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The CFO Programme

2023 Central Europe CFO Survey

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Several powerful external influences, active during the survey phase that took place between late October and mid-December 2022, have conspired to make this a particularly significant edition of our report. We aim to present and interpret the data gathered in a way that delivers insight into the most important topics and trends affecting businesses, today and during the months ahead.

Contents

Introduction

Once again, I am pleased to present the Deloitte CFO Survey and report for Central Europe. This, its 15th edition, contains the opinions and expectations of more than 620 Chief Financial Officers from listed and private companies covering a wide range of industries across 15 Central European countries.

It is fair to say that several powerful externalities – being active during the survey phase that took place between late October and mid-December 2022 – have conspired to make this a particularly significant edition of our report. We aim to present and interpret the data gathered in a way that delivers insights into the most important topics and trends affecting businesses, today and during the months ahead.

In particular, we provide a detailed overview of CFOs' financial outlook, alongside their views on the factors they believe will have a major effect on their companies' performance. These range from inflationary pressures and other critical business risks to the strategic priorities and funding considerations that most occupy their thoughts at this challenging time.

The region's business environment is, of course, heavily influenced by Russia's invasion of Ukraine on 24 February 2022. This has radically altered the economic environment that preceded the beginning of the war, which was mainly characterised by expansionist plans driven by the belief that the main impacts of the COVID-19 pandemic were behind us.

Two primary factors relating to business sentiment stand out. First, those persistent concerns that have always worried CFOs across Central Europe have grown in strength. And second, the rebound in business sentiment that we saw last year in the wake of lockdown rules being relaxed has gone into hard reverse.

It is hardly surprising, therefore, that CFOs feel external forces have continued to bear down relentlessly on their companies, amplifying uncertainty and undermining confidence. The geo-political situation is the starting point for many of these forces, with the resultant scarcity and rising costs of raw materials, commodities, energy and transport driving high inflation, low growth and supply-chain disruption.

So it's inevitable that CFOs are reporting record levels of risk. Perhaps it's even more so that we have seen a decline in the CFO Confidence Index, down to -15% from 10% in both 2021 and 2022, 9% in 2020 and 16% in 2019.

But even this is overshadowed by the collapse we have seen in the Economy Confidence Index, down from a healthy 44% just 12 months ago to -6% today. When considering the economic landscape, CFOs are particularly downbeat about unemployment: now, 70% anticipate an increase, up from 33% a year ago. And their concerns are also closer to home: today, more than 40% are pessimistic about their companies' financial prospects over the next six months. That's up from 25% a year ago.

This pessimism also extends to the entire sectors in which their companies operate, as the combined impact of high inflation, low growth and tight monetary policy continues to impact the business landscape. This is hardly surprising, with inflation in particular running at levels not seen since the 1990s. That said, our respondents do anticipate some improvement before the end of 2023. They expect inflation in their countries to fall to an average of around 11.5%, and to an average of 7.5% in the Eurozone.

In the last survey, it was not surprising to see businesses emphasising expansionary strategies and business-transformation plans following the lifting of COVID-19 lockdowns. Now, due to socio-economic factors driven by war in Ukraine, the level of uncertainty felt by CFOs in Central Europe has risen. However, CFOs have not markedly changed their approach: while defensive strategies are visible, it's expansionary strategies that look set to dominate across Central Europe in 2023.

The report aims to provide insight into the issues at play and into the collective mindset of finance leaders from across our region. I hope you find this both interesting in useful. I hope the same when it comes to two special supplements we are publishing in the weeks ahead, based on additional questions we asked during the research process on two specific business issues. These are Cloud Technologies and Supply Chain Management.

As ever, I would like to thank all the CFOs who took the time to answer our questions. Their willingness to share their views has once again provided rare insight into the realities that finance leaders across our region face every day.

Ferenc Póczak
CFO Programme Leader
Deloitte Central Europe

Methodology

About the data

626 CFOs based in 15 Central European countries: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia.

The survey was conducted between October and December 2022. When the term 'Eurozone' is used in the charts and infographics throughout this report, it is referring to those Central European countries in the survey that have adopted the Euro as their currency. Additionally, when we use the term 'EU', it refers to those Central European countries in the survey that are full members of the European Union.

Please note that due to the limited number of responses from CFOs in Albania and from the Public Sector, we are not showing separately data concerning their results in this report.

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. **As a result of rounding, responses to the questions covered in this report may not aggregate to 100**.

The Deloitte Central Europe CFO Confidence Index consists of three sub-indices that reflect CFOs' optimism (or lack of it) regarding three key issues:

- Economic processes (the Economy Confidence Index): this is based on questions about economic growth, unemployment and the Consumer Price Index (CPI).
- Business environment (the Business Environment Confidence Index): this is based on questions concerning uncertainty, risk, operational expenses, the attractiveness of different sources of funding and opinions about the M&A market.
- Prospects regarding the development of CFOs' companies (the Company Perspective Index): this is based on questions concerning the company's future, its financial position (revenue, debt-servicing capabilities, capital expenditure and margins) and its predicted level of gearing and employee numbers.

The sub-indices are a net balance of average positive and negative answers derived from selected questions.

The main index is a mean of the sub-indices and assumes values between - 100 and 100: - 100 means that a given CFO provided only pessimistic answers, while 100 means only optimistic answers were given.

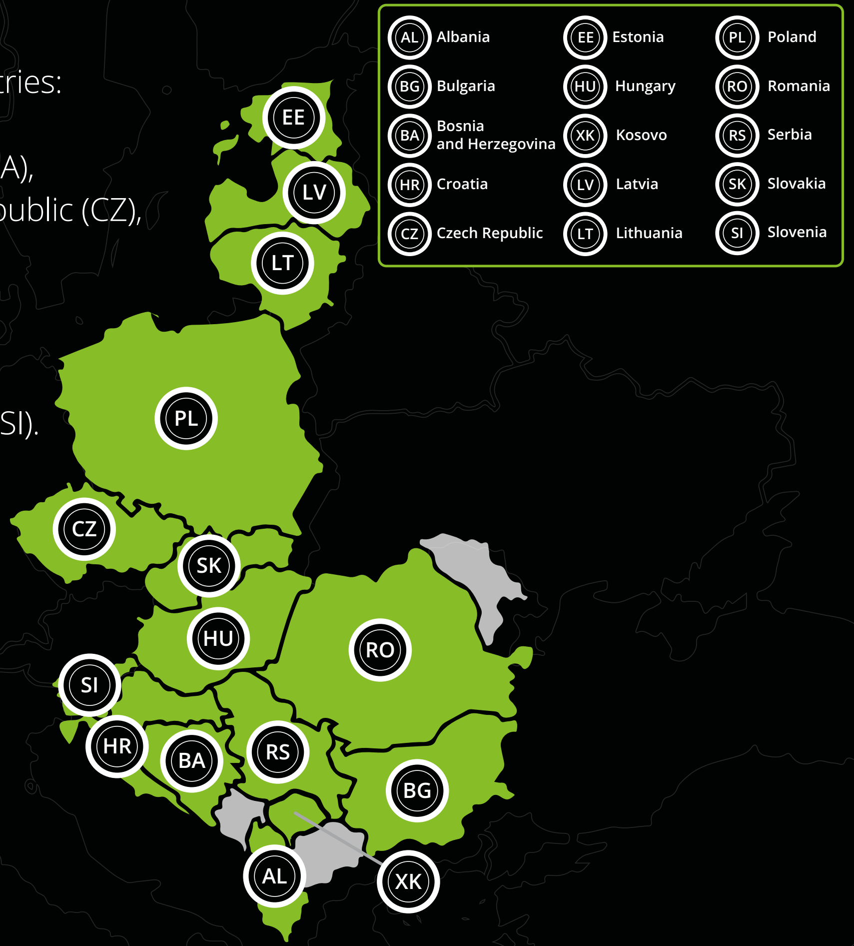
Please note that the survey was conducted in late 2022 before Croatia's entry into the Eurozone.

