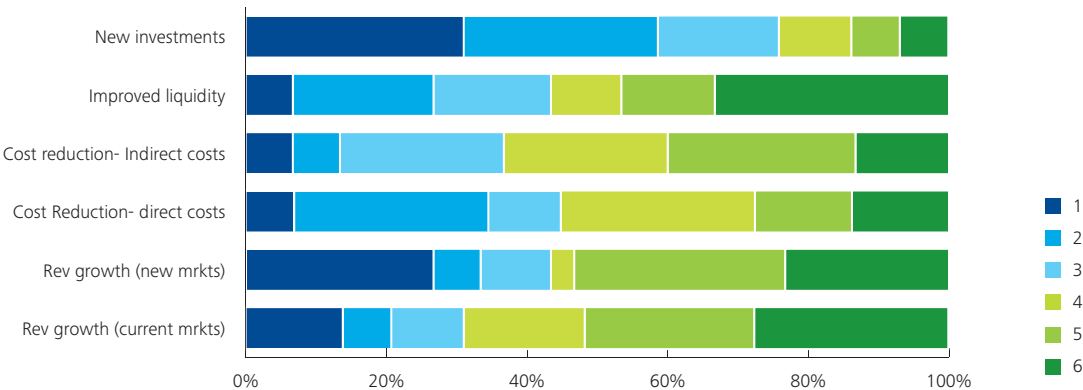
- Increase significantly
- Increase somewhat
- Neutral
- Decrease somewhat

The focus for the year ahead

CFOs state that their business focus in the coming 12 months will be on improving liquidity, closely followed by revenue growth in current and new markets. The least important area of consideration highlighted by the CFOs was new investments.

This is in line with the findings of the Slovene newspaper Finance that there is significant overcapacity in Slovenia; this means that numerous industries, such as construction, retail and utilities, will not need to make new CAPEX investments for a number of years.

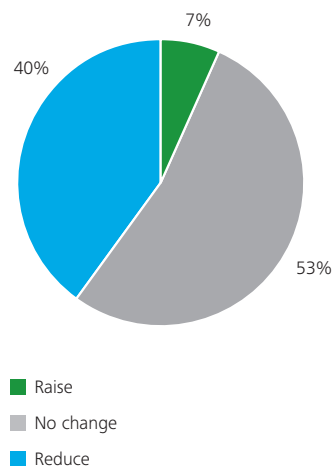
Graph 6: Business focus for the upcoming year (1-least important, 6-most important)



Sources of finance

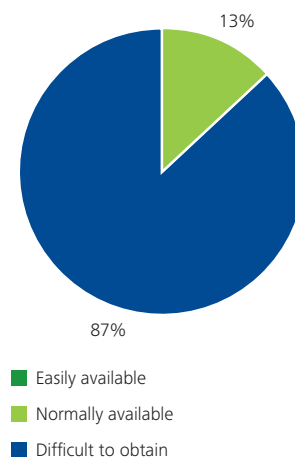
Most companies in Slovenia are set to keep their leverage unchanged over the coming 12 months, as 53% of CFOs are looking to refinance their current levels of debt, while 40% are working on deleveraging. Only 7% of CFOs are planning to raise additional debt in 2013. It seems that a number of surveyed CFOs have successfully reduced their leverage since in 2012, when 56% were focused on reducing outstanding debt and only 33% were not planning to change their leverage.

Graph 7: CFOs' aim for the level of gearing over the next 12 months



The vast majority of respondents, 87%, agree that new credit is difficult to obtain, while 13% of CFOs feel that credit is normally available. These figures have marginally deteriorated from 2012, when 85% of CFOs agreed that credit is hard to obtain. This is in line with the SIMAD findings that the state continues to squeeze the corporate sector out of the domestic credit market.

Graph 8: Overall availability of new credit for companies nowadays

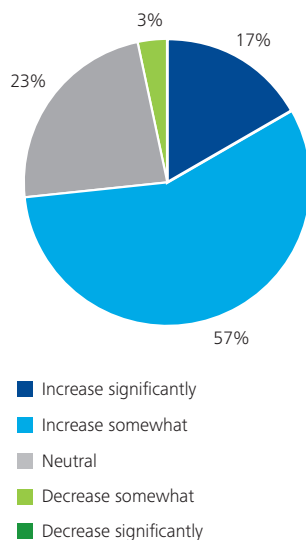


Looking ahead to future financing costs, 17% of CFOs expect a significant increase while a further 57% believe financing costs will increase moderately in 2013. In total, 74% of CFOs believe financing costs will rise, which is exactly the same as last year's findings. Last year the CFOs were correct, as even though the EURIBOR rate reduced during the year (the one-year EURIBOR rate falling from 1.8% to 0.5%), the average margins offered by local banks over the variable rate increased significantly to more than make up for the fall in the variable rates.

This is mainly due to the falling credit ratings of the Slovene banks and the country as a whole. If the banks, which form most of the local credit market, find it harder to find (re)financing for their own operations, this naturally translates into a need to offer credit at higher interest rates to end clients.

Rising rates for the corporate sector can also be explained by the effect of the state offering theoretically risk-free rates of over 4% for maturities of around one year.

