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# CFO Program

## Room to breathe, room to think.

## European CFO Survey with Portugal Insights

MAKING AN IMPACT THAT MATTERS since 1845

**Spring 2023**

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# Foreword

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# 01 **Foreword**

**We are proud to present the latest edition of Deloitte's European CFO Survey with Portugal's insights, including the CFOs perspective about economic, financial, and strategic issues.**

The past few years have been turbulent times for CFOs across Europe. A pandemic came out of nowhere and shook the paradigm of how companies were doing business. And just as normality was returning, the unthinkable happened with the outbreak of the most serious armed conflict in Europe since the Second World War.

CFOs across Europe were expecting a though winter, with rising fears of a recession, continued supply chain disruptions and high inflation, specially on energy costs. Yet, the recession did not materialize, coming to a much more positive sentiment as demonstrated in this edition of the survey.

**Coming from last autumn with one of the lowest levels of confidence, Portugal's CFOs are now more optimistic about their companies' financial prospects, matching the levels of confidence registered before the pandemic.**

In fact, CFOs in Portugal are amongst the most confident in Europe regarding revenue, operating margins, hiring and capital expenditure evolution, presenting a positive net balance for their most relevant businesses' metrics over the next 12 months.

**Nonetheless, the uncertainty reported remains high, with CFOs in Portugal continuing to look very cautiously to their business environment as risks materialize.**

The weakened economic outlook with a sluggish demand is the top risk reported by Portugal's CFOs, followed by the geopolitical risks as global tensions remain high and the conflict in Ukraine is still far from a resolution. Also, the rising interest rates and financing costs with the turnaround in monetary policy

# 01 **Foreword**

from the European Central Bank continue to be one of the key concerns in CFOs minds, with nine out of ten referring it is not a good time to take greater risk into the balance sheet.

When looking to the future, CFOs in Portugal are prioritizing growth in existing markets, digitalization and organic growth as their top strategies to deliver sustained value to their businesses.

Cost reduction comes only as the fourth most relevant strategy for Portugal's CFOs, demonstrating a less defensive approach when compared to their counterparts in Europe, to which reducing costs was referred as the top business strategy for the next 12 months.

It is time for CFOs to stay vigilant, nimble and sharp in navigating through uncertain times, continuously rethinking their business strategies to capture the optimistic sentiment into their businesses' results.

**We hope that the Spring edition of this survey presents insightful information for you and your business.**

We take this opportunity to thank all the CFOs in Portugal that dedicated a moment of their time to participate and share insights with us.

**Nelson Fontainhas**
Portugal CFO
Program Lead

02

# Introduction

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# 02 **Introduction**

The Spring 2023 European CFO Survey finds that Europe's chief financial officers (CFOs) had a far better winter than they expected. Six months ago, in the autumn survey, they feared the worst. The net balance for CFOs' views of their companies' financial prospects declined to –48%, not much higher than the all-time low recorded during the COVID-19 lockdowns. The Russian invasion of Ukraine in February 2022 had caused supply disruptions and soaring prices for many vital commodities.

**How Europe and, in particular, Germany was going to get through the winter – given its dependence on natural gas supplies from Russia – was unclear. Energy rationing, which would have blighted economic output, seemed probable.**

But Europe has now got through its feared winter without shortages, thanks mainly to unusually mild weather and energy-saving measures.

**Economic activity has therefore held up better than expected. Labor markets have remained robust, or even tight. And firms are in much better shape than their own CFO outlooks had foreseen.**

But this is not to say that all is now rosy. The continuing war and geopolitical risks in general, fears about the economic outlook, labor shortages and high inflation, and labor costs are very much on the mind of Europe's CFOs in the spring of 2023. As this latest edition of the Deloitte CFO Survey shows, a majority of them do nonetheless foresee growth in their revenues, and they intend to hire more staff, though not on a major scale. Their optimism is cautious, tempered by a sense that uncertainty remains elevated, with geopolitical and economic risks persisting.

They also remain preoccupied by dealing with the serious difficulties that emerged in 2022. Europe's CFOs are taking increasingly profound actions to make their supply chains more resilient, such as by using more digital tools rather than simply relying on increased inventories.

As CFO priorities show, European firms are also planning to expand their footprint, mostly in western Europe and North America – not in regions in which they now tend to see greater risk.

# 03
# Financial Prospects

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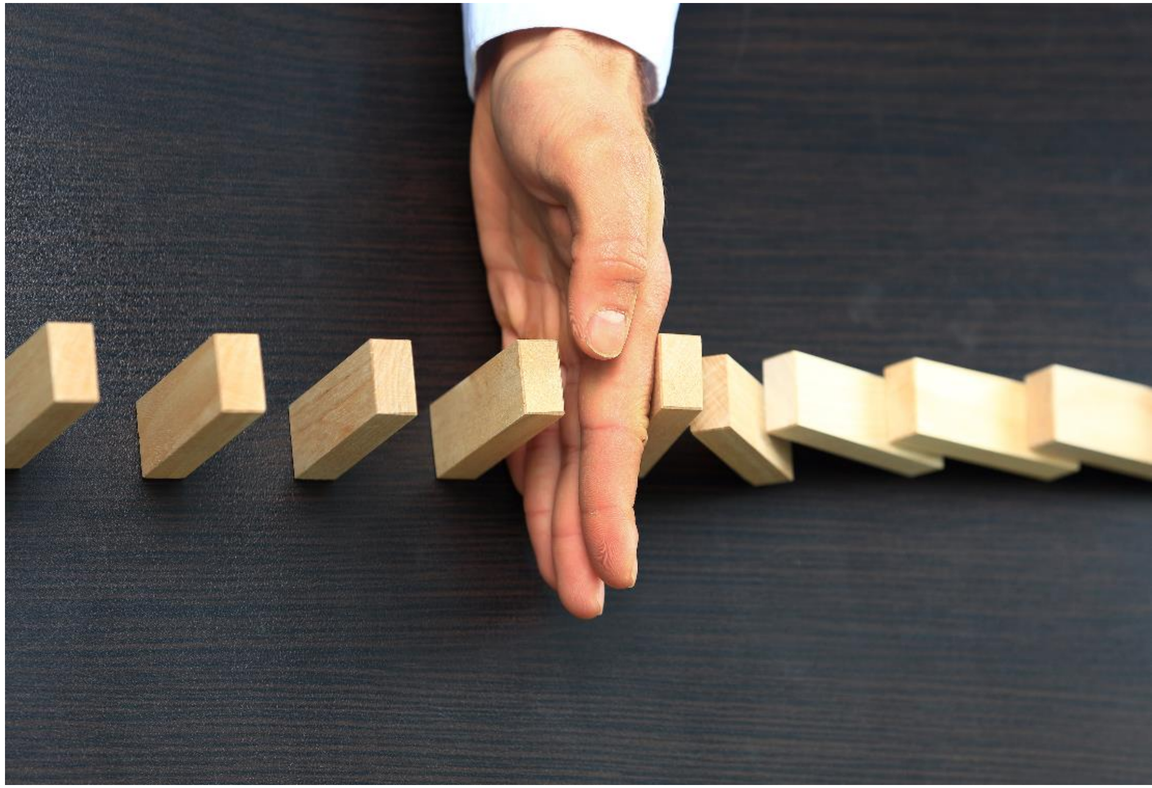
# 03 **Financial Prospects**