The findings presented and discussed in this report represent the perspectives of

626 CFOs

based in

15 Central European countries: Albania (AL), Bulgaria (BG), Bosnia and Herzegovina (BA), Croatia (HR), the Czech Republic (CZ), Estonia (EE), Hungary (HU), Kosovo (XK), Latvia (LV), Lithuania (LT), Poland (PL), Romania (RO), Serbia (RS), Slovakia (SK) and Slovenia (SI).



I. The CFO Confidence Index

The score of the Deloitte CE CFO Confidence Index is reached through the analysis of three subsidiary indices: the Economy Confidence Index, the Business Environment Confidence Index and the Company Perspective Index. Taken together, their findings give an accurate picture of CFO sentiment across our region.

CFO Confidence Index by sub-indices

scale (-100; +100)
where -100 means all answers are negative and +100 all answers are positive

This year’s survey reveals that the invasion of Ukraine has delivered a sharp shock to business sentiment, which had previously been recovering as lockdown measures from the Covid-19 pandemic were lifted. CFOs now report a record level of risk, stemming from factors including geopolitical issues, supply chain disruption and inflation.

II. Economic outlook

Average level of GDP growth:

0.33%

Number of CFOs who expect Consumer Price Index (CPI) inflation to increase:

70%

The average inflation expectations:

11.5%

CFOs are very pessimistic about GDP growth

This year's survey reveals that the invasion of Ukraine has delivered a sharp shock to business sentiment, which had previously been recovering as lockdown measures from the Covid-19 pandemic were lifted. CFOs now report a record level of risk, stemming from factors including geopolitical issues, supply chain disruption and inflation.

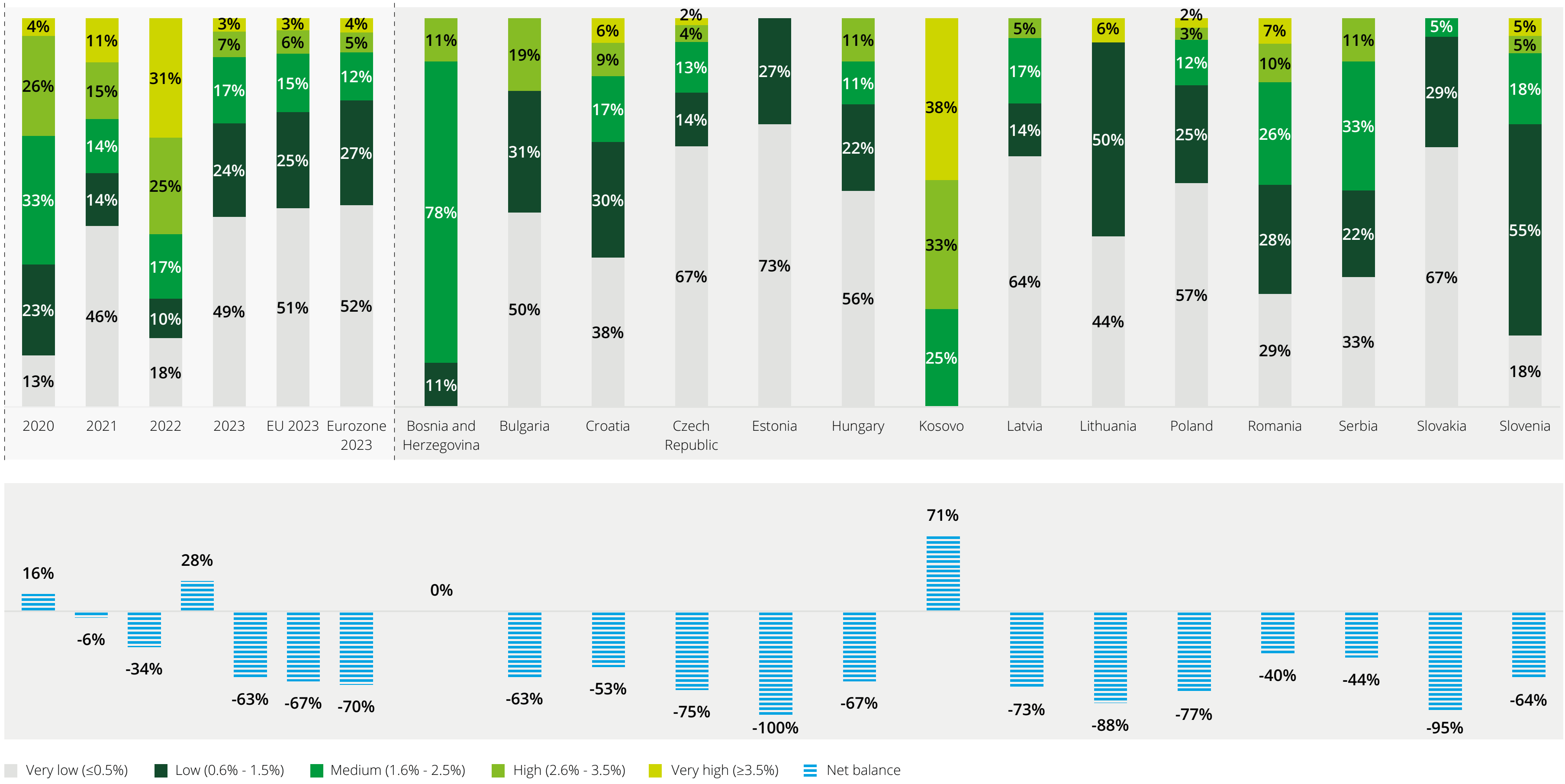
The average levels of GDP growth CFOs expect for 2023 is 0.33%, compared to 2.3% in 2022 and 0.25% in 2021.

There has been a 31pp increase in the share of CFOs expecting GDP growth to be at or below 0.5% in 2023. There has also been a 28% decrease in the proportion of respondents predicting that GDP growth in their countries will be higher than 3.5%.

In their predictions for 2023, a remarkable 73% of CFOs, compared with 28% last year, expect GDP growth in their countries to be no higher than 1.5%. When it comes to EU markets, the proportion anticipating growth of no more than 1.5% increased to 76% (up from 28% last year).

When in late 2020, after the outbreak of Covid-19, we asked CFOs about their predictions for 2021, 60% of those surveyed expressed this same opinion.

What is your expectation for the country economic GDP growth for the year 2022?



The negative net balance (i.e. the difference between the shares of respondents expecting high and low levels of GDP growth) is particularly marked in Estonia, Slovakia, Lithuania, Poland, the Czech Republic and Latvia.

CFOs from different industries have different perspectives on likely GDP growth in 2023. While all sectors recorded a negative net balance, Business & Professional Services (-86%) and Technology, Media, Telecommunication (-73%) had the most pessimistic expectations. When these findings are compared with predictions for 2022 (when all sectors except for Life Sciences anticipated a positive net balance), there is clear evidence that the Russian invasion of Ukraine weighs heavily on European businesses and their sentiments for the months ahead.

What is your expectation for the country economic GDP growth for the year 2022?