Graph 9: Expected change in financing costs for companies over the next 12 months

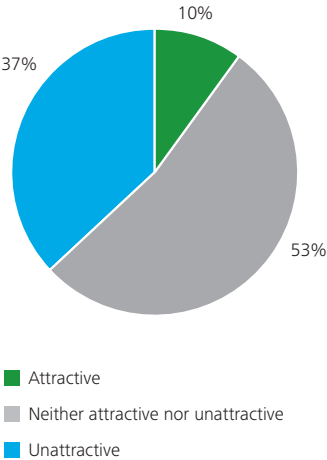


Currently, a decrease in the payment discipline of our clients and an extended receivable collection period are our most important challenges. Another issue is the growing cost of finance, which is probably due to the falling credit rating of Slovenia and the state's increased dependence on foreign funds.

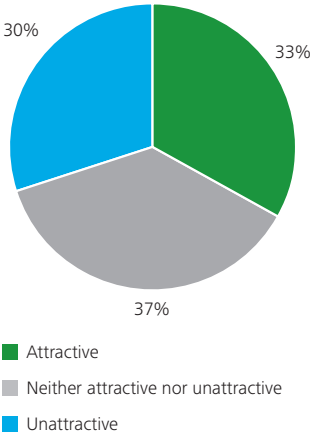
At the moment, almost 53% of CFOs think that bank borrowing as a source of funding is either attractive or neutral, while 37% see it as unattractive. Given that there is no real access to new equity capital in Slovenia it seems that most CFOs are severely restricted in how to optimise their financing.

In 2013, 33% of CFOs see the issue of new equity as an attractive source of funding, which is significantly less than in 2012 when the percentage stood at 56%. This implies that there is less confidence among the CFOs that new equity can be successfully raised.

Graph 10: Attractiveness of bank borrowing as a source of funding



Graph 11: Attractiveness of equity raising as a source of funding

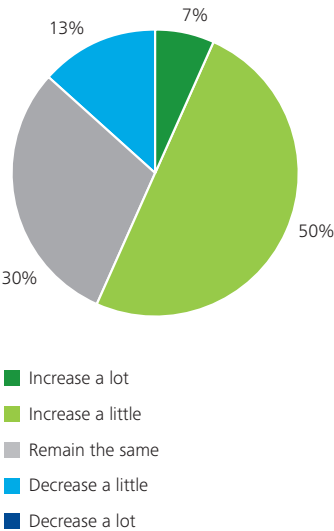


Concerning their companies' ability to service debt over the next three years, 50% of CFOs expect it to increase a little, 7% expect it to increase a lot, 30% expect no change and 13% expect a slight decrease in their ability to repay debt. The results of this question have shown a marked improvement, as in 2012 only 41% of CFOs believed their ability to service debt would improve over the next three years; now, 57% of CFOs expect an improvement. Again this suggests that a number of companies

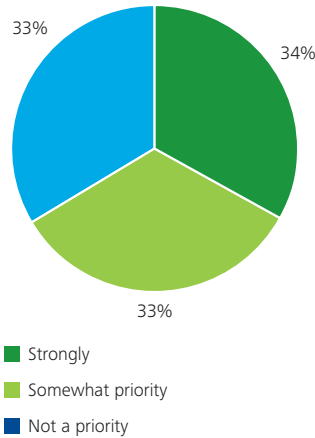
have already gone through a successful restructuring programme to reduce leverage.

In order to become more competitive and to improve their operations, one third of the surveyed CFOs say they intend to restructure or remodel their businesses in the next 12 months. Another third see remodelling as a low priority, and the final third see it as no priority at all for the next 12 months.

Graph 12: Expected change in companies' ability to service their debt over the next 3 years

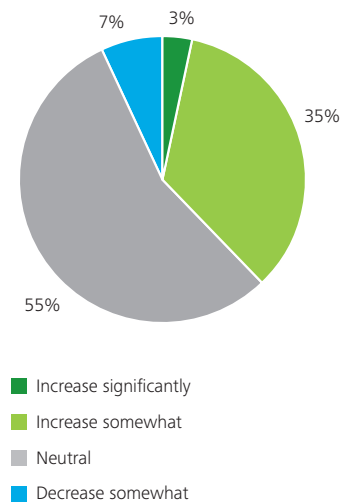


Graph 13: Expectations to what extent is business remodeling / restructuring likely to be a priority for the business over the next 12 months



Most CFOs believe there will be no change in M&A activity in Slovenia in the next 12 months, while 35% expect a slight increase and only 3% a significant increase. This is mostly due to the fact that there has been some uncertainty regarding the privatisation efforts of the new left-oriented government, and is in line with the macroeconomic outlook of the country.

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



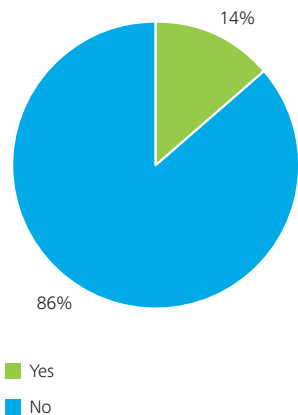
Over the last six months, our priority has been to try to retain our customers. They are our top priority. Our focus is also on reducing costs and fees while trying to find new markets or to increase market share in existing ones. We would also like to achieve better operational efficiency, which is an on-going process in our company.

