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The CFO Program

Adapting to a new environment
Central Europe CFO Survey
Spring edition

MAKING AN IMPACT THAT MATTERS since 1845

2020

The impact of the Covid-19 is likely to include disruptions and delays in many traditional value chains, causing supply shortages, short-term decline of productivity, reduced investment and decreased household demand. While fiscal and monetary policy measure will seek to alleviate the impact on the demand side of the economy, it is impossible in the short term at least to escape the impact of supply-side shock.

Contents

Introduction

This survey was completed between March and May of 2020 in chosen Central European countries (Poland, the Czech Republic, Romania, Lithuania, Latvia and Estonia), since when the disruption caused by the Covid-19 outbreak has caused significant changes and heightened uncertainty. We strongly believe that understanding the trends, which we discuss in this report, over a longer period - before and after the global outbreak of the virus - can be of interest to businesses, regulators and policy-makers.

The main message of this latest Deloitte CE CFO survey is that confidence about the economic outlook and the wider business environment continue to fall among Central Europe's leading finance professionals.

Turning to the report's content, as in 2019, the majority of CFOs do not think the year ahead will be a good time for companies to take on more risk; this was the view of between 96% (Romania) and 57% (Lithuania) of respondents. There is a consensus across all industries that conditions in 2020 and in the beginning of 2021 will not be favourable for taking more risk in financial decisions. When we compare CFOs' sentiments about their companies' financial prospects with their attitudes in the period before the outbreak of the pandemic, it is clear that CFOs are more pessimistic than they were in the survey conducted in the autumn of 2019. That said, more CFOs are less optimistic (72%) than more optimistic (11%).

CFOs perceive reduction in domestic demand as the most significant threat to business over the next year. Another of the CFOs' greatest concerns is a reduction in the foreign demand. The survey recorded very significant shifts since its last edition (responses were collected in autumn of 2019) in the perceived levels of uncertainty facing respondents' businesses. CFOs' views on the likely levels of external financial uncertainty in 2020 differ from industry to industry. All the sectors show a negative net balance, with Consumer Business recording the most pessimistic opinions of all (-76%). No wonder that after the outbreak of the coronavirus, there is a strong tendency towards more pessimistic expectations.

CFOs see internal financing and bank borrowing as the most attractive sources of funding for their companies. These options were selected respectively by 51% and 42% of respondents. Corporate debt and equity are seen as moderately attractive – respectively 24% and 30% of CFOs call them 'attractive'.

Cost reduction is set to be a priority for businesses in 2020, with 49% of CFOs putting it at the top of the agenda. Cost reduction is particularly important for CFOs from the Construction, Energy, Utilities, Mining and Manufacturing sectors. Hiring new talent (or development of human capital), increase in capital expenditure (CAPEX), expansion by acquisition, introduction of new products/services and expansion into new markets are the least important considerations for 2020, with only 1% to 6% of respondents regarding them as key priorities.

These are some of the headline findings of this, the 12th Deloitte Central Europe CFO survey report, which indicates how CFOs across our region perceive the future performance of their own businesses in the post-crisis world.

We do believe that the survey's findings, and the trends affecting key indicators that they represent, remain worthy of analysis and comment. They reflect the underlying sentiment and beliefs of our region's financial leaders before we entered this unprecedented period in our economic history, and will give a valid point of comparison as we move out of it once more.

We would particularly like to thank all the 309 CFOs who took the time to answer our questions and we hope you find the insight it gives you into the collective mindset of finance leaders both interesting and useful.

Methodology

About the data

The findings presented and discussed in this report represent the opinions of 309 CFOs based in 6 Central European countries: the Czech Republic, Estonia, Latvia, Lithuania, Poland and Romania. The survey was conducted between March and beginning of May 2020. When 'Eurozone' is used in the charts and infographics in this report, this refers to those Central European countries in the survey that have adopted the Euro as their currency.

Please note that due to the limited number of answers from CFOs in the Public Sector, data concerning this element in this report need to be interpreted cautiously. Some of the charts in the report show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response. We deem responses that are neither positive nor negative to be neutral. Due to rounding, responses to the questions covered in this report may not aggregate to 100.

The findings discussed in this report represent the opinions of

309 CFOs

based in

6 Central European countries: the Czech Republic (CZ), Estonia (EE), Latvia (LV), Lithuania (LT), Poland (PL) and Romania (RO).


CZ Czech Republic
EE Estonia
LV Latvia
LT Lithuania
PL Poland
RO Romania
EE
LV
LT
PL
CZ
RO

I. Economic Outlook

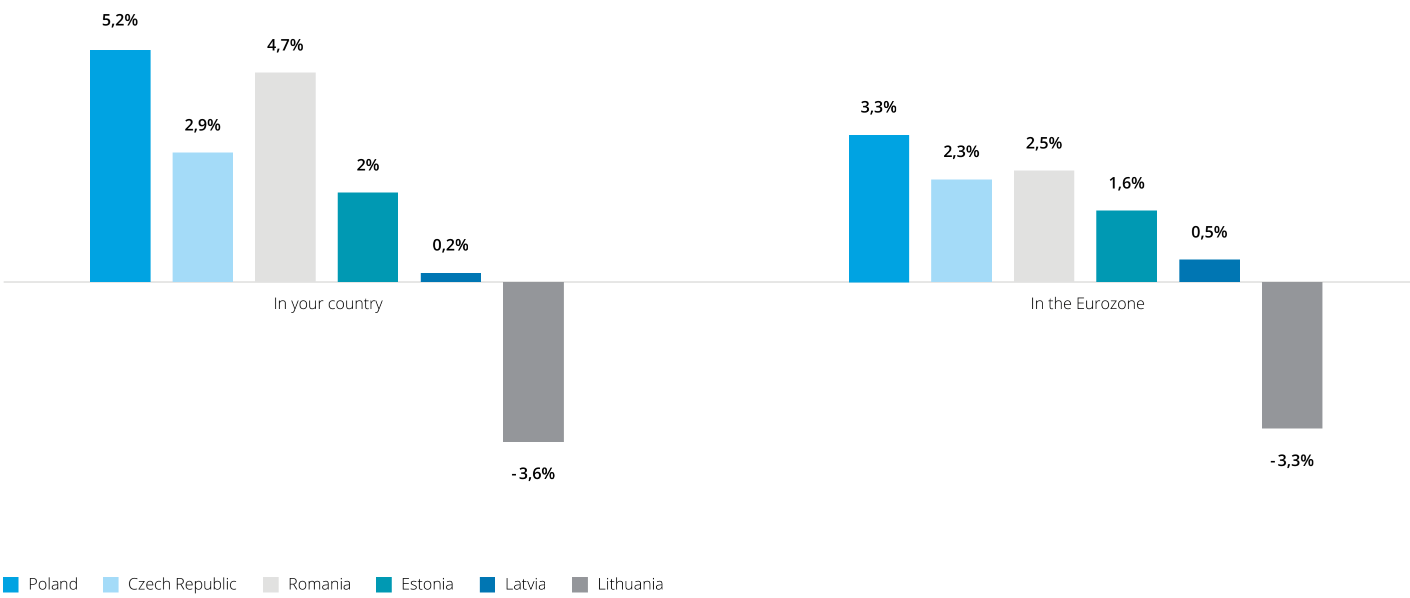
Increases expected in CPI inflation during 2020 and beginning of 2021

As in last year's survey, the majority of CFOs expect growth in Consumer Price Index (CPI) inflation – both in their countries, as well as in the Eurozone. CFOs from Lithuania expect the deflation of more than 3% in their country, as well as in the Eurozone.