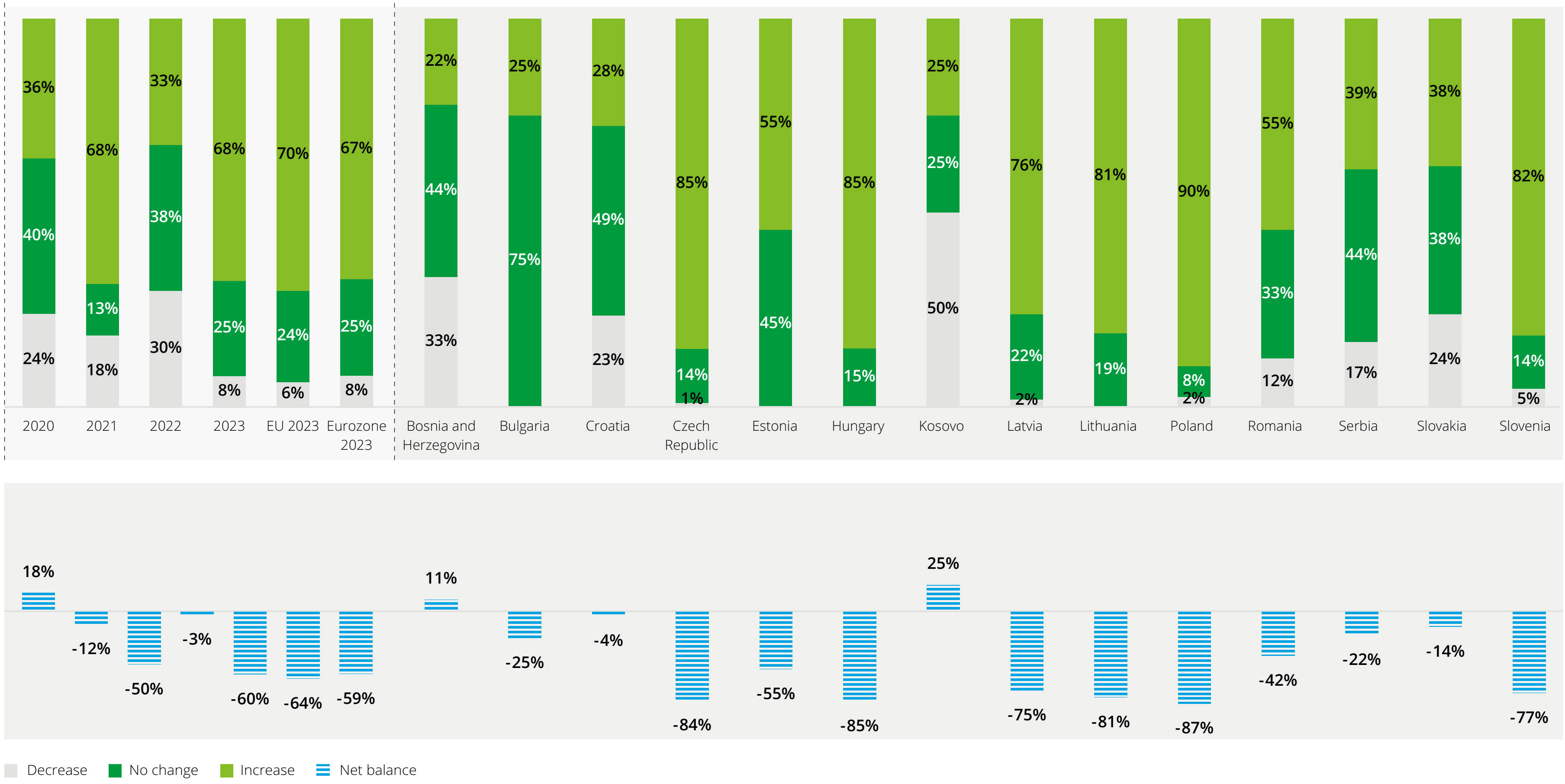
Unemployment expected to increase

In 2022, the anticipated economic recovery from the Covid-19 pandemic led to optimistic predictions in the year ahead. By way of contrast, in 2023 more CFOs are predicting that the level of unemployment will rise (up from 33% in 2022 to 68% in 2023).

There is little difference between the predictions made in this area by CFOs in the Eurozone and EU countries, with 67% of Eurozone and 70% of EU respondents forecasting an increase in unemployment.

Poland, Hungary and the Czech Republic are the countries where the largest proportions of CFOs expect unemployment to rise. This is due to the already low level of unemployment in these countries in 2022: just 3.5% in the Czech Republic, 5.1% in Poland and 3.6% in Hungary.[1]

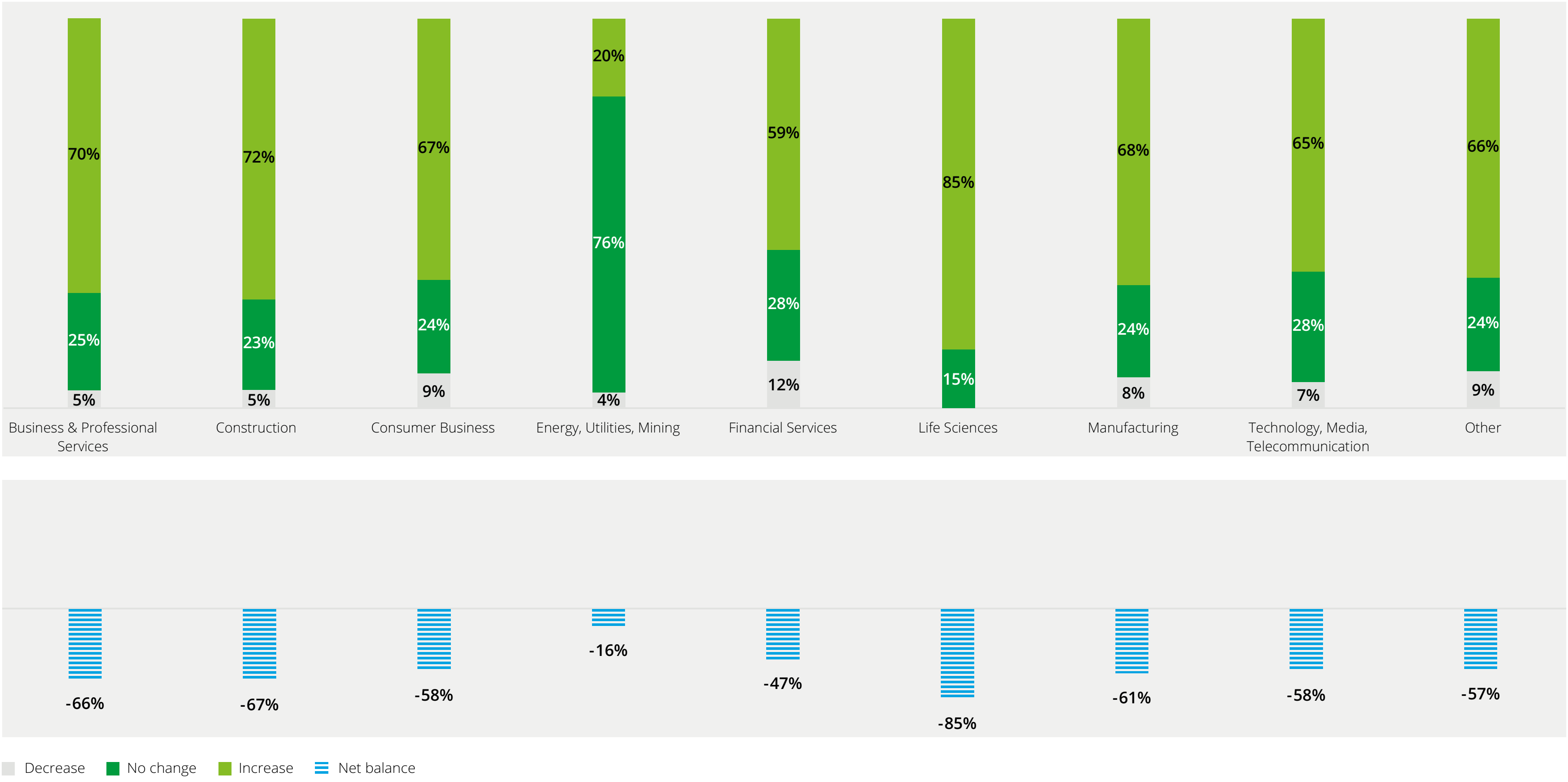
Over the next 12 months how do you expect levels of unemployment to change?