Availability of financial talent

When asked if they believe that there is a shortage of talent in the finance area in Slovenia, an overwhelming 86% of CFOs stated a definite “no”. This is similar to the previous year when 89% of the CFOs answered similarly that there will be no shortage of talent in the finance industry.

Regarding areas where a shortage of finance personnel may occur during the next 12 months, 43% of CFOs see a shortage among top-level management, 10% at senior levels, 38% at the middle level and 5% at both junior and graduate levels.

Graph 15: Expectation of talent shortages in the finance area over the next year



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 16: 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 17: 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 18: 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.

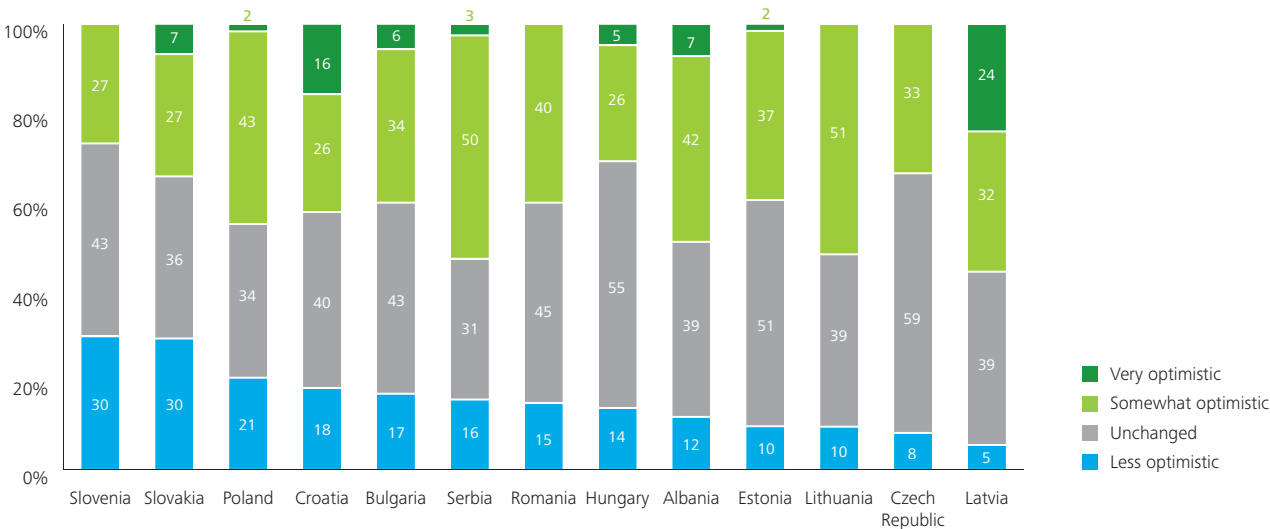
But right across the region, embracing Bulgaria and Romania, Slovakia and Albania, Serbia and Croatia, CFOs continue to rise to the ever-evolving challenges whose roots can still be traced to the global financial crisis of 2008 and 2009. While there appears to be an emerging consensus that recovery will 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 19: Financial prospects for companies (%)

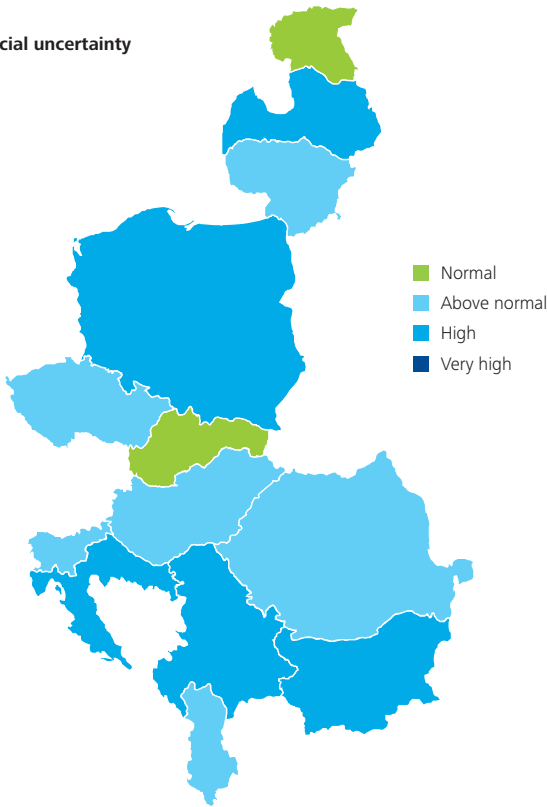


Living in uncertain times

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 20: General level of external financial uncertainty