CFOs from countries which official currency is Euro (Estonia, Latvia, Lithuania) all predict that the inflation rate in their countries will be similar to the one in the Eurozone as a whole. When predicting inflation levels for their own countries, those from Poland, Czech Republic and Romania predict higher rates than CFOs from any other country.

This survey was completed between March and May of 2020 in chosen Central European countries (Poland, the Czech Republic, Romania, Lithuania, Latvia and Estonia), since when the disruption caused by the Covid-19 outbreak has caused significant changes and heightened uncertainty.

What do you think will be the inflation rate (for the Consumer Price Index) in both your country and the Eurozone over the next 12 months?



Business outlook

The majority of CFOs do not think the year ahead will be a good time for companies to take on more risk - this was the view of between **96%** (**Romania**) and **57%** (**Lithuania**) of respondents.

CFOs perceive reduction in domestic demand as the most significant threat to business over the next year with **61%** of respondents confirming this is their main concern.

CFOs see internal financing (**51%**) and bank borrowing (**42%**) as the most attractive sources of funding for their companies.

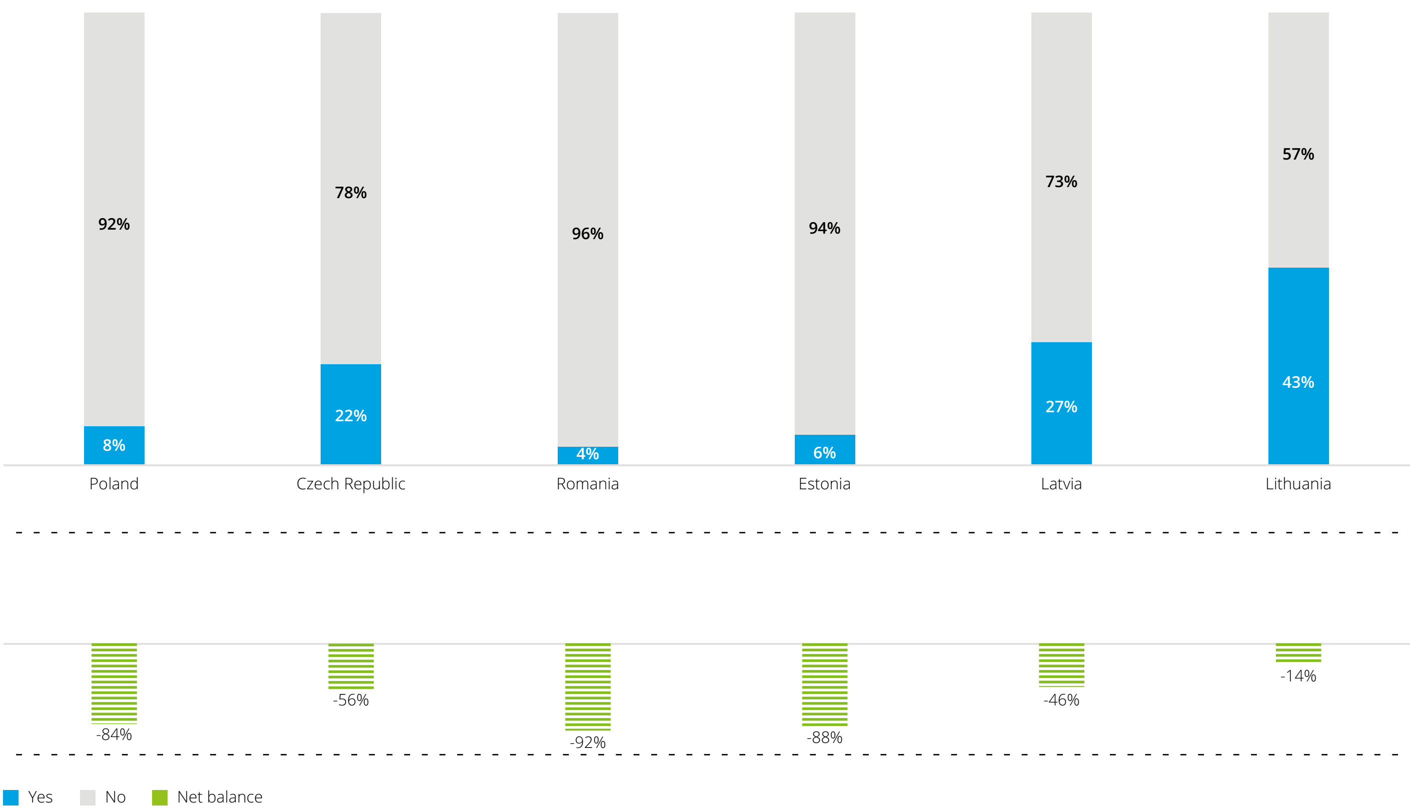
II. Business environment outlook

Not the best time to take more risk

As in 2019, the majority of CFOs do not think the year ahead will be a good time for companies to take on more risk; this was the view of between 96% (Romania) and 57% (Lithuania) of respondents.

CFOs from the Eurozone and Romania, Poland and the Czech Republic are equally risk-averse. Lithuania, Latvia and the Czech Republic are countries where the largest percentage of surveyed CFOs believes that conditions will still be to some extent favourable for taking riskier financial decisions in the upcoming months. CFOs in Poland, Romania and Estonia are the most risk-averse.

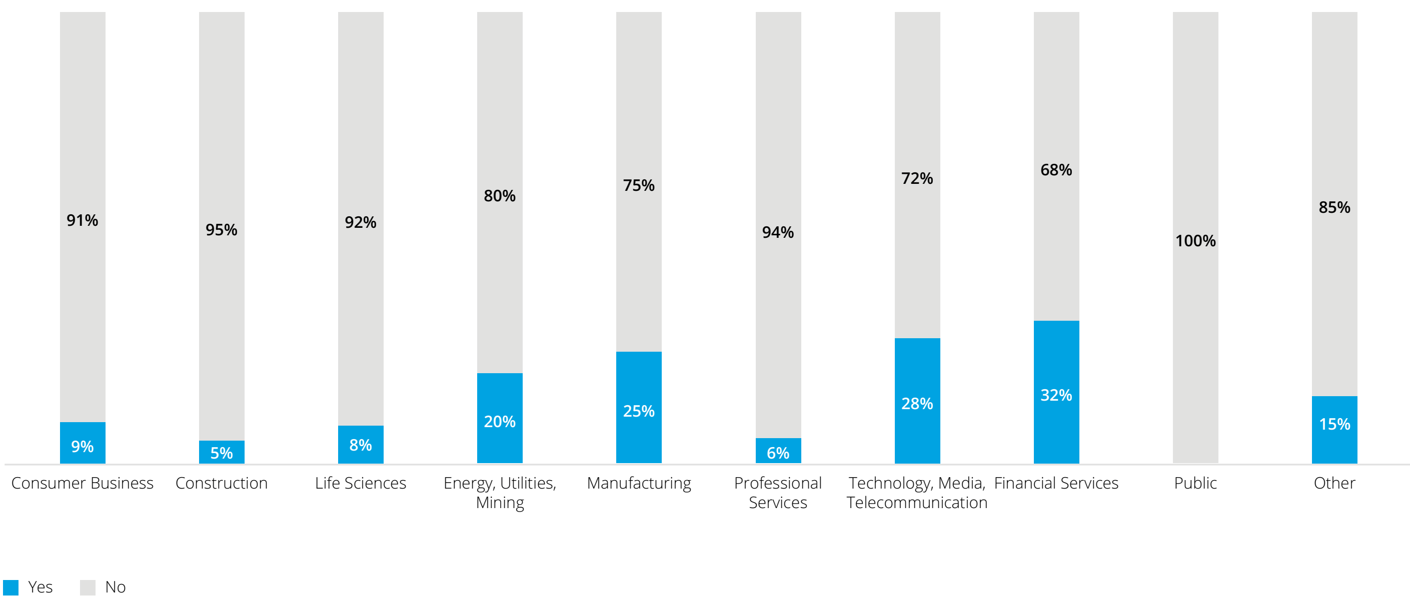
Is this a good time to be taking greater risk onto your company's balance sheets?