1 https://tradingeconomics.com/country-list/unemployment-rate?continent=europe

With 85% predicting an increase in unemployment, CFOs from the Life Sciences sector are the most pessimistic about the level of employment in their industry. They are closely followed by those from the Construction (72%) and Business & Professional Services (70%) sectors.

Over the next 12 months how do you expect levels of unemployment to change

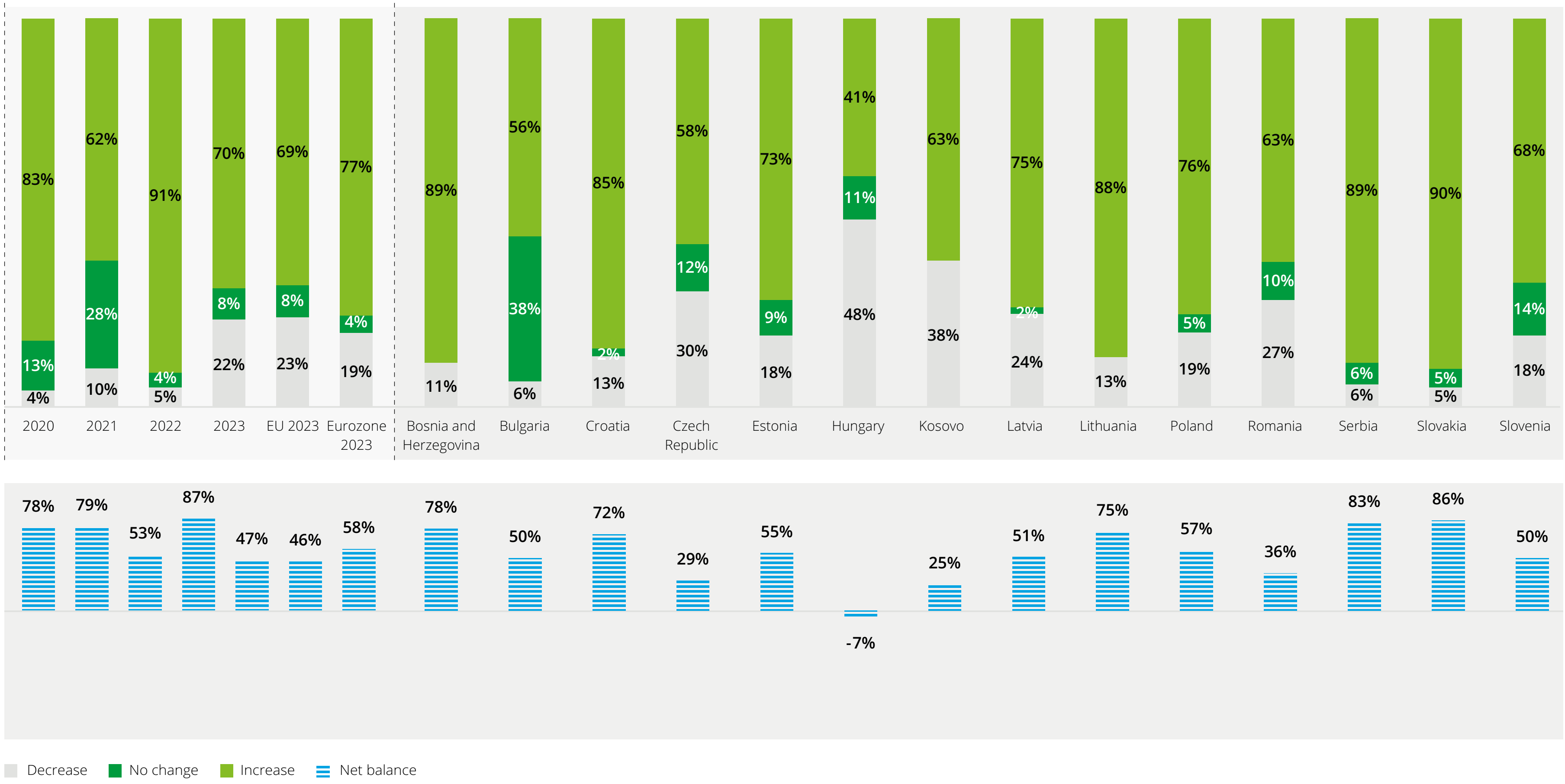


Expectations of increased CPI inflation

The immediate implications of the geopolitical situation are high inflation, low growth and supply chain disruption. These are all caused by the scarcity and rising cost of raw materials, commodities, energy and transport.

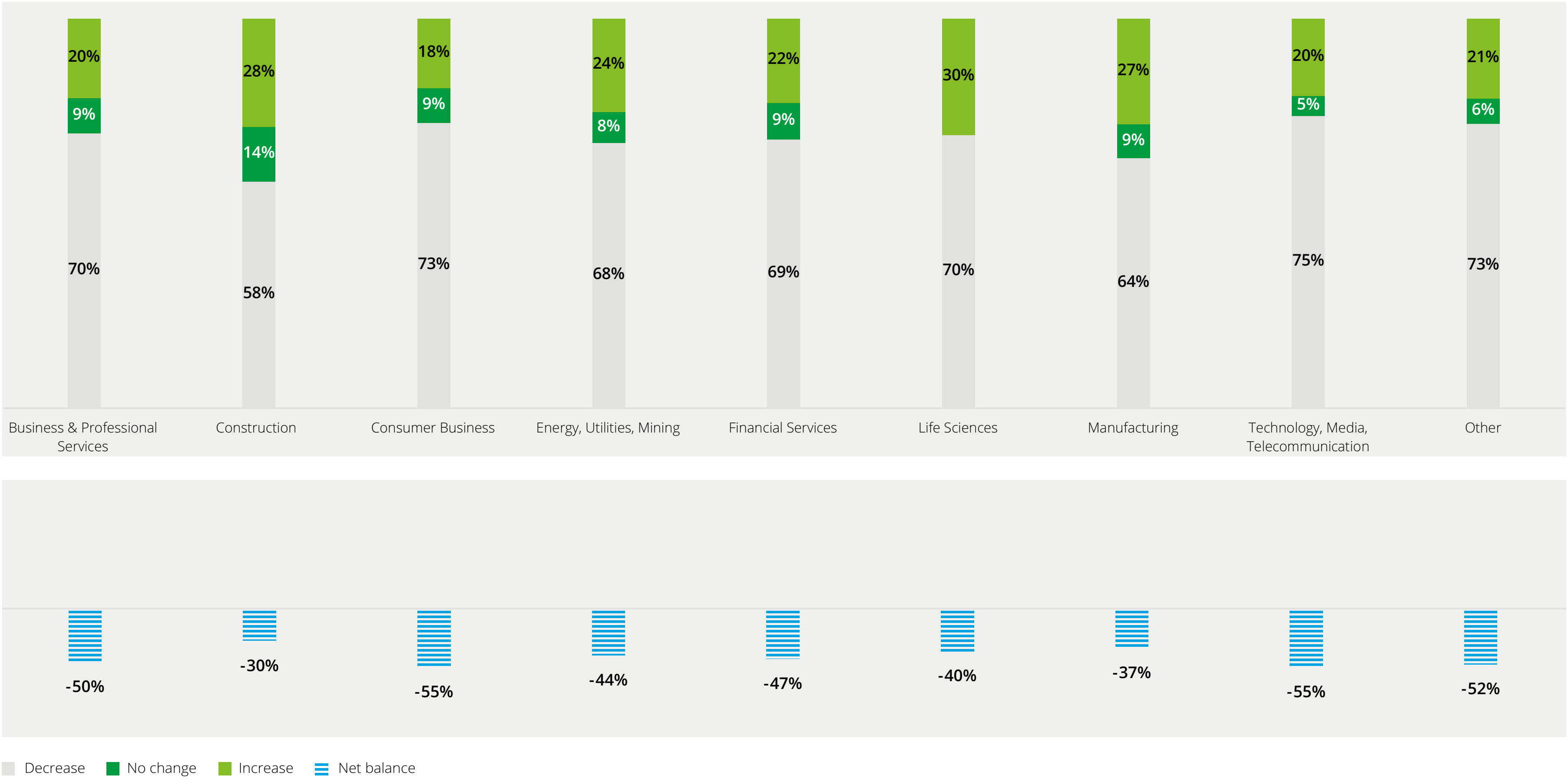
Inflation has been relatively low during the past decade, but recent surveys suggest that CFOs now expect upward pressure to emerge. This pressure is now in force, and is being exacerbated by the war and the associated supply chain disruption. A clear majority (70%) of CFOs therefore expect Consumer Price Index (CPI) inflation to increase. This prediction also reflects the sentiments of CFOs in the EU countries (69%) and the Eurozone countries (77%) we surveyed.