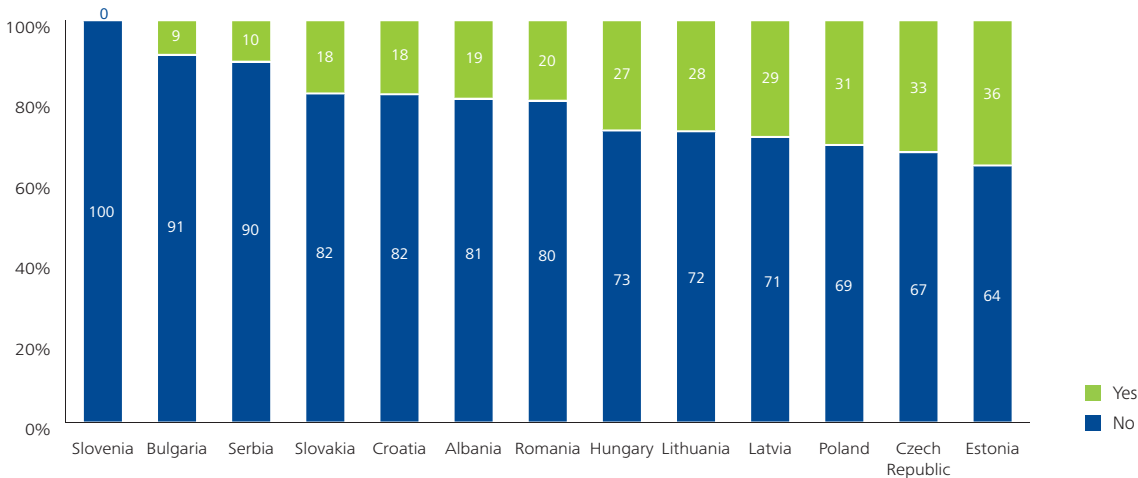


Risk-aversion rules

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



Business focus for the year ahead

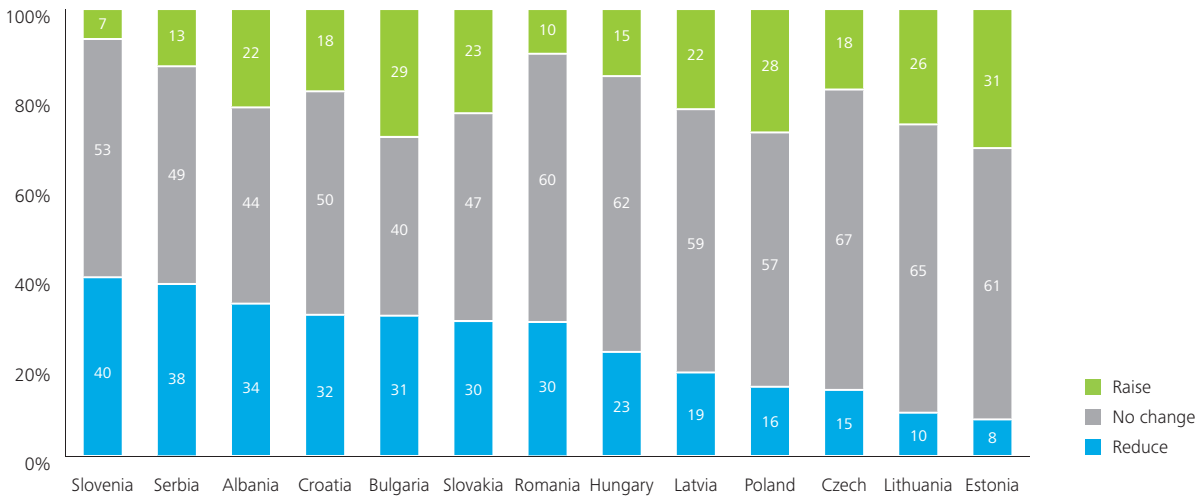
When searching for revenue growth, most CFOs across Central Europe’s markets mix their priorities between domestic growth and expansion in foreign markets, which may include other core CE markets and those such as Russia and Turkey. CFOs outside Poland may be looking to the Polish market for future growth, 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 22: CFOs' aim for the level of gearing over the next 12 months (%)