There is a consensus across all industries that conditions in 2020 and in the beginning of 2021 will not be favourable for taking more risk in financial decisions. The proportions holding this opinion range from 68% in Financial Services to 95% in the Construction sector and 100% in the Public Sector.

After the Financial Services, the most positive respondents were those from Technology, Media and Telecommunication (with 28% seeing this as a good time to take on more risk) and Manufacturing (25%).

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

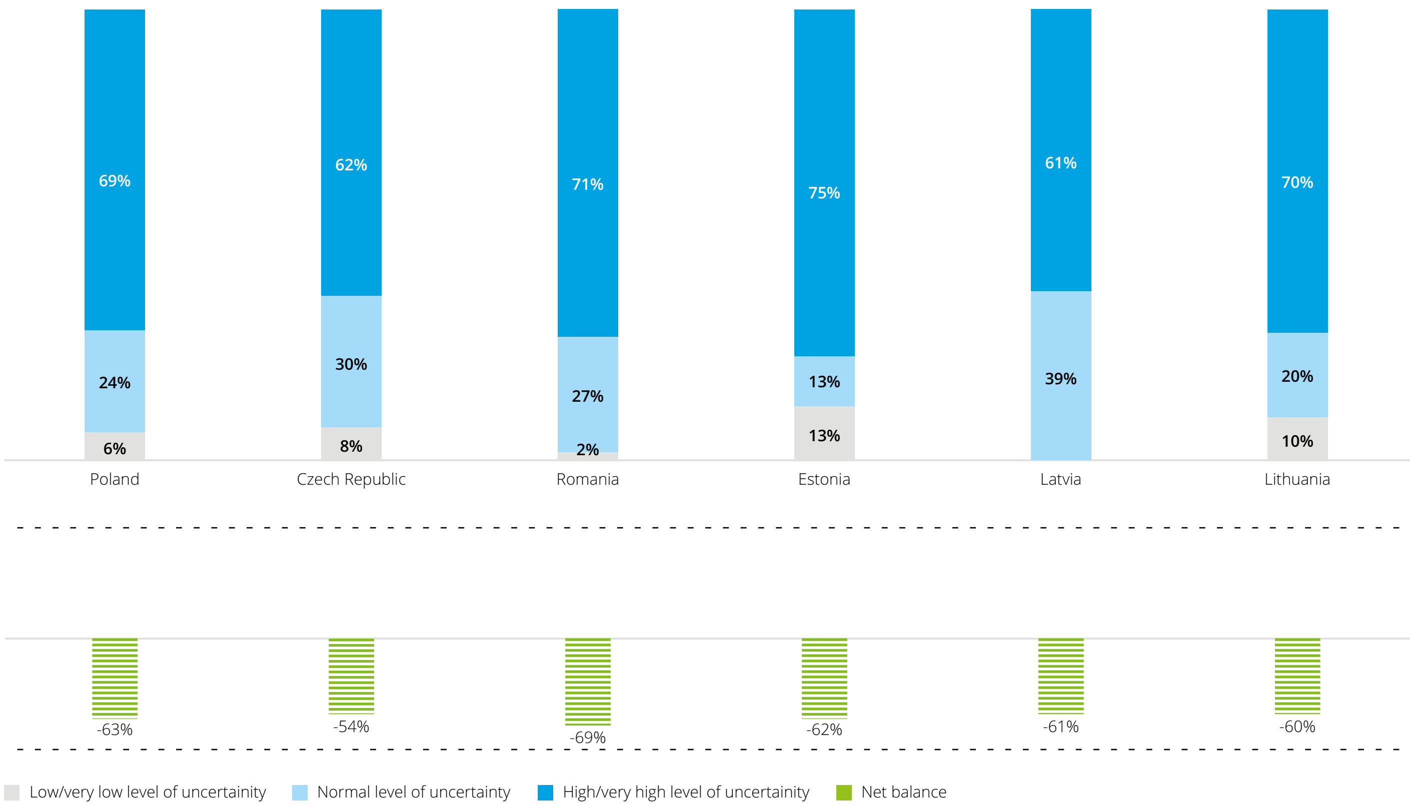


Pessimism around external uncertainty continues to grow

The survey recorded very significant shifts since its last edition (responses were collected in autumn of 2019) in the perceived levels of uncertainty facing respondents' businesses. No wonder that after the outbreak of the coronavirus, there is a strong tendency towards more pessimistic expectations. This is especially true when we compare the results from spring of 2020 with those from autumn of 2019 for five out of six countries which participated in this edition of the survey (Estonia didn't participate in the survey last autumn).

The share of respondents in Poland who believe there is a high level of uncertainty has increased by 27 percentage points (pp), from 42% in autumn of 2019 to 69% in spring of 2020; in the Czech Republic by 31 percentage points (pp), from 31% in autumn of 2019 to 62% in spring of 2020; in Romania by 16 percentage points (pp), from 55% in autumn of 2019 to 71% in spring of 2020; in Latvia by 25 percentage points (pp), from 36% in autumn of 2019 to 61% in spring of 2020; and in Lithuania by 50 percentage points (pp), from 20% in autumn of 2019 to 70% in spring of 2020.

How would you rate the overall level of external financial and economic uncertainty facing your business?
(Spring 2020 - after the covid outbreak)