How do you expect CPI (Consumer Price Index) levels to change over the next 12 months?



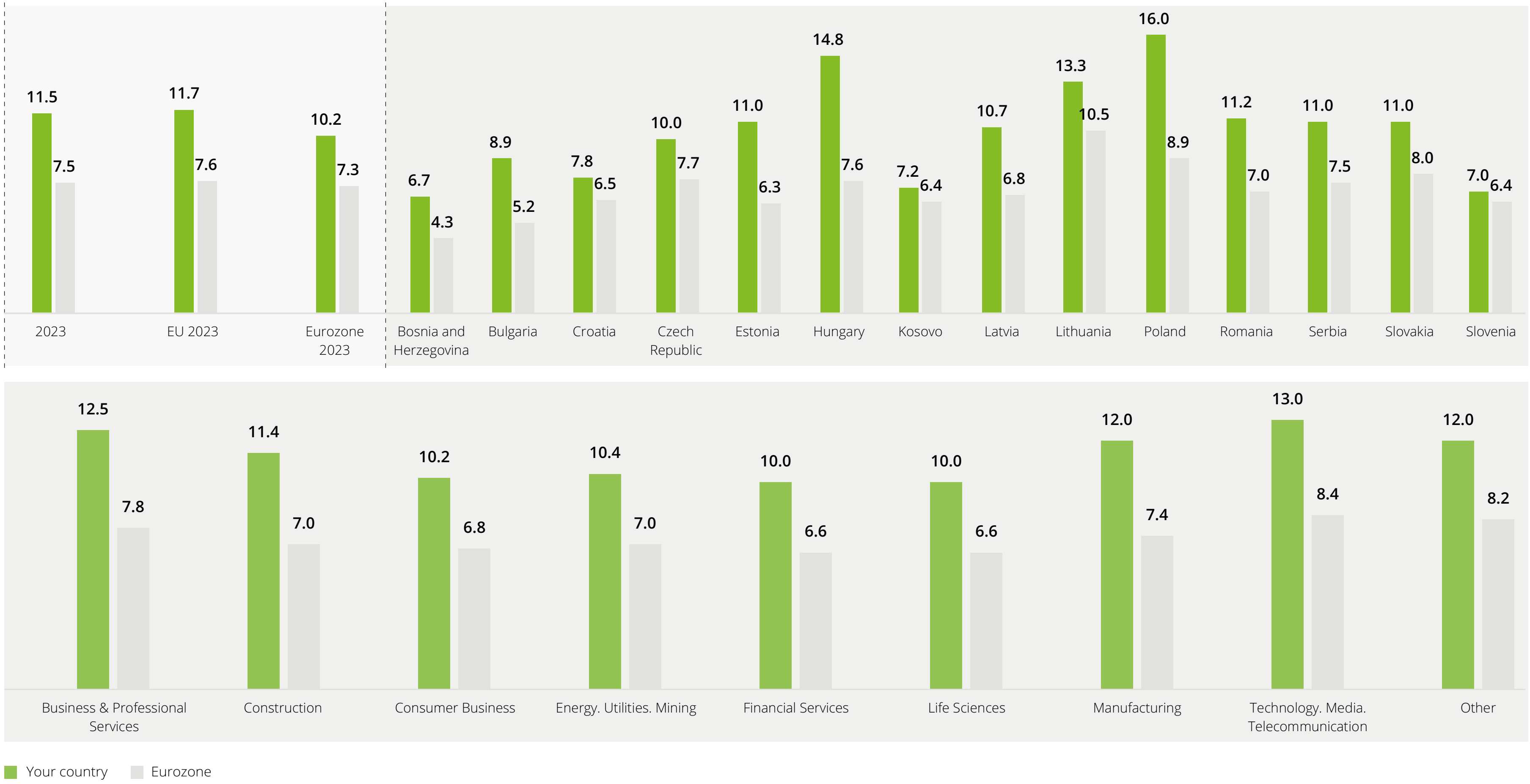
The lowest proportion of CFOs expecting a rise in inflation (58%) is from the construction sector. The highest proportion (75%) represents the Technology, Media, Telecommunication sector.

How do you expect CPI (Consumer Price Index) levels to change over the next 12 months?



The inflation expectations of CFOs have surged since the 2022 edition of this survey – from 5.5% to 11.5% in 2023. This is also the case in all participating countries. The expected average inflation rate for the Eurozone in 12 months' time increased considerably, from 4.4% in the 2022 survey to 10.2% in this edition. CFOs are expecting price pressures to remain high.

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?



III. Business environment outlook

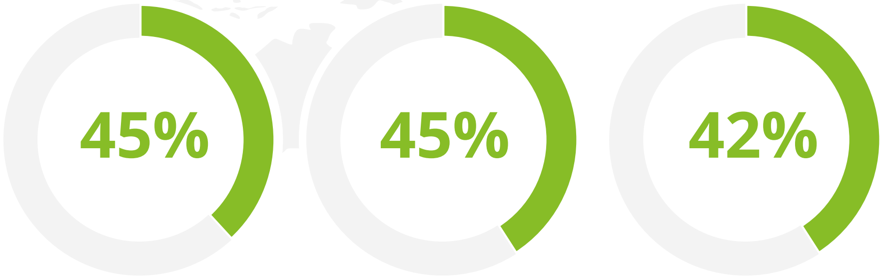
Number of CFOs who feel the level of financial and economic uncertainty is high:

61%

Number of CFOs who expect workforce costs to increase:

93%

Main sources of anxiety for businesses: reduced domestic demand (**45%**), geopolitical risk (**45%**) and a shortage of skilled professionals (**42%**)