## From gloom to slight optimism

According to Deloitte's European CFO Survey for Spring 2023, European firms have become far less anxious about their financial prospects than in the autumn and, on average, are mildly optimistic (figure 1). The net balance, the difference between the share of positive and negative responses, of CFOs feeling more confident about the financial prospects for their companies rebounded to +8% from the extremely gloomy –48% in autumn 2022. But the shift in mood is not all-encompassing: more than a quarter of firms remain pessimistic.

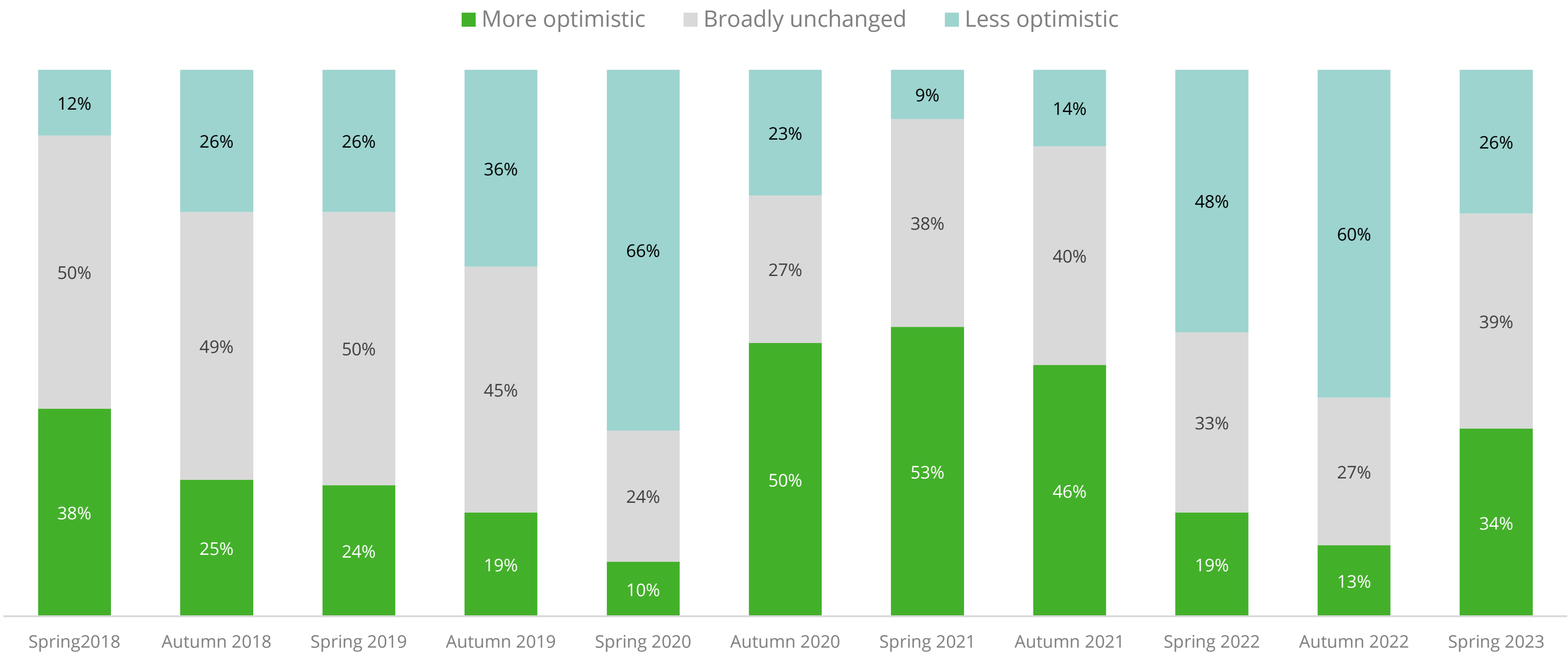
Business confidence in Europe has greatly improved because the winter disaster they expected did not happen. Russia's invasion of Ukraine had provoked fears that heating for Europe's homes and fuel for its factories might be limited during the winter. But the unusually mild weather conditions combined with more efficient use of energy and better energy supply than expected means that the much-feared rationing did not take place. Now Europe's CFOs have turned to be more confident, but their optimism is tempered by a degree of caution.
Nor are all countries ready to embrace the somewhat better mood. Deep pessimism prevails in Norway (–32%), where consumers are reluctant to spend due to high inflation and interest rates, and CFOs worry about weaker growth. And in Sweden (–12%), Italy (–6%) and Turkey (–5%) too, CFOs', on balance, continue to lack confidence in their companies' financial prospects.

Following the European trend, CFOs in Portugal have also increased significantly their confidence. Coming from one of the lowest levels of confidence ever registered since we began to survey (-50% of net balance), CFOs in Portugal are now more optimistic about their financial prospects (+10% of net balance).



# 03 **Financial Prospects**

Figure 1. **From despair to slight optimism, European CFOs' confidence for their financial prospects rebound**