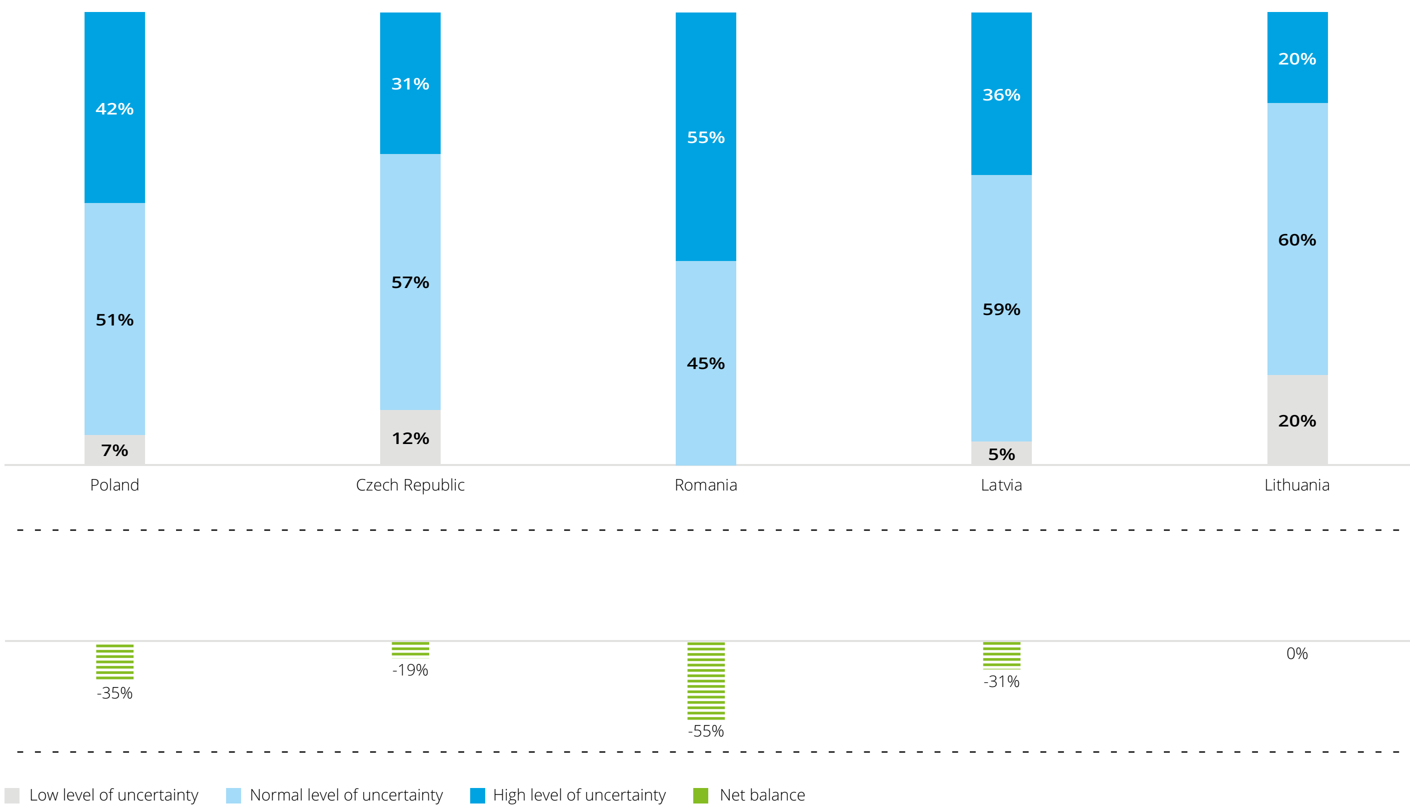


CFOs' expectations for future levels of external financial uncertainty differ from country to country, but there is a negative net balance (the difference between the shares of respondents expecting low and high levels of uncertainty) in all the countries which participated in this edition of the survey.

Except for those from Estonia (13%) and Lithuania (20%) in every country questioned, more than 20% of CFOs (but not more than 40%) see the uncertainty level as normal.

The survey recorded very significant shifts since its last edition (responses were collected in autumn of 2019) in the perceived levels of uncertainty facing respondents' businesses.

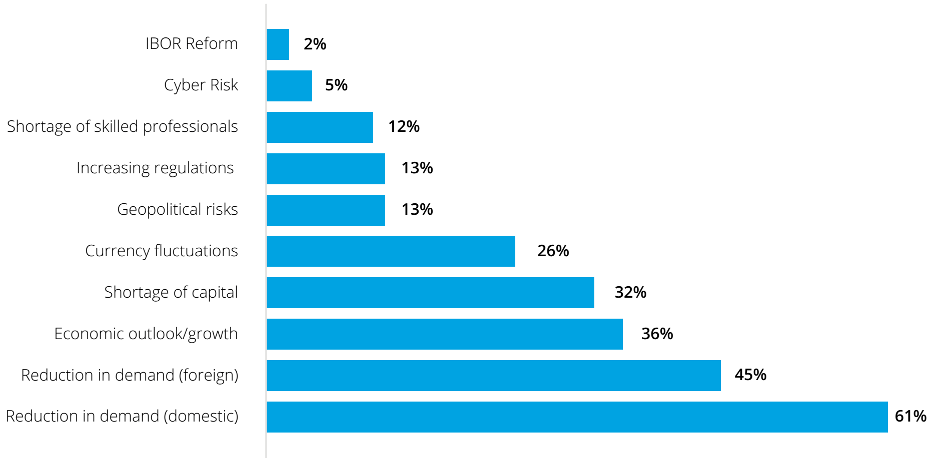
How would you rate the overall level of external financial and economic uncertainty facing your business?
(Autumn 2019 - before the covid outbreak)



Assessing the risk landscape

CFOs perceive reduction in domestic demand as the most significant threat to business over the next year with 61% of respondents confirming this is their main worry. Another of the CFOs' greatest concerns is a reduction in the foreign demand (45%).

Which of the following factors are likely to pose a significant risk to your business over the next 12 months?



	Poland	Czech Republic	Romania	Estonia	Latvia	Lithuania
IBOR Reform	2%	1%	4%	0%	2%	3%
Cyber Risk	5%	3%	0%	0%	12%	13%
Economic outlook/ growth	6%	35%	29%	63%	66%	53%
Increasing regulations	6%	13%	15%	13%	17%	17%
Shortage of skilled professionals	13%	12%	11%	6%	7%	17%
Geopolitical risks	15%	15%	11%	0%	17%	10%
Currency fluctuations	24%	39%	25%	13%	15%	7%
Reduction in demand (foreign)	39%	53%	45%	38%	44%	30%
Reduction in demand (domestic)	60%	62%	73%	50%	61%	50%
Shortage of capital	74%	24%	11%	38%	20%	27%

Between 26% and 36% of respondents chose three other factors – economic outlook/growth, shortage of capital and currency fluctuations. The least risk-laden issues according to our respondents are IBOR reform and cyber risk.

A cross-industry comparison shows a lot of similarities between how CFOs perceive the main challenges they will face over the year to come: concerns about reduction in domestic demand and economic outlook come first. CFOs from the Consumer Business (79%), Construction (80%) and Professional Services (83%) sectors are those who most often identify a reduction in domestic demand as a significant threat to business. CFOs from the Manufacturing sector (79%) are those who most often identify a reduction in foreign demand as a significant threat to business. Currency fluctuation is high on the agenda of CFOs from the Consumer Business and the Life Sciences with 50% and 52% of respondents in both groups confirming this is their main concern. Economic outlook is a major concern for CFOs in the Public Sector (75%), Financial Services (58%) and the Life Sciences sector (50%).