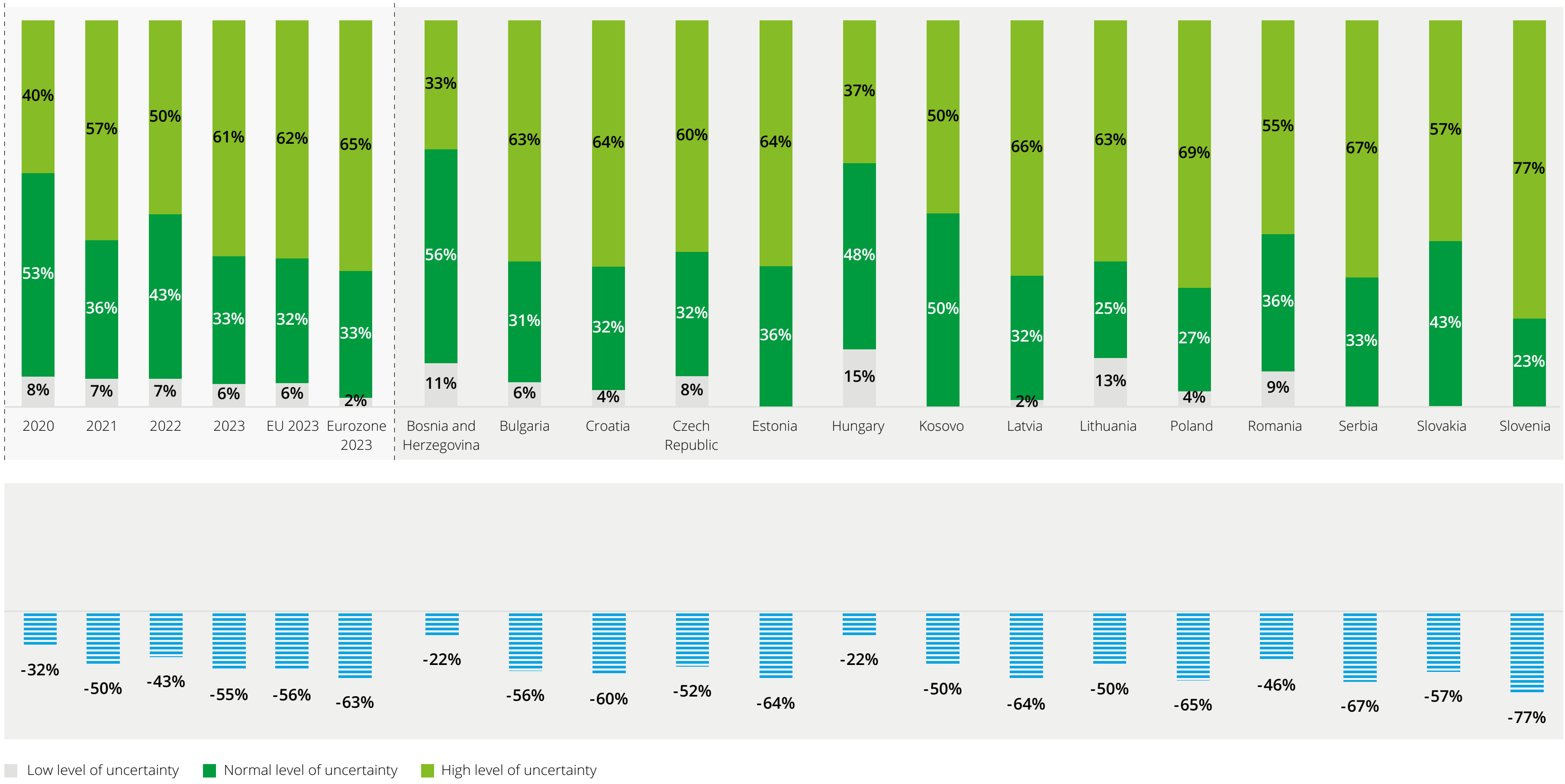
Uncertainty remains high

Russia's invasion of Ukraine was a harsh blow to a world economy struggling to shake off the after-effects of widespread Covid-19 lockdowns. As the conflict has dragged on, it has further disrupted supply chains, caused market volatility, prompted energy price spikes and provoked a high-inflation environment that has driven financial and economic uncertainty to the highest level since the 2015 edition (for which data was gathered in the end of 2014).

Overall, the net balance of CFOs who feel the level of financial and economic uncertainty is high and has increased slightly, from -43% to -55%. This surpasses the level predicted for 2021, when data was gathered during the Covid-19 pandemic of 2020.

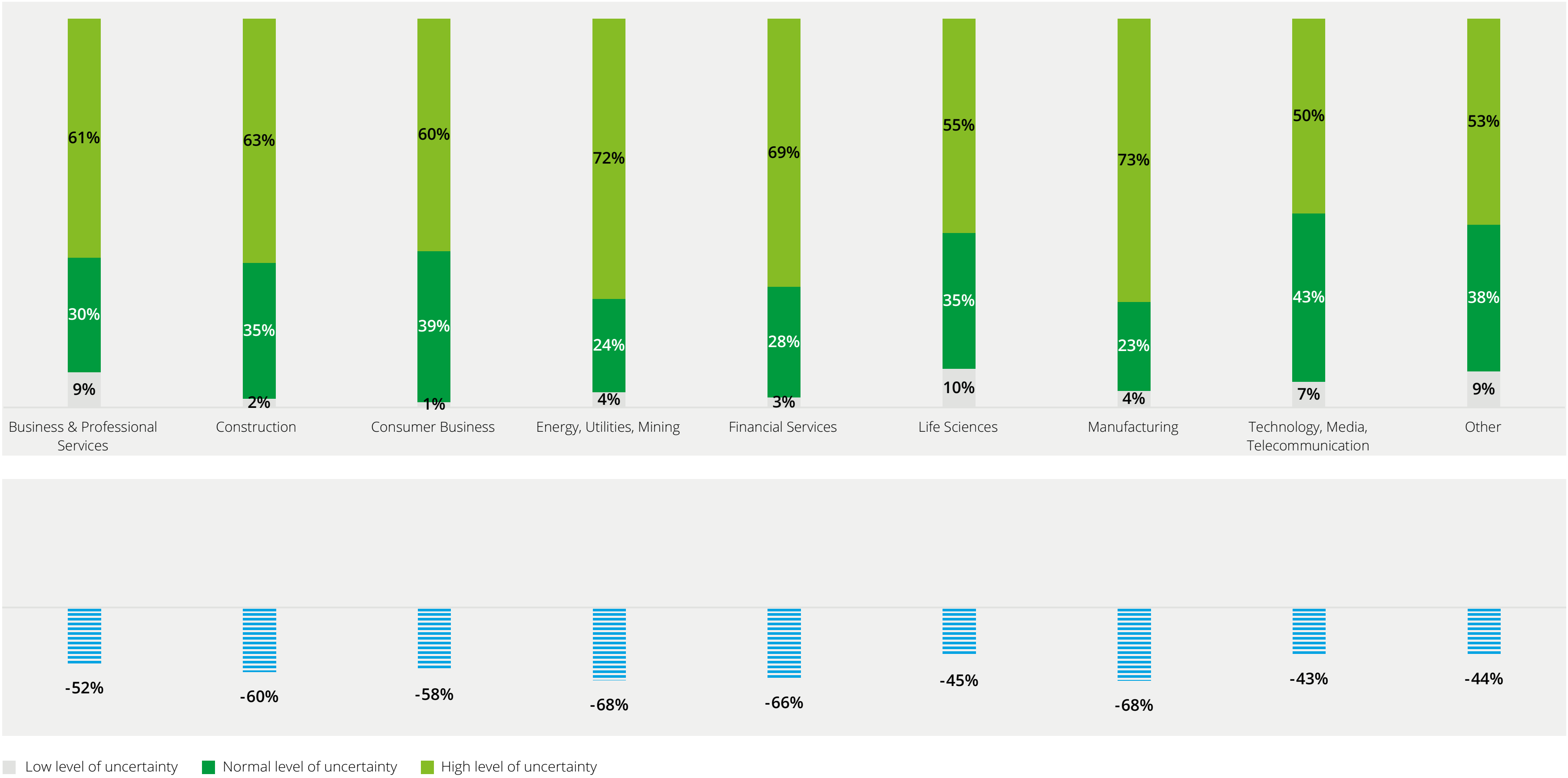
No CFOs at all in Estonia, Kosovo, Serbia, Slovakia and Slovenia believe that uncertainty is low. Only slightly higher proportions in several other countries believe it is low: Latvia (2%); Croatia and Poland (4%); Bulgaria (6%); the Czech Republic (8%); and Romania (9%).