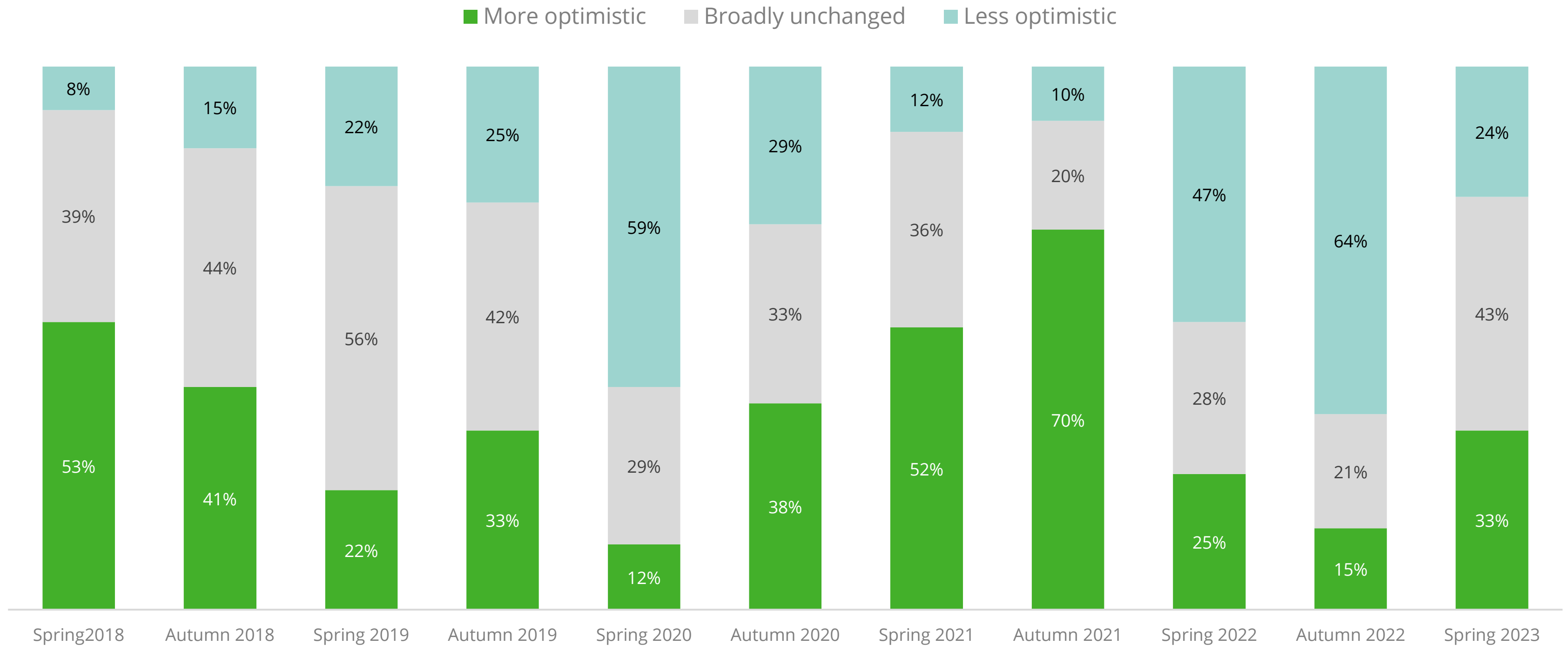

Question asked:

**Compared to three months ago, how do you feel about the financial prospects for your company?**

Note: In Denmark, Norway, Italy and Poland, the question specified a six-month period.

# 03 **Financial Prospects**

Figure 2. **Portugal zoom-in**




Question asked:

**Compared to three months ago, how do you feel about the financial prospects for your company?**

# 03 **Financial Prospects**

## Automotive bounces back and retail lags

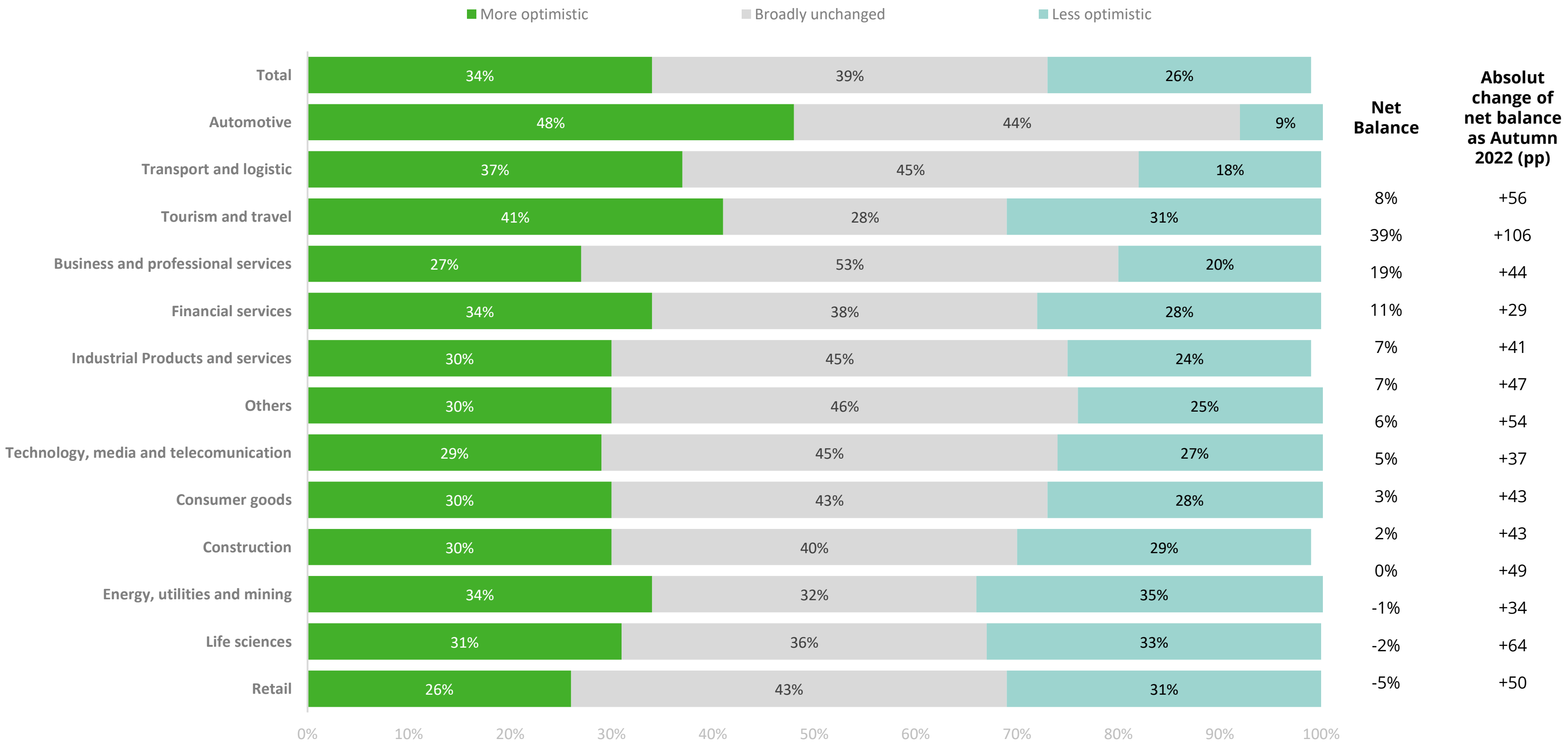
At the sector level (figure 3), the most remarkable development is the recovery of the automotive industry. In the autumn survey, automotive CFOs were still troubled, mainly by shortages of raw materials, in particular, semiconductors, and by the collapse of the Russian and Ukrainian markets.