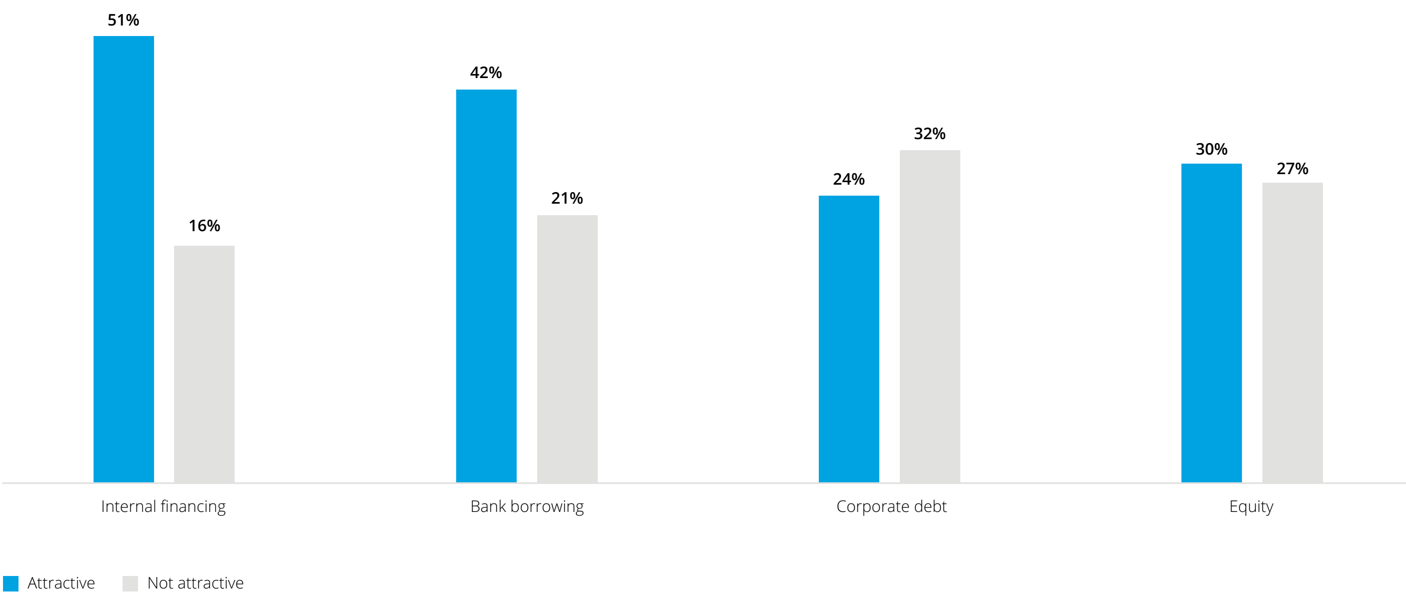
	Consumer Business	Construction	Life Sciences	Energy, Utilities, Mining	Manufacturing	Professional Services	Technology, Media, Telecommunication	Financial Services	Public Sector
Reduction in demand (domestic)	79%	80%	33%	65%	48%	83%	53%	53%	25%
Reduction in demand (foreign)	27%	30%	8%	30%	79%	28%	36%	26%	25%
Economic outlook/ growth	27%	30%	50%	40%	30%	33%	36%	58%	75%
Currency fluctuations	52%	15%	50%	20%	26%	22%	19%	5%	25%
Shortage of skilled professionals	6%	35%	0%	10%	10%	11%	19%	5%	0%
IBOR Reform	0%	0%	0%	5%	0%	0%	3%	11%	0%
Increasing regulations	9%	15%	42%	30%	7%	22%	3%	21%	25%
Shortage of capital	33%	40%	50%	30%	23%	44%	28%	47%	0%
Geopolitical risks	15%	5%	17%	10%	15%	22%	22%	11%	0%
Cyber Risk	3%	5%	8%	10%	0%	6%	11%	5%	25%

How best to finance the business?

CFOs see internal financing and bank borrowing as the most attractive sources of funding for their companies. These options were selected respectively by 51% and 42% of respondents. Corporate debt and equity are seen as moderately attractive – respectively 24% and 30% of CFOs call them 'attractive'.

The main message of this latest Deloitte CE CFO survey is that confidence about the economic outlook and the wider business environment continue to fall among Central Europe's leading finance professionals.

How do you currently rate the attractiveness of different sources of funding for your company?

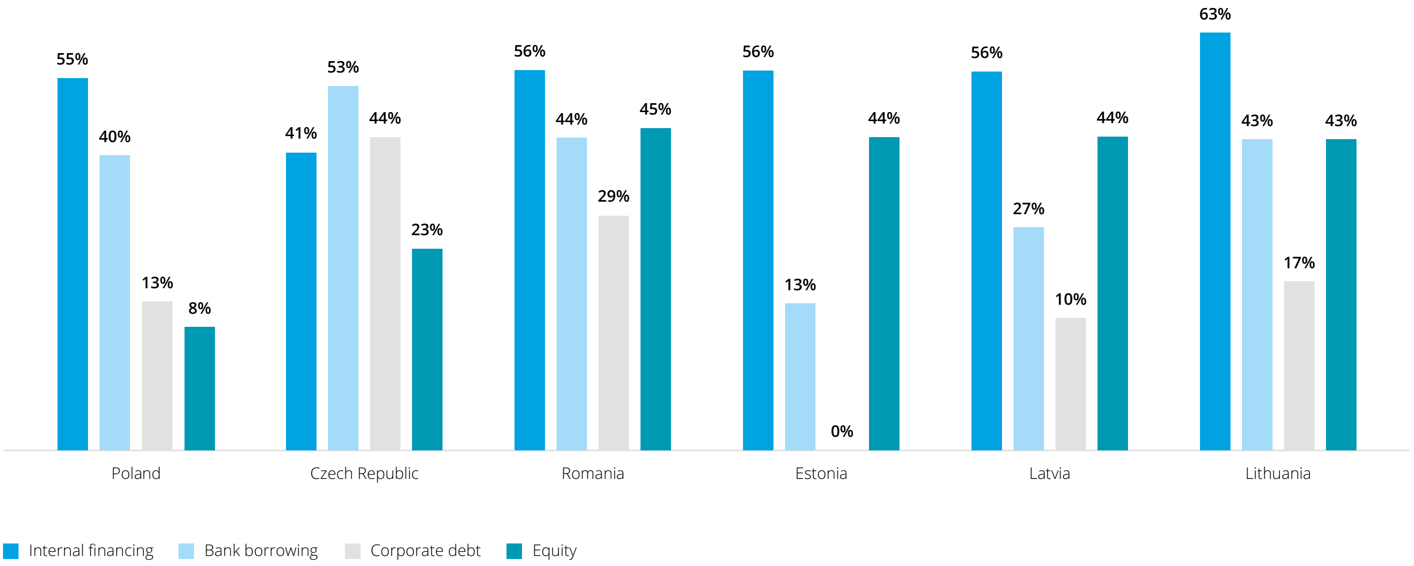


Internal financing is the most attractive source of funding for CFOs from the Manufacturing (52%) and the Technology, Media, Telecommunication (64%) sectors. Bank borrowing is the most attractive source of funding for CFOs from the Energy, Utilities and Mining (55%) and the Manufacturing (60%) industries. It is least attractive to those from the Financial Services (10%) sector.

Percentage of respondents who consider a given source of funding as 'attractive'

Attractive sources of funding	Consumer Business	Construction	Life Sciences	Energy, Utilities, Mining	Manufacturing	Professional Services	Technology, Media, Telecommunication	Financial Services	Public
Internal financing	48%	35%	42%	40%	52%	39%	64%	42%	25%
Bank borrowing	39%	50%	50%	55%	60%	33%	36%	10%	25%
Corporate debt	33%	25%	8%	25%	29%	22%	14%	26%	25%
Equity	45%	20%	16%	50%	33%	33%	28%	37%	25%

Percentage of respondents who consider a given source of funding as 'attractive'



Company growth outlook

Only 21% of CFOs expect their companies' revenues will grow with **62%** anticipating decrease.

More than **50%** of CFOs expect operating margins and CAPEX to decrease.

Cost reduction is set to be a priority for businesses in 2020, with **49%** of CFOs putting it at the top of the agenda.