How would you rate the overall level of external financial and economic uncertainty facing your business?



The picture was similar across all sectors. The overall level of uncertainty is very high in Manufacturing (73%), Energy, Utilities, Mining (72%) and Financial Services (69%). The most optimistic CFOs were from the Technology, Media, Telecommunication sector, where 'only' 50% of respondents identified uncertainty as very high and 7% as low.

How would you rate the overall level of external financial and economic uncertainty facing your business?



Further increase in costs across all categories

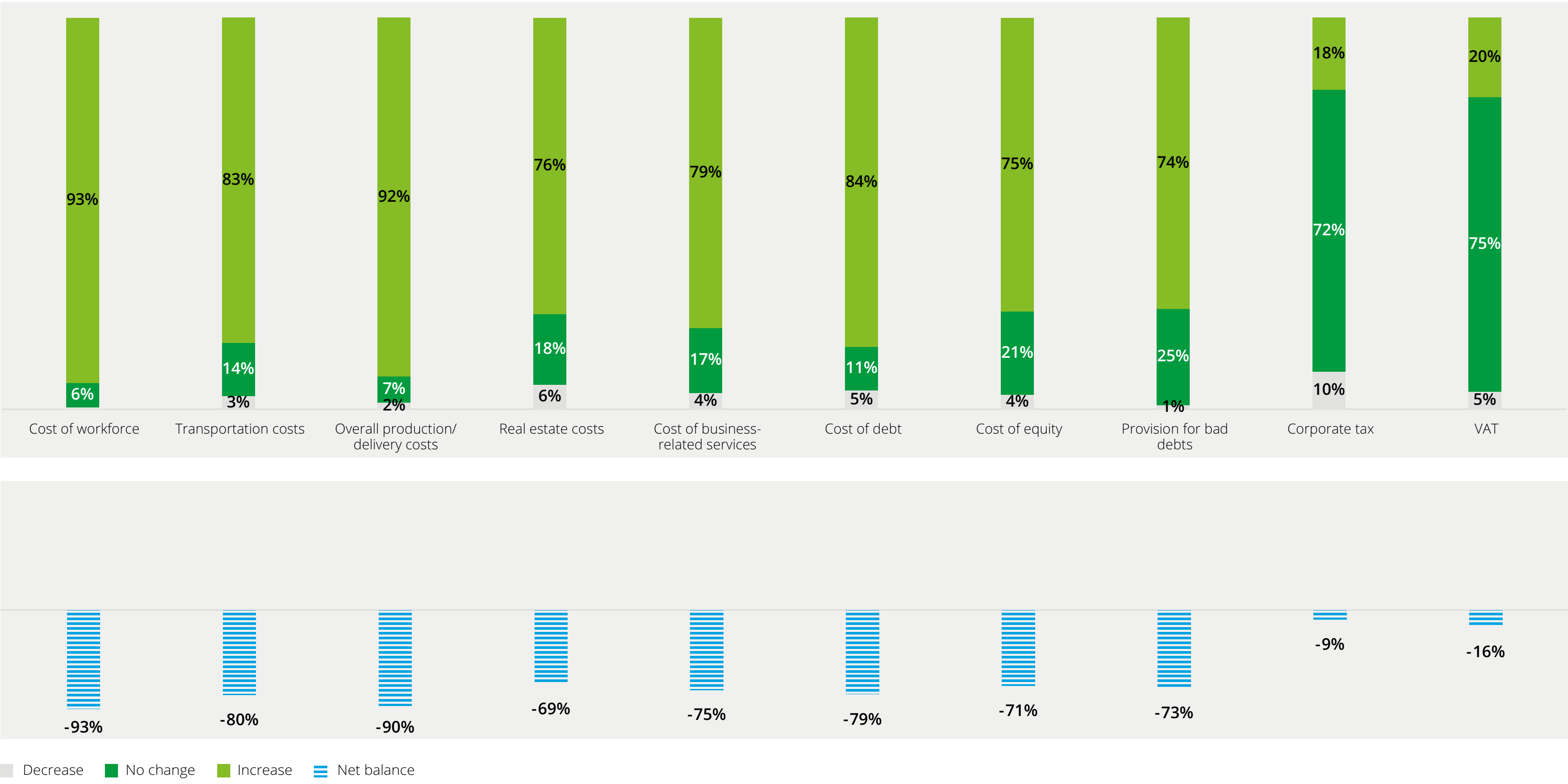
CFOs from across Central Europe expect considerable further cost increase across all categories in 2023, meaning an overall negative net balance across all types of cost. An overwhelming 93% of respondents expect workforce costs to increase in 2023, little changed from the 95% we reported in 2022. In our survey from Q4 2020, following the outbreak of the pandemic, just 40% predicted an increase in workforce costs, while close to 40% expected no change in this category of cost. (This was, of course, due to anticipated salary reductions in the face of Covid-19.)

The predicted increase in general workforce-related spending in 2023 can be attributed both to the end of the pandemic and high levels of inflation across the region in the months ahead.

Unsurprisingly, 84% and 83% of respondents respectively anticipate increases in the costs of debt and transportation this year, compared with 94% and 74% in 2022.

In addition, 92% of CFOs predict that overall costs of production and delivery will continue to rise, compared with 94% last year and 45% in 2021 (during the Covid-19 pandemic). Three-quarters of respondents expect corporate tax and VAT to remain stable in 2023.

In your view, how are costs for companies in your country likely to change over the next 12 months?



The great majority of CFOs expect increases across all categories in 2023 (leading to a negative net balance in every category). The only exception is the Real Estate sector, which shows a positive net balance (12%) for corporate tax. Cost categories that involve manpower and production processes are seen as being at the greatest risk of cost increases in 2023 across all the industries we surveyed. This has also been the case in previous editions of the survey.

More than their colleagues from the other industries, CFOs from the Financial Services, Energy, Utilities, Mining, and Life Sciences sectors expect debt-related costs to increase. Provision for bad debts is of particular concern for the Financial Services and Energy, Utilities, Mining sectors. As in previous editions, VAT and corporate tax are seen as the most stable cost categories in 2023, with most respondents expecting no change.

In your view, how are costs for companies in your country likely to change over the next 12 months?

		Business & Professional Services	Real Estate	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Technology, Media, Telecommunication	Other
VAT	No change	70%	81%	67%	72%	82%	80%	81%	85%	68%
	Net Balance	-16%	-9%	-18%	-20%	-12%	-20%	-9%	-12%	-23%
Corporate tax	No change	70%	79%	69%	64%	76%	85%	74%	82%	65%
	Net Balance	-16%	12%	-7%	-20%	-8%	-5%	-7%	-8%	-14%
Provision for bad debts	No change	18%	28%	28%	12%	9%	35%	34%	27%	24%
	Net Balance	-82%	-67%	-72%	-88%	-91%	-55%	-62%	-70%	-75%
Cost of equity	No change	23%	23%	22%	4%	16%	35%	28%	17%	21%
	Net Balance	-64%	-58%	-69%	-96%	-81%	-65%	-60%	-80%	-75%
Cost of debt	No change	11%	23%	10%	8%	0%	10%	16%	13%	10%
	Net Balance	-66%	-63%	-81%	-92%	-89%	-90%	-68%	-80%	-85%
Cost of business-related services	No change	20%	21%	13%	8%	20%	10%	18%	28%	11%
	Net Balance	-70%	-65%	-84%	-84%	-69%	-80%	-80%	-58%	-78%
Real estate costs	No change	9%	7%	24%	24%	20%	20%	21%	20%	16%
	Net Balance	-86%	-79%	-70%	-52%	-66%	-70%	-68%	-63%	-68%
Overall production	No change	7%	5%	6%	8%	8%	15%	8%	10%	4%
	Net Balance	-89%	-95%	-94%	-92%	-86%	-85%	-83%	-83%	-95%
Transportation costs	No change	7%	19%	13%	8%	15%	15%	16%	25%	8%
	Net Balance	-84%	-81%	-84%	-84%	-77%	-85%	-74%	-72%	-84%
Cost of workforce	No change	9%	9%	6%	8%	5%	20%	6%	2%	5%
	Net Balance	-91%	-91%	-94%	-92%	-95%	-80%	-94%	-95%	-93%

Increasing concerns over geopolitical tensions

CFOs regard reduced domestic demand (45%), geopolitical risk (45%) and a shortage of skilled professionals (42%) as the main sources of anxiety for businesses across the CE region in 2023. That said, the shortage of professionals also recorded the highest percentage decrease from 2022 (with a fall of 22 percentage points).