Some easing of input shortages and reopening of the Chinese economy have provoked a recovery, and the net balance of CFOs' financial outlook in the automotive sector in the spring is +39%. Portugal's CFOs in the automotive industry are following the optimism of their European peers, with 3 out of 5 CFOs in the industry being more confident about their financial prospects. In the autumn survey, only 3 out of 8 Portugal's CFOs in the automotive industry were optimistic.

European CFOs in the retail industry, however, are concerned about consumers' willingness to spend, with inflation, higher interest rates and soaring rental costs likely to be eating into household budgets, and the net balance for their level of confidence is –5%, the weakest of any sector.

# 03 **Financial Prospects**

Figure 3. **Confidence in automotive sector bounces back, but lags in retail sector**




Question asked:

**Compared to three months ago, how do you feel about the financial prospects for your company?**

Note: Net balance is defined as the difference between the share of positive and negative answers.

04

# Outlook

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# 04 **Outlook**

## Revenues, margins, and investment look up

Despite the many risks they see, Europe's CFOs are more confident about their companies' future key metrics than in the autumn survey (figure 4). Revenues are expected to increase strongly during the next 12 months, with more than 60% of those surveyed expecting higher revenues and only 19% expecting revenues to fall, resulting in a net balance of +44% and a considerable 26-percentage-point improvement from autumn. A net positive balance of +10% also see their operating margins improving – though the spring balance is not high, it represents a huge 48-percentage-point increase on the gloomy outlook CFOs had in the autumn. Even though financing costs have gone up, 37% of Europe's CFOs are planning to increase their capital expenditures over the next 12 months, whereas 24% are counting on a reduction, so that the net balance increased to +13% – a 32 percentage-point improvement from autumn. This implies that we should see somewhat higher investment in Europe in the near future. At the industry level, firms in energy, utilities and mining (net balance of +38%) and business and professional services (+36%) are aiming to increase their capital expenditures most, while retail companies (+4%), for which consumers' inflation struggles are a dampener, and the construction sector (+4%), with interest rates hurting mortgage lending and property prices, are showing little sign of wanting to increase their investment spending.

## Hiring looks set to pick up modestly

The rebound in firms' outlook for their earnings and investments is also reflected in their hiring intentions. Although a majority of firms (46%) plan no change in staffing levels, a little over a third (35%) are planning to hire.

The modest net balance of +16% of Europe's CFOs planning to add employees reflects the fact that 19% of firms across Europe have staff-cuts in mind. Hiring intentions are strongest in the business and professional services (+52%) and then tourism and travel (+45%) sectors. The struggling retail sector is the laggard. It is the only sector expecting to reduce (–5%) its number of employees. The automotive sector is also behind most other sectors, planning to expand its hiring only minimally, by a net balance of +6%.

## Higher optimism in Portugal

CFOs in Portugal present a stronger outlook on revenues, operating margins, capital expenditures and hiring when comparing to their European counterparts, being one of the most optimistic countries in Europe.

75% of the CFOs in Portugal expect that their revenues will increase in the coming 12 months (net balance of +62% vs. 44% in Europe), being the third highest confident country in Europe. Regarding operating margins, 44% of Portugal's CFOs expect an increase (net balance of +24% vs. +10% in Europe).

Also on capital expenditure, half of the CFOs expect to increase their CAPEX (net balance of +35% vs. +13% in Europe), making Portugal the most optimistic country in Europe regarding investment. CFOs in Portugal continue to feel strong about hiring, with almost half (47%) of Portugal's CFO expecting to increase hiring (net balance of +36% vs. +16% in Europe).

# 04 **Outlook**

Figure 4. **CFOs more optimistic about their key metrics**

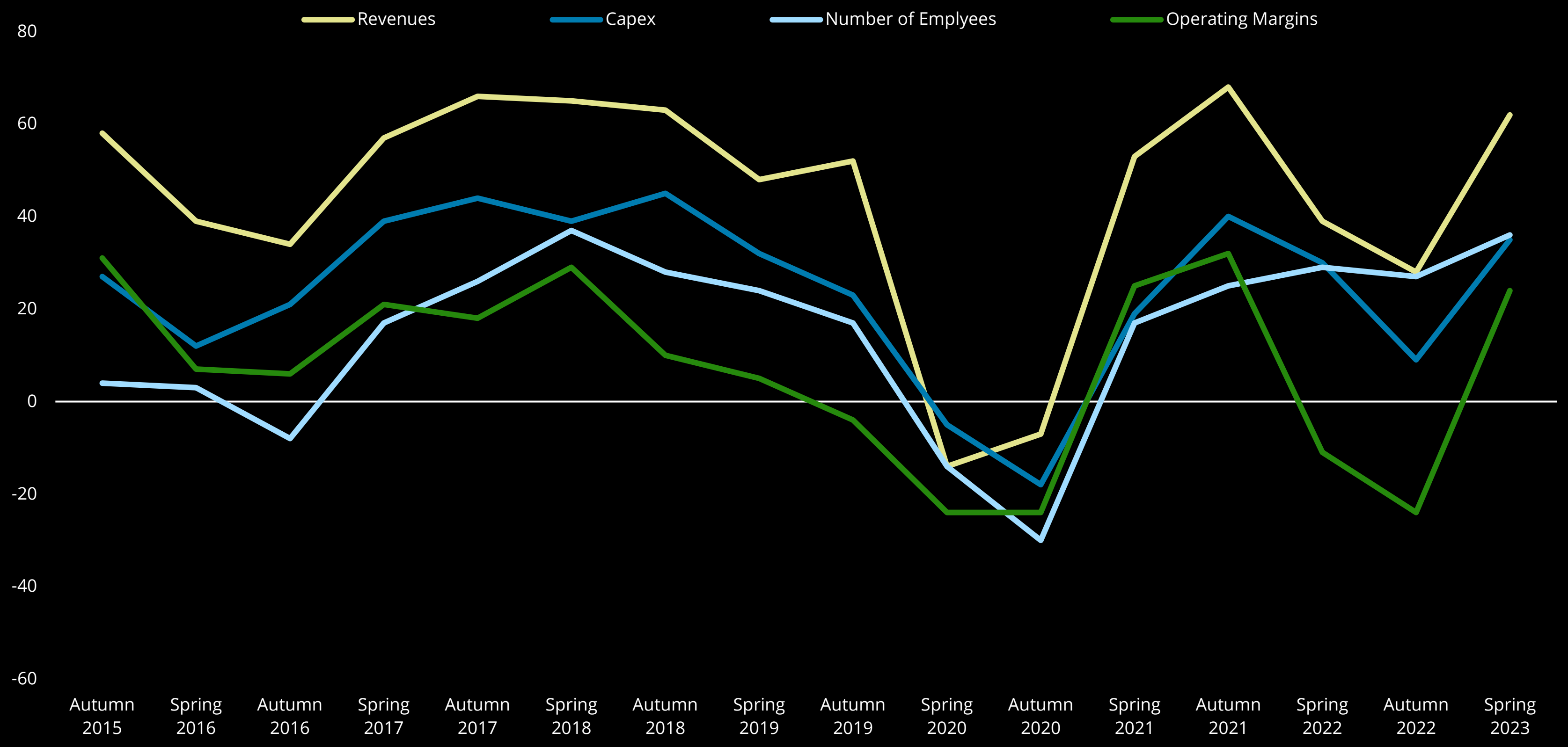

Question asked:

**In your view, how are the following key metrics for your company likely to change over the next 12 months? (Net balance in %)**

Note : Net balance is defined as the difference between the share of positive and negative answers.