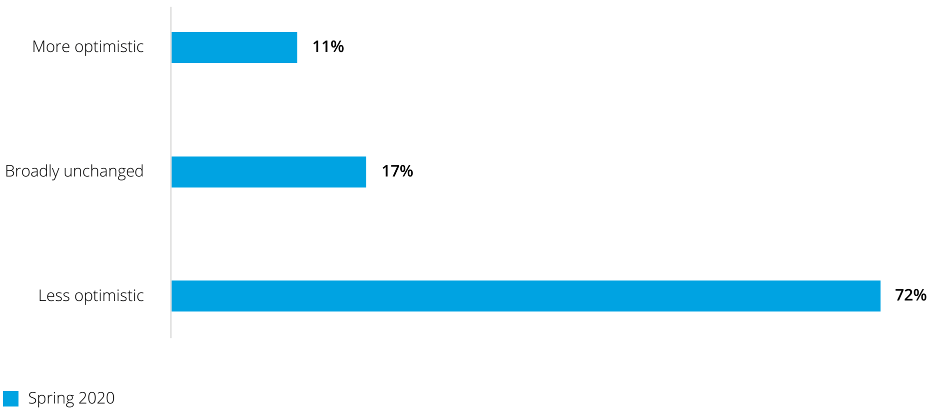
Only **10%** of CFOs expect their organizations will increase number of employees.

III. Company growth outlook

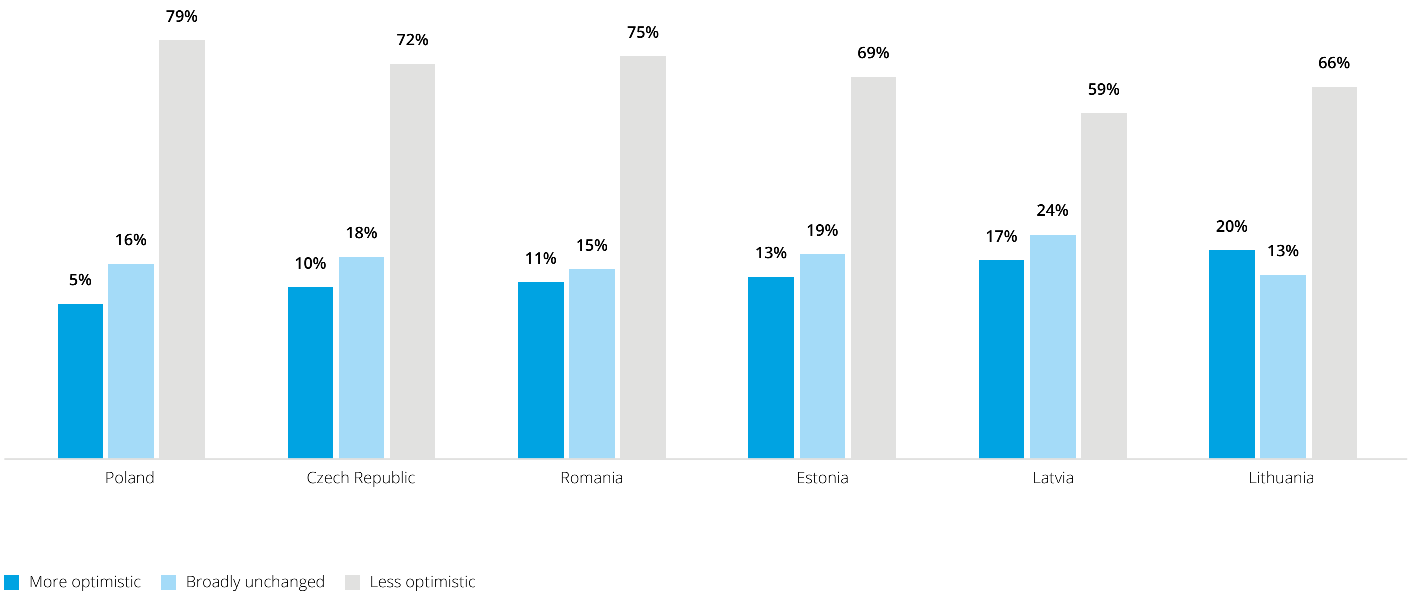
Slide in financial optimism continues

When we compare CFOs' sentiments about their companies' financial prospects with their attitudes from three months ago, it is clear that CFOs are more pessimistic than they were in the survey conducted in the autumn of 2019.

Compared with 3 months ago, how do you feel about the financial prospects for your company?



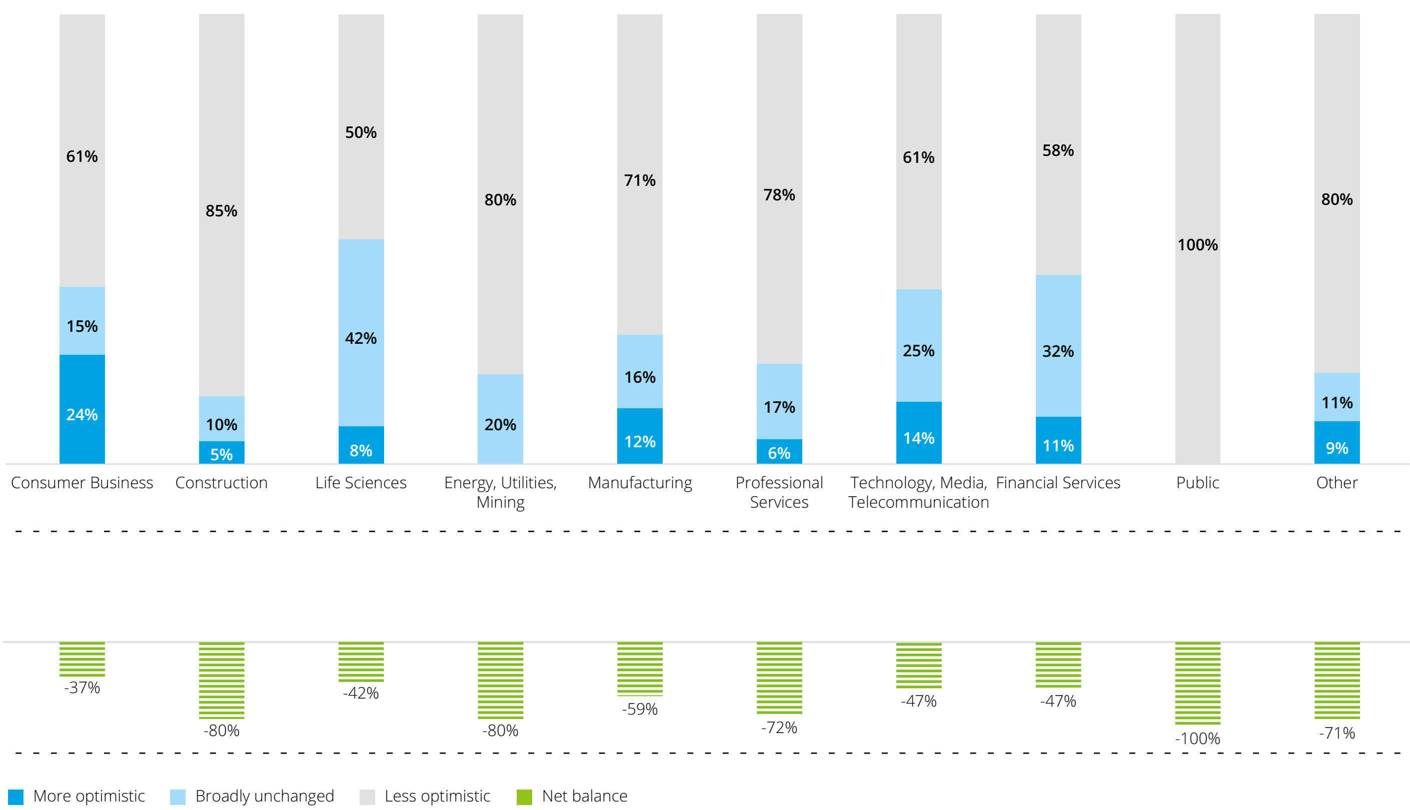
Compared with 3 months ago, how do you feel about the financial prospects for your company?