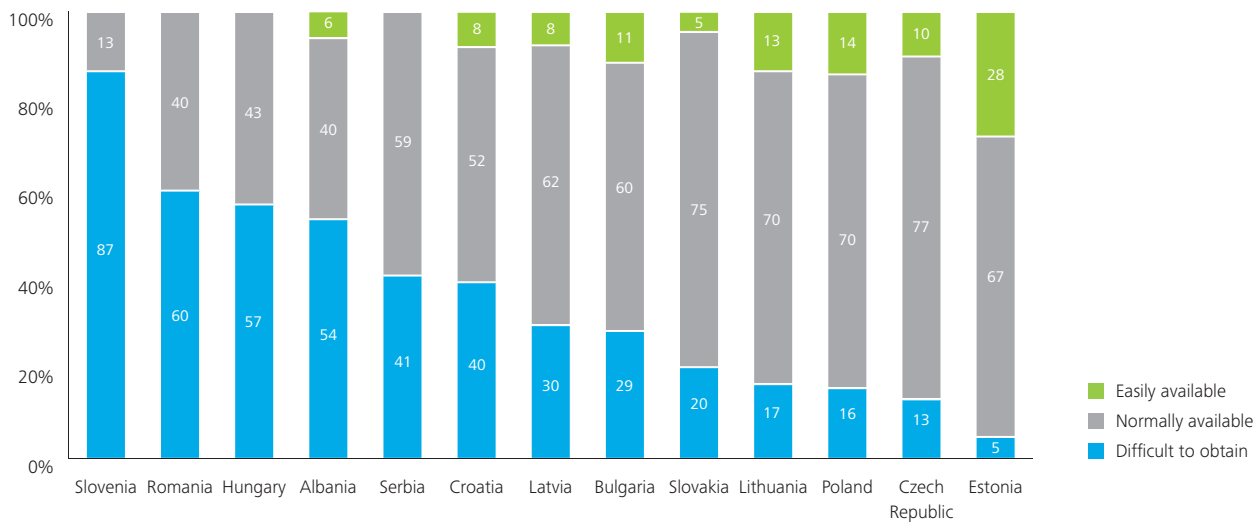


A mixed credit picture

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

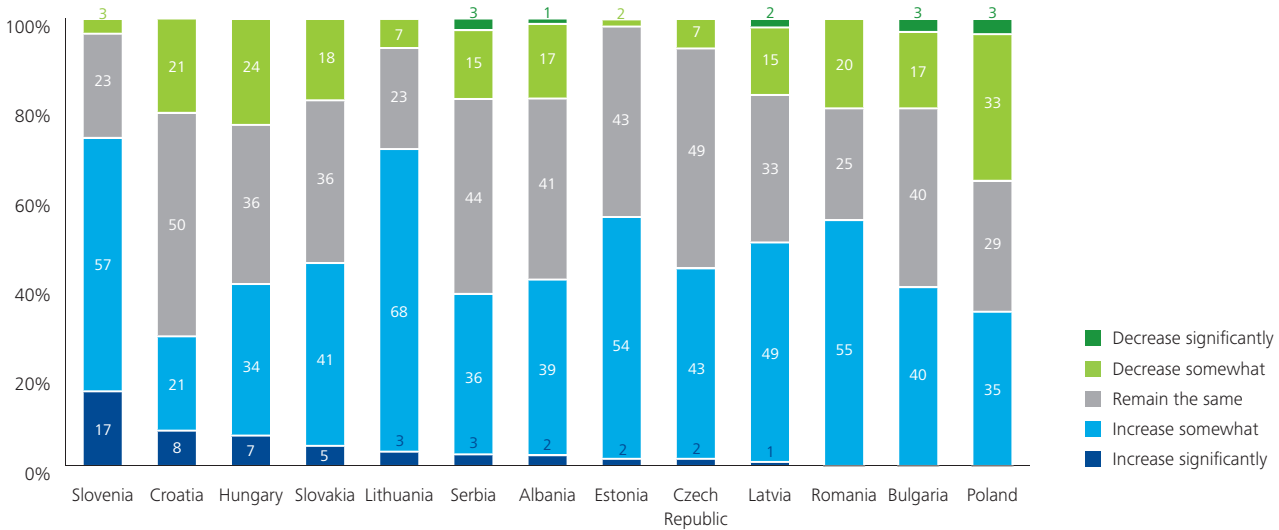


Recovery will drive up finance costs

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

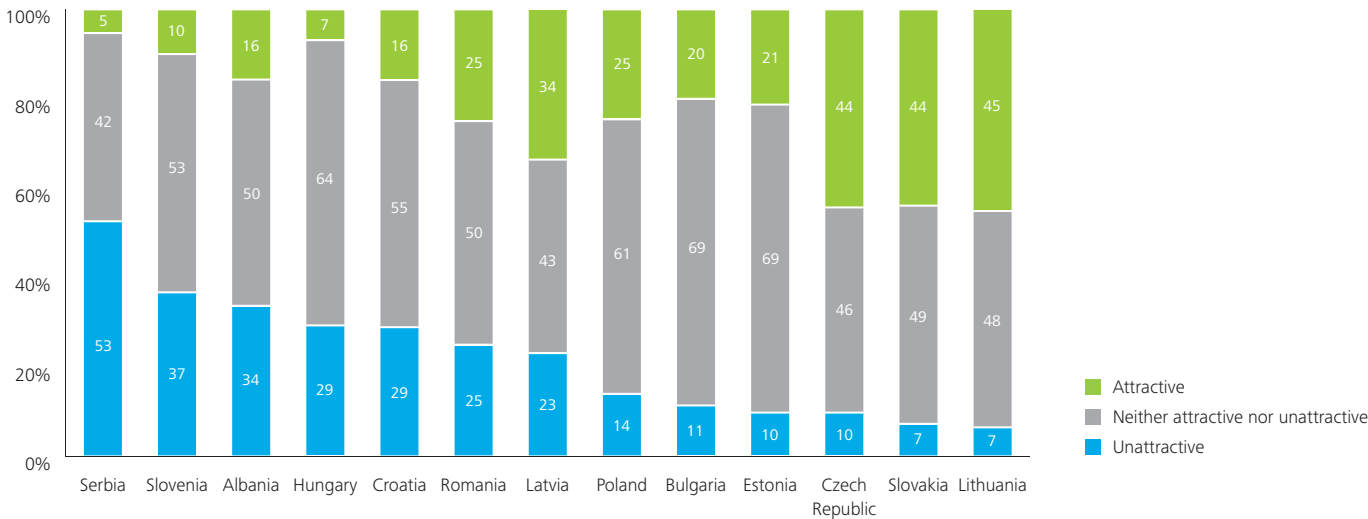