# 04 **Outlook**

Figure 5. **Portugal zoom-in**




Question asked:

**In your view, how are the following key metrics for your company likely to change over the next 12 months? (Net balance in %)**

Note : Net balance is defined as the difference between the share of positive and negative answers.

05

# Strategy

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# 05 **Strategy**

## Strategy focuses on cost reduction across Europe

Unsurprisingly, European companies expect inflation to remain high during the next 12 months, predicting a rate of 6.3% for the euro area one year ahead. In line with European CFOs, CFOs in Portugal are also expecting the inflation rate to remain high in Portugal, predicting a rate of 6.3% over the next 12-months. Also, 70% of European CFOs and 63% of Portugal's CFOs rate the cost of credit now as either fairly costly (55% in Europe and 37% in Portugal) or very costly (15% in Europe and 25% in Portugal). It is clear, that even, if inflation has been softening lately, mainly due to lower energy prices, it remains elevated and higher interest rates have driven up financing costs.

Reflecting these higher costs, the main strategic priority of European financial executives has become cost reduction.

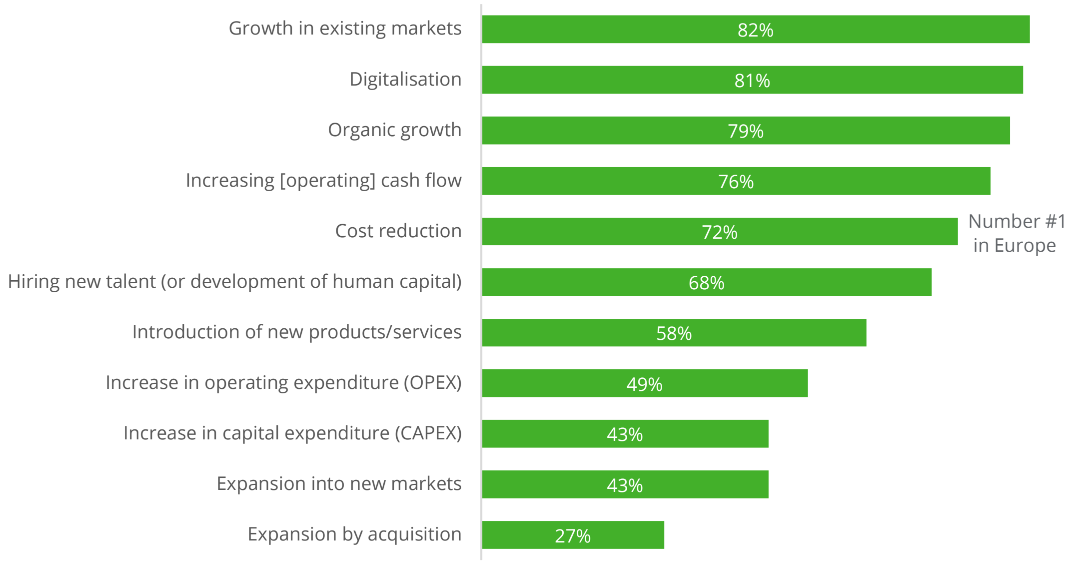
Organic growth is a further strategic goal asnon-organic growth has probably become more challenging given the weaker economy and many geopolitical threats.

## Less defensive strategies in Portugal

Growth in existing markets, digitalization and organic growth are the top three strategic priorities of CFOs in Portugal for the next 12 months, representing a less defensive approach when compared to their counterparts in Europe. digitalization has been consistently one of the most relevant strategies in the latest editions of this survey, continuing to demonstrate Portugal's CFOs focus in delivering sustained value to the business in the long-run.

Nonetheless, cost reduction becomes the fifth most relevant strategy, with almost three-quarters of Portuguese CFOs expecting to launch cost reduction initiatives over the next 12 months.

Figure 6. **Portugal zoom in**




Question asked:

**Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?**

06

# Risks and Global Footprint

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# 06 **Risks and Global Footprint**

## Geopolitical tensions affect investments flows

Most of Europe's CFOs, 65% of those surveyed, continue to rate the level of external financial and economic uncertainty as being high, but this figure is considerably lower than the autumn's 81%. The net balance, of +62%, is close to its historical average. In Portugal, the rate is almost equal since last autumn with 75% of CFOs considering that there is a high level of uncertainty (vs. 76% last autumn).

The generally quite high level of uncertainty reflects the diverse risk factors firms are facing. Currently, the economic outlook is rated as the main risk for European and Portugal's CFOs. Even if recession may be avoided in most countries, the economic situation remains fragile. The labor market has become somewhat less tight as the economy slows but the shortage of skilled labor remains one of the main risks CFOs need to deal with. Besides economic concerns, geopolitical risks continue to worry European companies' CFOs.