That said, more CFOs are less optimistic (72%) than more optimistic (11%). The net balance of answers fell by 70pp, from 9% to - 61%, continuing the downwards trend in optimism that's been underway since 2017. There are differences between countries. While 79% of CFOs in Poland and 75% in Romania expect things to get worse for their companies, CFOs in Lithuania and Latvia appear to be relatively more optimistic with respectively 20% and 17% confirming they feel more optimistic. CFOs from the Construction, Energy, Utilities and Mining and Public sectors are less optimistic with the net balance of between 80% and 100%.

It is clear that CFOs are now more pessimistic than they were in the survey conducted in the autumn of 2019.

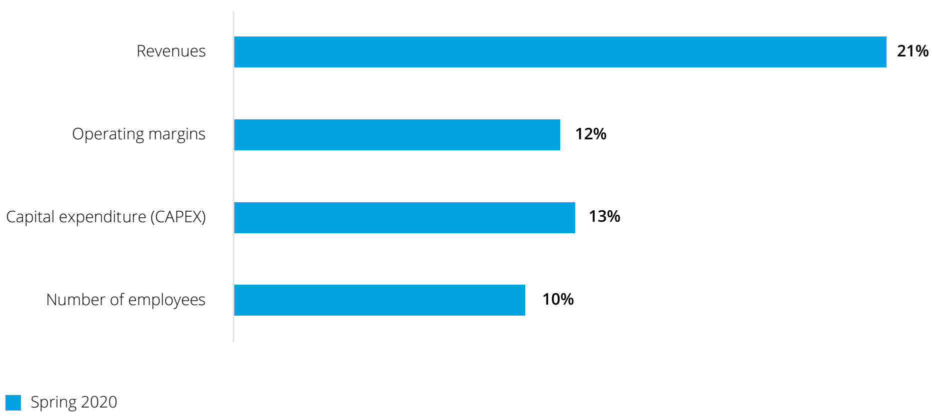
Compared with 3 months ago, how do you feel about the financial prospects for your company?



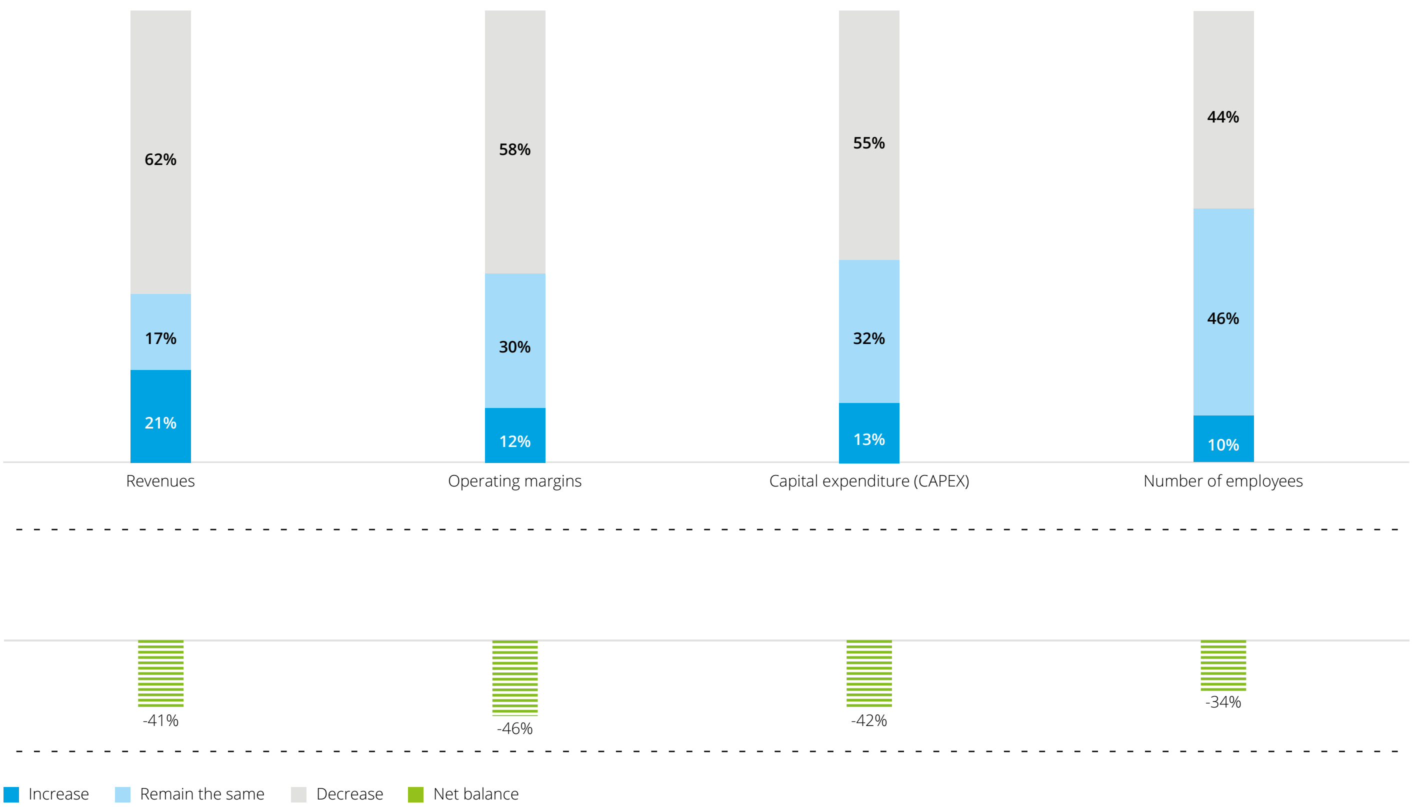
Revenues and operating margins will continue to decrease

CFOs expect decreases across all categories in 2020 (meaning a negative net balance). Only 21% expect their companies' revenues will grow with 62% anticipating decrease (net balance of -41%). More than 50% expect operating margins and CAPEX to decrease. Only 10% expect their organizations will increase number of employees.

Percentage of respondents who predict a given metric will increase



In your view, how are the following key metrics for your company likely to change over the next 12 months?