Most CFOs are banking neutral

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

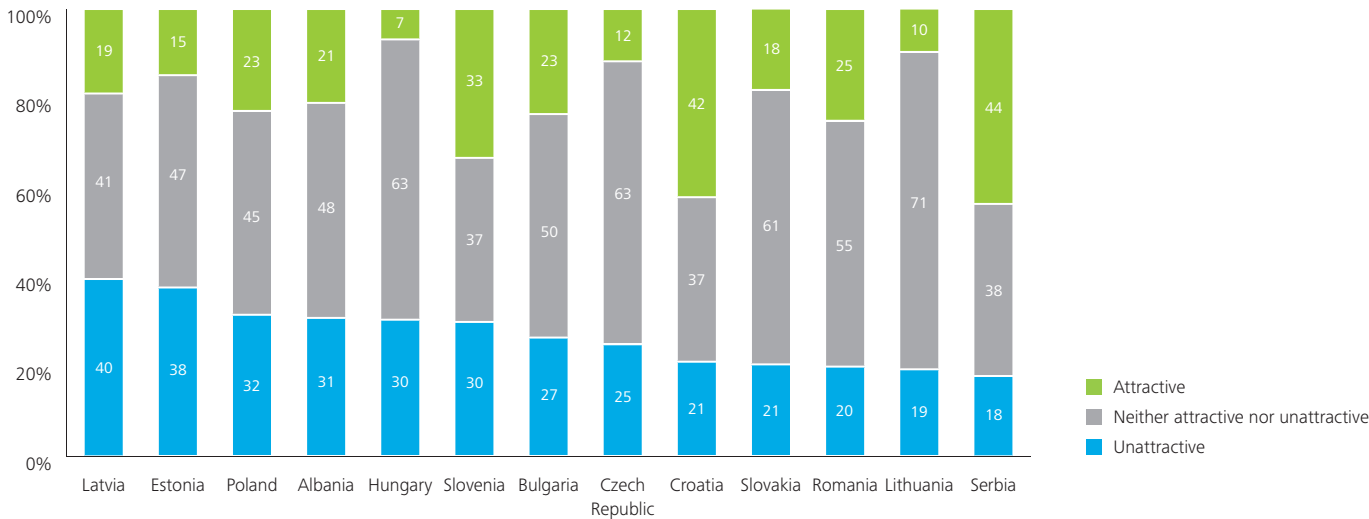


Opinions split on equity funding

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

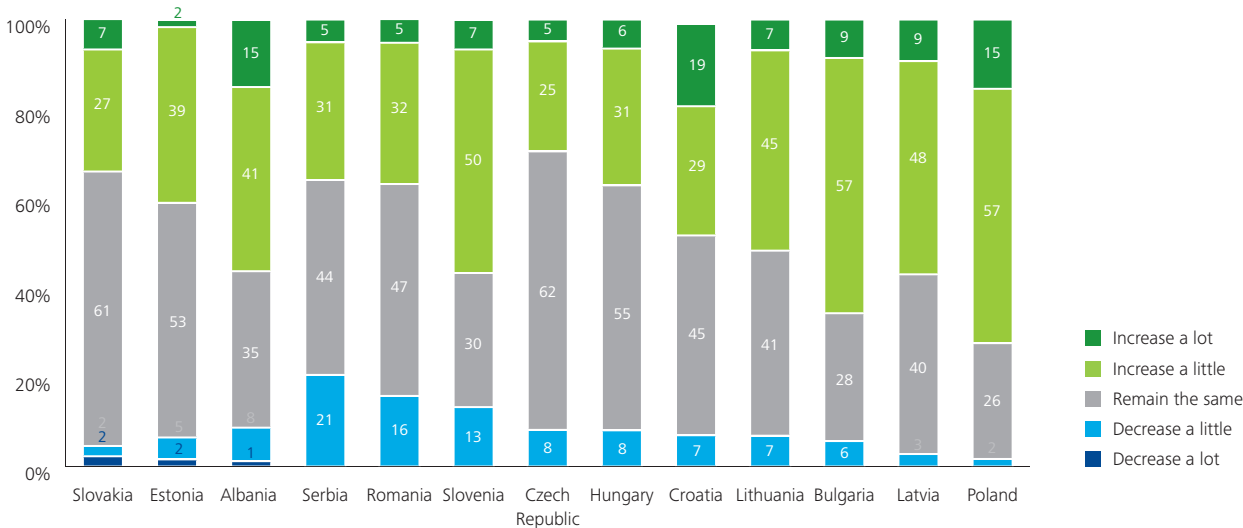


Servicing debt