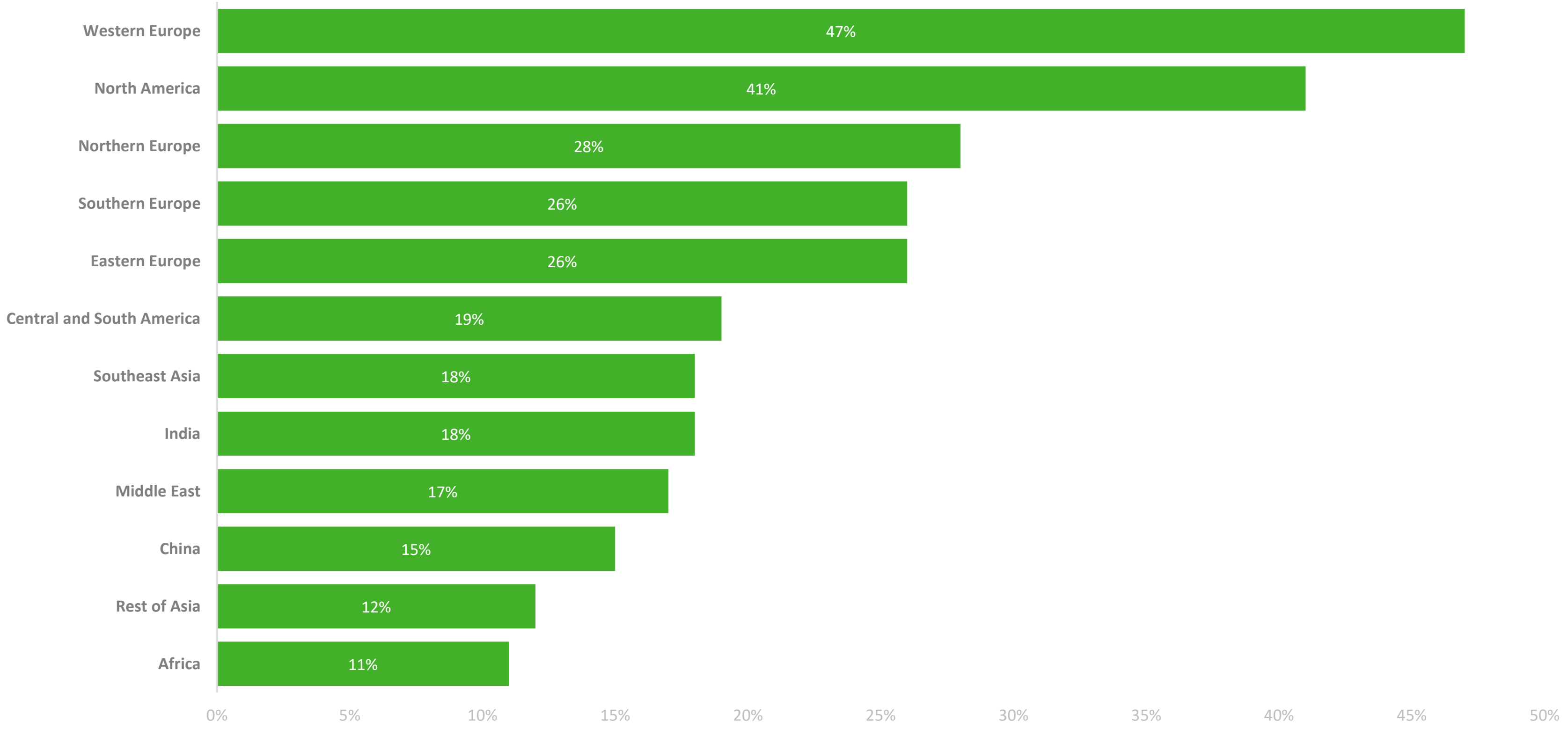
As geopolitical tensions persist, almost half (+47%) of European firms are planning to expand their footprint in Western Europe and North America (+41%) (figure 7). North America might have become more attractive for European companies because of tax incentives arising from the Inflation Reduction Act (IRA).

Africa, the rest of Asia and China are the least attractive locations for European companies at present, probably reflecting the difficulties with global supply chains and some of the measures taken by the Chinese government in relation to technology firms. Respondents reduced their footprint especially in China (14%) and in Eastern Europe (12%).

Like their European peers, CFOs in Portugal are more interested to expand in the Western, Southern and Northern European markets, as well as in North America. However, due to historical and cultural ties, Portugal has closer business relationships with some African countries than most European countries, being Africa the most attractive market after Europe and North America. Meanwhile, Eastern Europe and Rest of Asia are the regions where CFOs in Portugal are expecting to reduce the most their business footprint.

# 06 **Risks and Global Footprint**

Figure 7. **European firms are planning to expand their footprint mostly in Western Europe and North America**

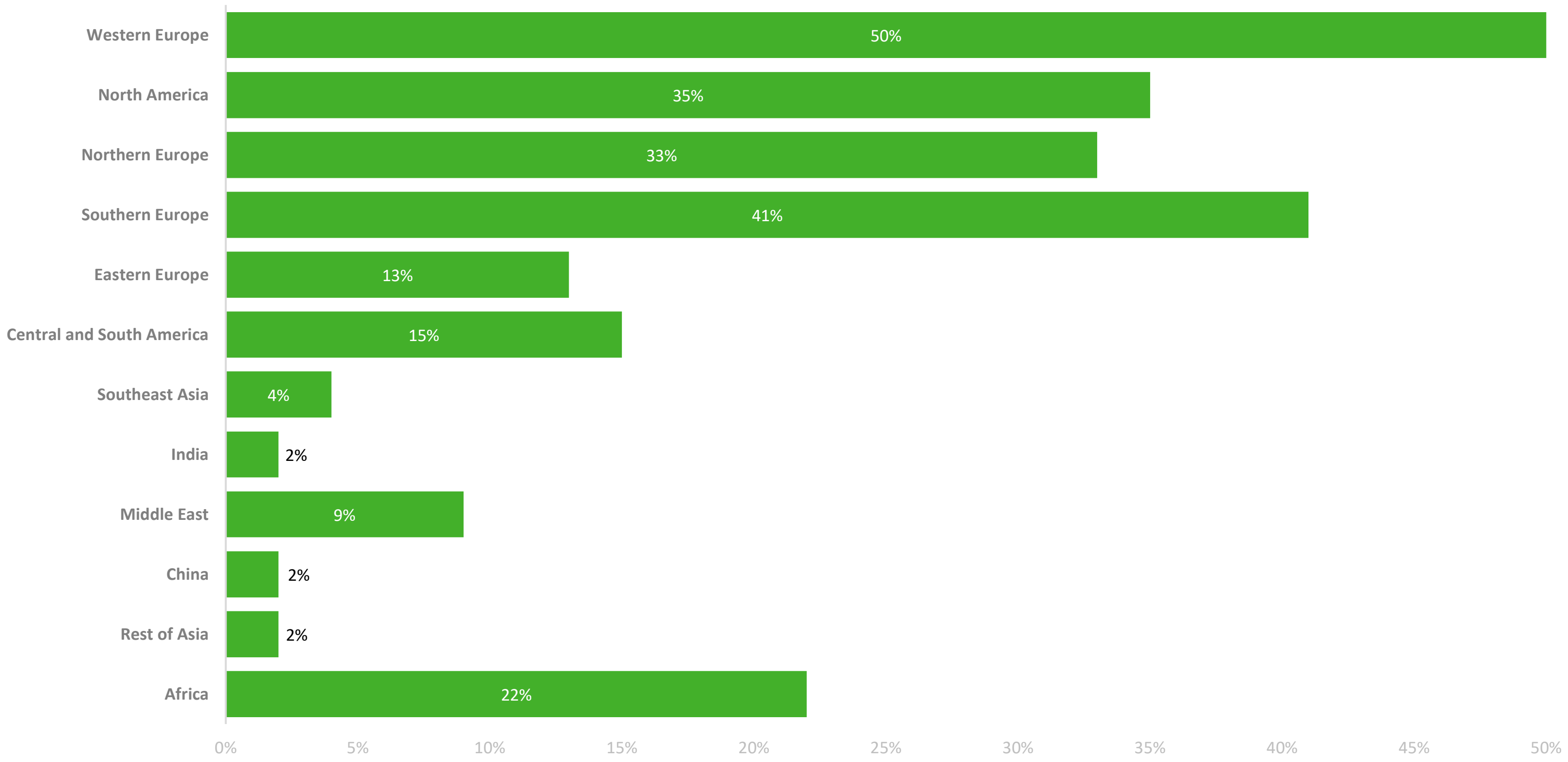



Question asked:

**Are you planning to expand your footprint (investments, trade, etc.) in certain countries/regions due to geopolitical tensions? (Share of respondents in %)**

# 06 **Risks and Global Footprint**

Figure 8. **Portugal zoom-in**




Question asked:

**Are you planning to expand your footprint (investments, trade, etc.) in certain countries/regions due to geopolitical tensions? (Share of respondents in %)**

07

# Strategies for Supply Chain Risks

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# 07 **Strategies for Supply Chain Risks**

## Less inventories and more digitalization to mitigate supply problems

Though supply chain concerns have become somewhat less severe in recent months they are still keeping CFOs busy. In this edition of the survey, as in the spring 2022 edition, CFOs were asked how they aim to mitigate their supply chain difficulties. Half the CFOs report that they are making increased use of digital planning tools, a considerable rise from one-third of respondents a year ago (figure 9). Increased digitalization was the most widely used measure to improve supplies this time.

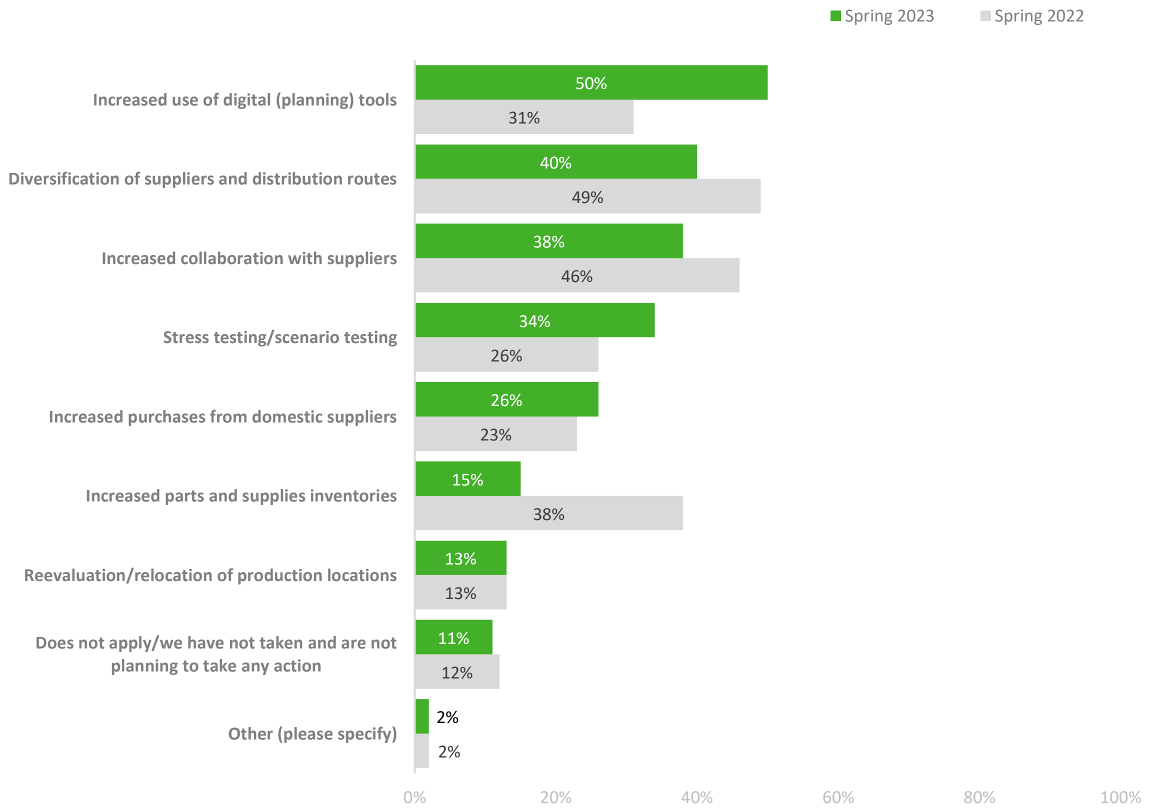
Diversification of suppliers and distribution routes (40%), increased collaboration with suppliers (38%), and stress or scenario testing (34%) were the next most commonly used strategies.

Portugal's CFOs are following the same course of priorities as the European CFOs. Increased used of digital (planning) tools is now the top strategic action to be taken (75%), followed by diversification of suppliers and distribution routes (56%), increased collaboration with suppliers (46%) and stress or scenario testing (18%).

Since only 11% of European firms report that they have not taken or are not planning to take any action, it is plain that CFOs are devoting time and effort to making their supply chains more dependable. And, in general, mitigating supply chain issues seems to be paying off because the companies whose CFOs reported that they have addressed the issue rate their financial prospects more optimistically than those that have not taken any action.