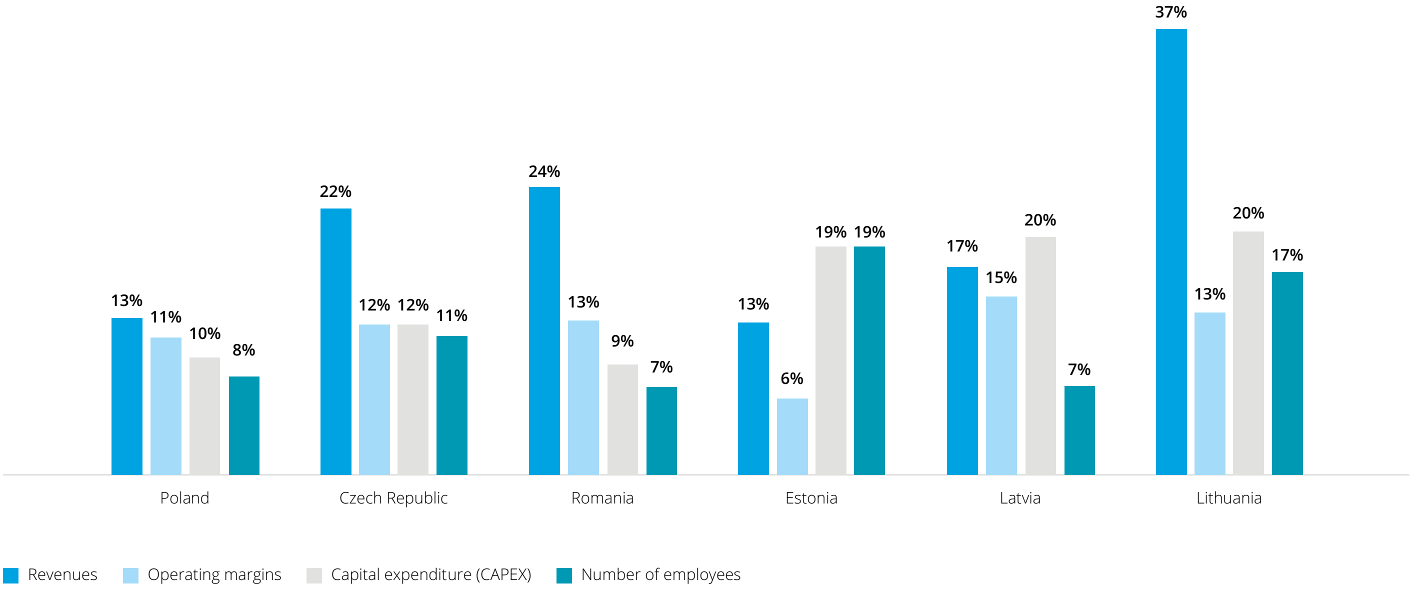


Almost 40% of respondents from Lithuania predict their organizations' revenues will increase over the next 12 months.

The most skeptical are those from Poland and Estonia, in both groups only 13% think revenues will increase. CFOs in all the countries are the most doubtful when it comes to the potential for increasing number of employees in their organizations.

We do believe that the survey's findings, and the trends affecting key indicators that they represent, remain worthy of analysis and comment.

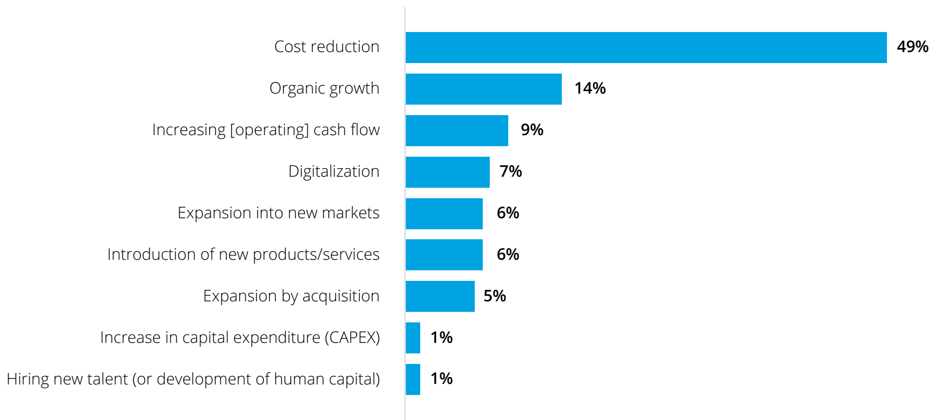
Percentage of respondents by country who predict a given metric will increase



The strategic priorities

Cost reduction is set to be a priority for businesses in 2020, with 49% of CFOs putting it at the top of the agenda. Cost reduction is particularly important for CFOs from the Construction, Energy, Utilities, Mining and Manufacturing sectors. Organic growth is the top priority for more than 20% of CFOs from the Consumer, Technology, Media, Telecommunication and Financial Services industries. Digitalization is the main priority for CFOs in the Life Sciences companies.

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



	Consumer Business	Construction	Life Sciences	Energy, Utilities, Mining	Manufacturing	Professional Services	Technology, Media, Telecommunication	Financial Services	Public*
Cost reduction	45%	55%	42%	55%	56%	39%	28%	42%	75%
Organic growth	24%	15%	17%	0%	11%	17%	25%	21%	0%
Increasing [operating] cash flow	15%	5%	0%	10%	14%	0%	3%	11%	0%
Digitalization	6%	10%	25%	5%	4%	6%	11%	11%	0%
Expansion into new markets	0%	10%	8%	5%	3%	0%	17%	11%	0%
Introduction of new products/services	3%	0%	0%	15%	7%	22%	6%	0%	0%
Expansion by acquisition	6%	0%	8%	0%	5%	17%	6%	5%	0%
Increase in capital expenditure (CAPEX)	0%	0%	0%	5%	0%	0%	3%	0%	0%
Hiring new talent (or development of human capital)	0%	0%	0%	0%	0%	0%	3%	0%	25%
Cyber Risk	3%	5%	8%	10%	0%	6%	11%	5%	25%

* Due to the limited number of answers from CFOs in the Public Sector, data concerning this element need to be interpreted cautiously

Hiring new talent (or development of human capital), increase in capital expenditure (CAPEX), expansion by acquisition, introduction of new products/services and expansion into new markets are the least important considerations for 2020, with only 1% to 6% of respondents regarding them as key priorities.

We would like to thank all the 309 CFOs who took the time to answer our questions and we hope you find the insight it gives you into the collective mindset of finance leaders both interesting and useful.

	Poland	Czech Republic	Romania	Estonia	Latvia	Lithuania
Cost reduction	50%	43%	58%	44%	51%	50%
Organic growth	13%	16%	13%	25%	5%	20%
Increasing [operating] cash flow	13%	8%	16%	6%	7%	0%
Digitalization	8%	8%	2%	0%	15%	7%
Expansion into new markets	6%	5%	2%	0%	12%	10%
Introduction of new products/services	3%	10%	5%	0%	5%	10%
Expansion by acquisition	2%	10%	2%	13%	2%	3%
Increase in capital expenditure (CAPEX)	2%	0%	0%	13%	0%	0%
Hiring new talent (or development of human capital)	2%	2%	0%	0%	2%	0%
Shortage of capital	74%	24%	11%	38%	20%	27%

Regional contacts

Katarzyna Swat
Senior Manager, Clients & Markets
CFO Programme
Central Europe
kswat@deloittece.com

Local contacts

Czech Republic

Ladislav Sauer
Partner, Audit & Assurance
lsauer@deloitteCE.com

Jan Kněžínek
Manager, Clients & Markets
jknezinek@deloittece.com

Estonia

Kristīne Jarve
Partner, Tax
kjarve@deloittece.com

Liis Mehine
Coordinator, Clients and Markets
lmehine@deloittece.com

Latvia

Jānis Čupāns
Partner, Tax
jcupans@deloitteCE.com

Polina Nazarova
Senior Manager, Clients and Markets
pnazarova@deloittece.com

Lithuania

Simonas Rimašauskas
Partner, Audit & Assurance
srimasauskas@deloittece.com

Viktorija Kizyte
Coordinator, Clients and Markets
vkizyte@deloittece.com

Poland

Paweł Spławski
Partner, Risk Advisory
psplawski@deloittece.com

Aleksandra Petruk
Manager, Clients & Markets
apetruk@deloittece.com

Romania

Zeno Caprariu
Partner, Audit & Assurance
zcaprariu@deloitteCE.com

Ruxandra Bandila
Marketing and Business Development Director
rbandila@deloittece.com

Deloitte.

www.deloitte.com/cecfo