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

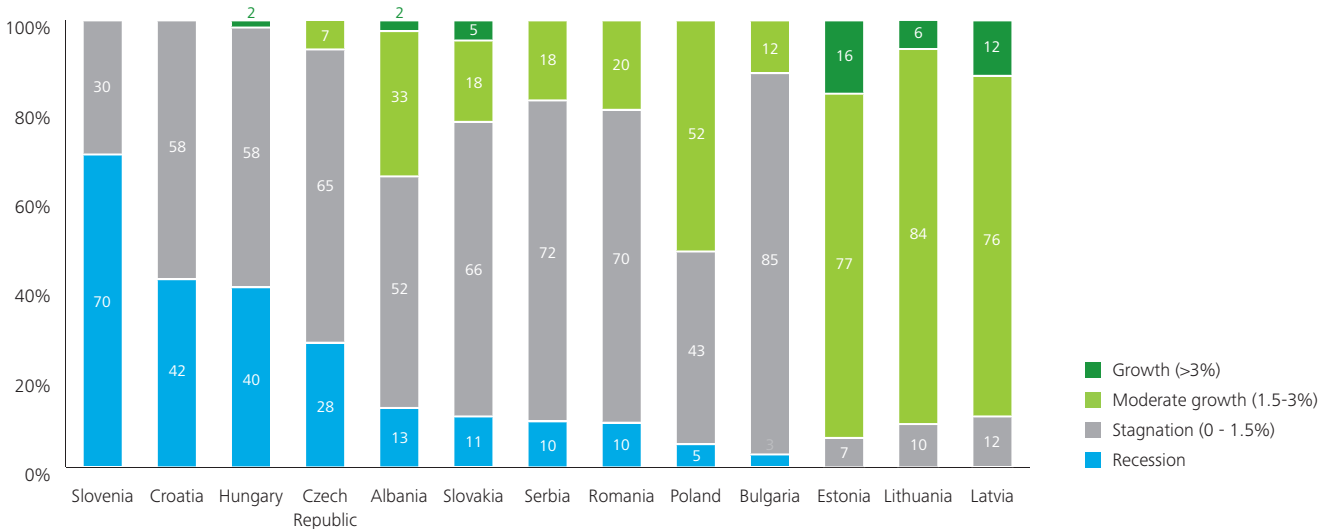


Expectations for growth

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.

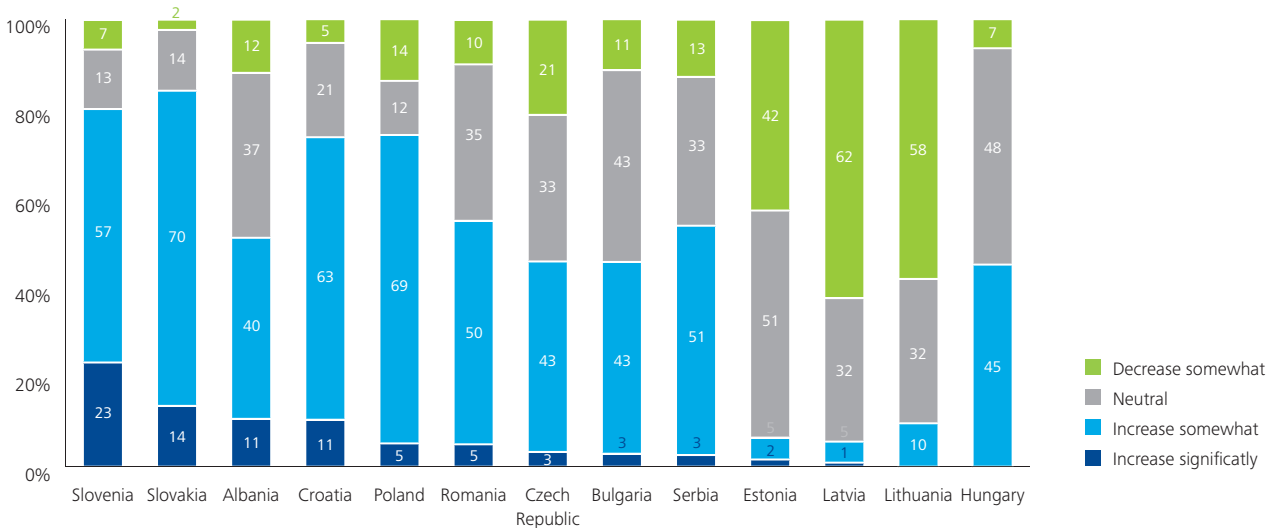
Graph 28: CFOs' expectations for the country GDP growth in 2013 (%)