# 07 **Strategies for Supply Chain Risks**

Figure 9. **More digitalization mitigates supply chain challenges**

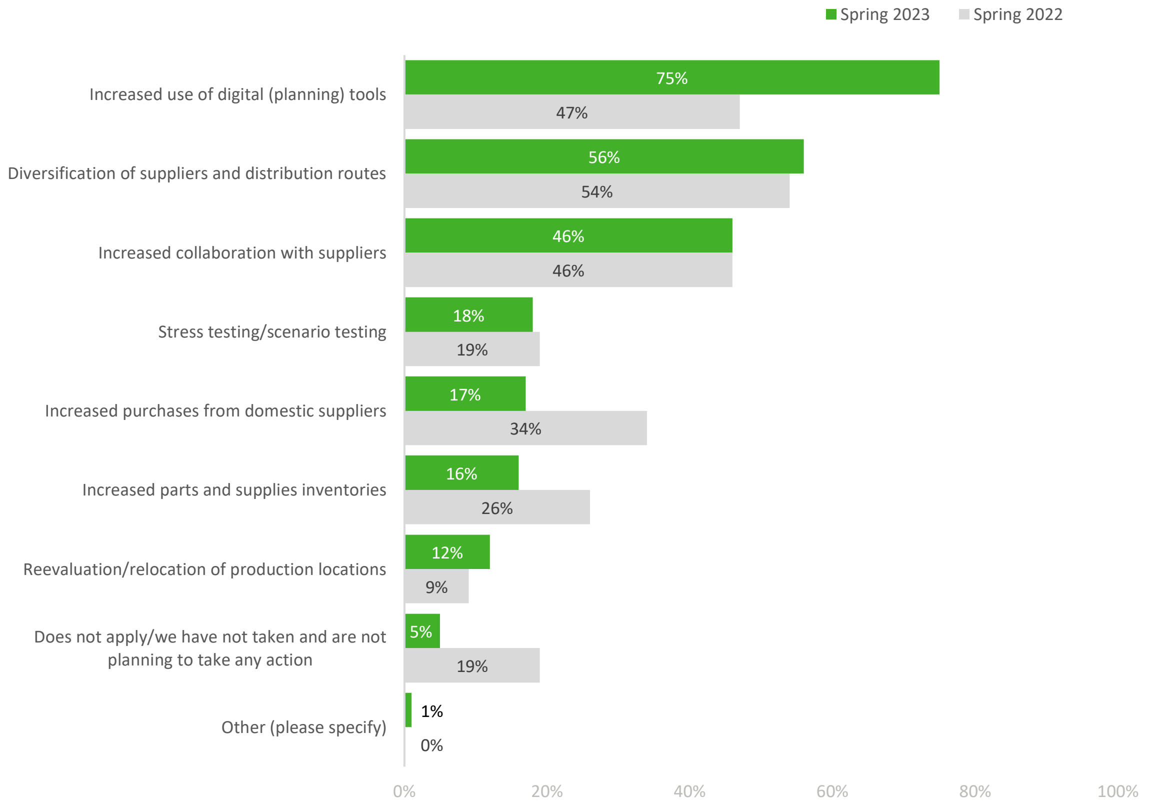



Question asked:

**Is your company taking or about to take any of the following actions? (Share of respondents in %)**

# 07 **Strategies for Supply Chain Risks**

Figure 10. **Portugal zoom-in**




Question asked:

**Is your company taking or about to take any of the following actions? (Share of respondents in %)**

08

# Conclusion

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# 08 **Conclusion**

## Moving forward cautiously

It has been a tumultuous few years for Europe. The first major war on European territory for almost 80 years exacerbated the impact of the first global pandemic in a century and presented CFOs with unexpected and extreme supply chain difficulties and commodity price increases. They expected a war-ravaged winter and came through it far better than they expected. The resultant relief is what this spring 2023 edition of the survey, above all, reflects.

Europe's CFOs are now quite positive about their firms' earnings prospects, and they do plan to increase their hiring and capital expenditure slightly. But they are still concerned about the economic outlook. Monetary policy has changed radically in the past year. Financing is far more expensive. Households are under fire from higher mortgage rates as well as a much higher cost of living. The housing market has turned.

The retail sector is struggling. The worry is that other sectors, too, will fall victim to weakening demand, especially if business investment abates substantially in reaction to higher interest rates.

Nonetheless, European firms are not waiting passively for things to get better, but they are preparing their companies for future challenges. They are taking profound actions to mitigate supply chain frictions and rethinking the locations for their investment and activity against the backdrop of geopolitical tensions.
Like sailors, Europe's CFOs will be keeping a close eye on the forecasts, political and economic ones, more than meteorological. They are unlikely to set sail on any bold new ventures until they feel confident that the world's currently high economic and geopolitical risks have receded.

# About the Deloitte European CFO Survey

Deloitte has conducted the European CFO survey since 2015, giving voice twice a year to senior financial executives from across Europe. The data for the spring 2023 edition were collected in March 2023 and reflect responses from 1,366 CFOs in 16 countries and across a wide range of industries.

## Participating countries

- Austria
- Denmark
- Germany
- Greece
- Iceland
- Ireland
- Italy
- Luxembourg
- Netherlands
- Norway
- Portugal
- Spain
- Sweden
- Switzerland
- Turkey
- UK

## Survey period

February
to March 2023

# Key contacts

## CFO Program leads

**Denmark**
**Kim Hendil Tegner**
Partner,
CFO program Lead
Deloitte Denmark
+45 30 93 64 46
ktegner@deloitte.dk

**Netherlands**
**Willem Blom**
CFO program Lead
Deloitte Netherlands
+31 653 23 42 56
wblom@deloitte.nl

**Spain**
**José Manuel Domínguez**
Partner,
CFO program
Deloitte Spain
+34 9144 32562
jdominguezcarravilla@deloitte.es

**Greece**
**Panayiotis Chormovitis**
Partner,
CFO program Lead
Deloitte Greece
+30 210 6781 316
pchormovitis@deloitte.gr

**Norway**
**Eivind Skaug**
Partner,
CFO program Lead
Deloitte Norway
+47 915 18 997
eskaug@deloitte.no

**Italy**
**Riccardo Raffo**
Partner,
CFO program Lead
Deloitte Italy
+39 028 332 2380
rraffo@deloitte.it

**Portugal**
**Nelson Fontainhas**
Partner,
CFO program Lead
Deloitte Portugal
+351 2135 67100
nfontainhas@deloitte.pt

**Managed and funded by the EMEA Research Centre**

EMEAResearchCentre@deloitte.com

## Country leads

**Austria**
**Gerhard Marterbauer**
Partner,
Audit
Deloitte Austria
+43 1 537 00 4600
gmarterbauer@deloitte.at

**Ireland**
**Daniel Gaffney**
Partner,
Finance & Performance
Deloitte Ireland
+353 1 417 2349
dgaffney@deloitte.ie

**Germany**
**Alexander Boersch**
Director,
Head of Research
Deloitte GmbH
+49 89 29036 8689
aboersch@deloitte.de

**Luxembourg**
**Justin Morel de Westgaver**
Partner,
Corporate Finance &
CFO Advisory
Deloitte Luxembourg
+352 451 453 378
jmoreldewestgaver@deloitte.lu

**Iceland**
**Hilma Jonsdottir**
Manager,
Clients & Industries Deloitte
Iceland
+354 580 3121
hijonsdottir@deloitte.is

**Sweden**
**Robert Bergström**
Partner,
CFO Survey Lead
Deloitte Sweden
+46 70 080 26 90
rbergstrom@deloitte.se

**Turkey**
**Ali Çiçekli**
Audit & Assurance Leader
Deloitte Turkey
+90 212 366 60 32
acicekli@deloitte.com

## Chief economists

**Switzerland**
**Michael Grampp**
Chief Economist
Head of Research
Deloitte AG
+41 582 796 817
mgrampp@deloitte.ch

**United Kingdom**
**Ian Stewart**
Chief Economist
Deloitte LLP
+44 2070 079 386
istewart@deloitte.co.uk

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