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

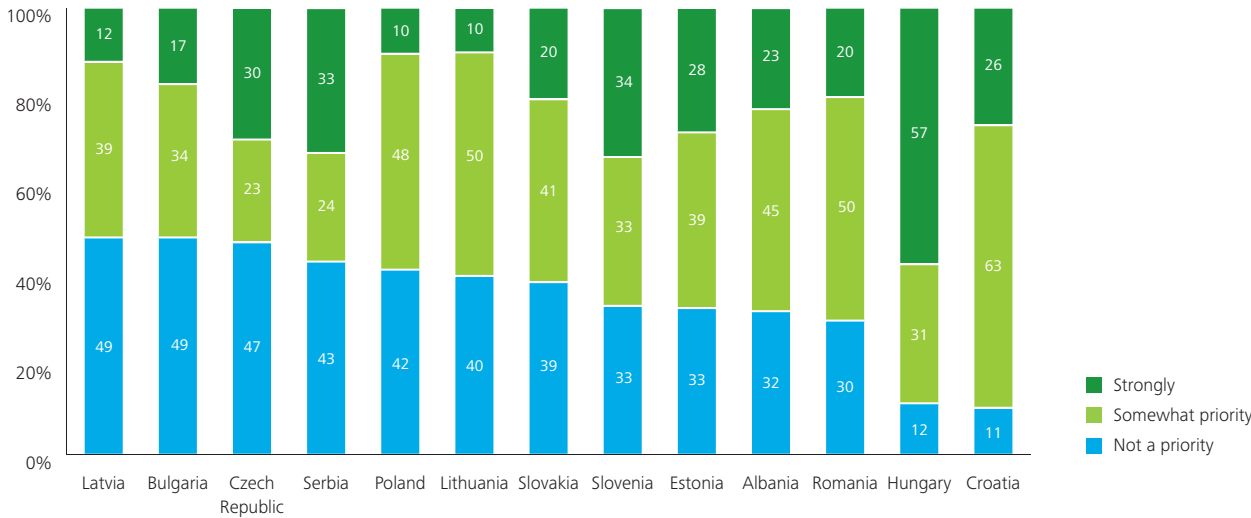


A question of remodelling

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

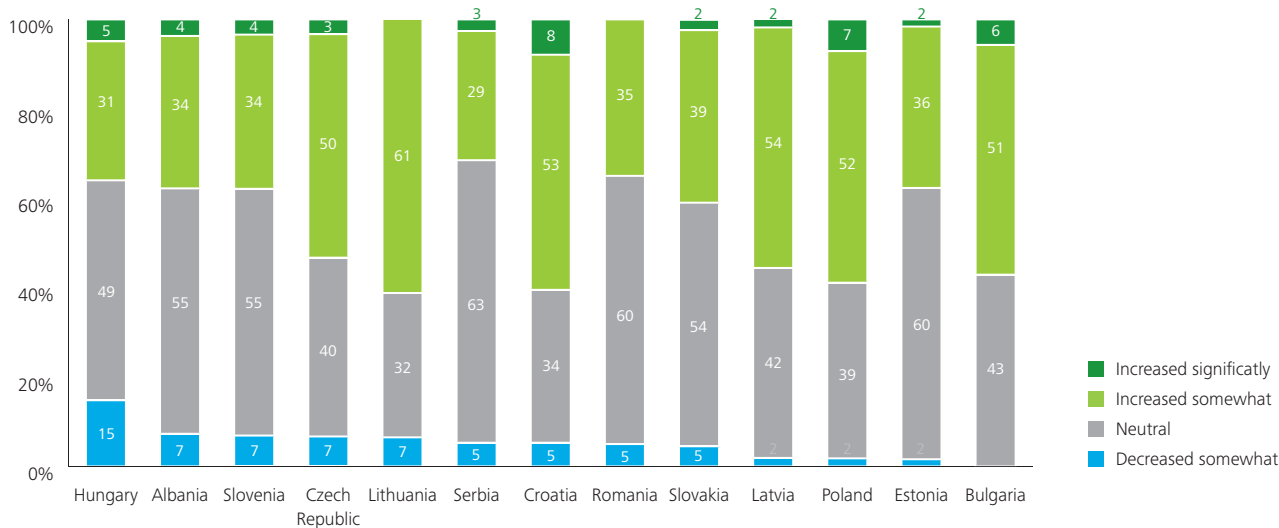


A marginal increase in M&A?

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

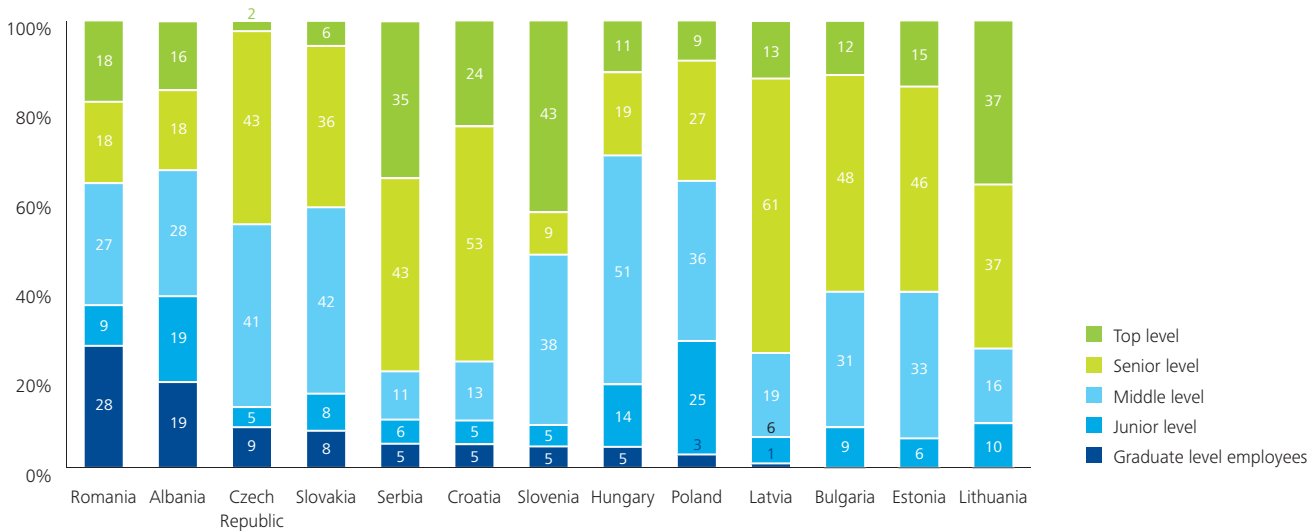


Talent in finance

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



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Methodology

The 2nd 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 Slovenia 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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