Having been low in recent years, geopolitical risk this time ranks in equal first place, alongside reduced domestic demand.

Although the impact of Covid-19 is decreasing, the Russia-Ukraine conflict and its associated implications such as rising inflation and related concerns about international stability and supply-chain fragility are weighing heavily on the economic outlook. The conflict ranks as the third highest risk in 2023 (selected by 38% of respondents).

A quarter of CFOs highlight increasing regulation and falling foreign demand as additional factors that are likely to pose a significant risk in 2023.

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

	2023	2022	Change
Reduction in demand (domestic)	45%	31%	14% ↑
Reduction in demand (foreign)	26%	20%	6% ↑
Shortage of skilled professionals	42%	64%	-22% ↓
Increasing regulations	25%	37%	-12% ↓
Shortage of capital	15%	11%	4% ↑
Geopolitical risks	45%	25%	20% ↑
Cyber risk	10%	13%	-3% ↓
Economic outlook/growth	38%	27%	11% ↑
Currency fluctuations	17%	17%	0% ↔
Other	4%	11%	-7% ↓

As in previous years, our cross-industry comparison shows similarities between how CFOs from different sectors perceive the main challenges they will face over the year to come. CFOs from across the board perceive concerns about reduced domestic demand, a shortage of skilled professionals and geopolitical risks as major threats.

Reduced domestic demand is especially high on the agenda for CFOs from the Business & Professional Services, Construction and Consumer Business sectors.

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

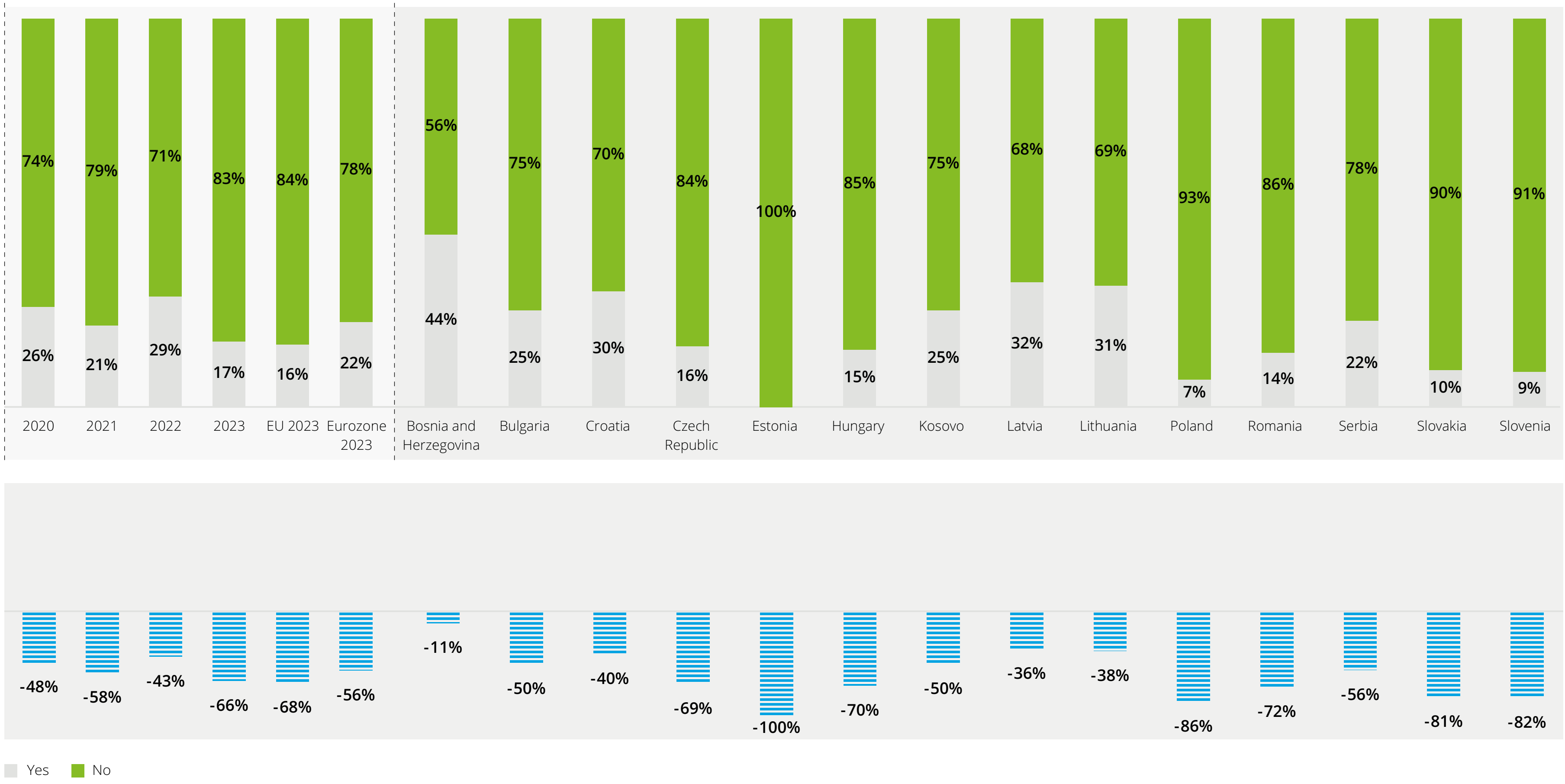
	Business & Professional Services	Construction	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Technology, Media, Telecommunication	Other
Reduction in demand (domestic)	66%	74%	66%	40%	35%	30%	34%	32%	42%
Reduction in demand (foreign)	16%	14%	16%	16%	4%	20%	61%	22%	24%
Shortage of skilled professionals	45%	33%	43%	48%	45%	45%	39%	60%	35%
Increasing regulations	25%	9%	21%	56%	43%	30%	16%	20%	26%
Shortage of capital	11%	23%	7%	16%	16%	5%	16%	12%	19%
Geopolitical risks	32%	35%	58%	52%	53%	35%	46%	48%	42%
Cyber risk	18%	5%	10%	12%	20%	0%	4%	13%	9%
Economic outlook/growth	39%	47%	36%	16%	43%	40%	39%	40%	35%
Currency fluctuations	18%	19%	12%	8%	8%	45%	18%	20%	19%
Other	5%	7%	3%	8%	5%	0%	4%	3%	5%

Risk appetite diminishes

At 61%, the level of financial and economic uncertainty recorded in the 2023 Deloitte Central Europe CFO Survey is at its highest since the 2015 edition. Given this extremely high uncertainty, the majority (83%) of respondents do not feel this is a good time to take greater risk on to their balance sheets. The negative net balance seeing this as a good time to take risk increased from - 43% in 2022 to - 66% in 2023. CFOs from the Eurozone (78%) and EU countries (84%) are equally risk averse.

While our most risk-averse respondents are CFOs from Estonia, Poland, Slovenia and Slovakia, a clear majority from every country believe 2023 is not good time for taking more risk, resulting in a negative net balance in all countries.

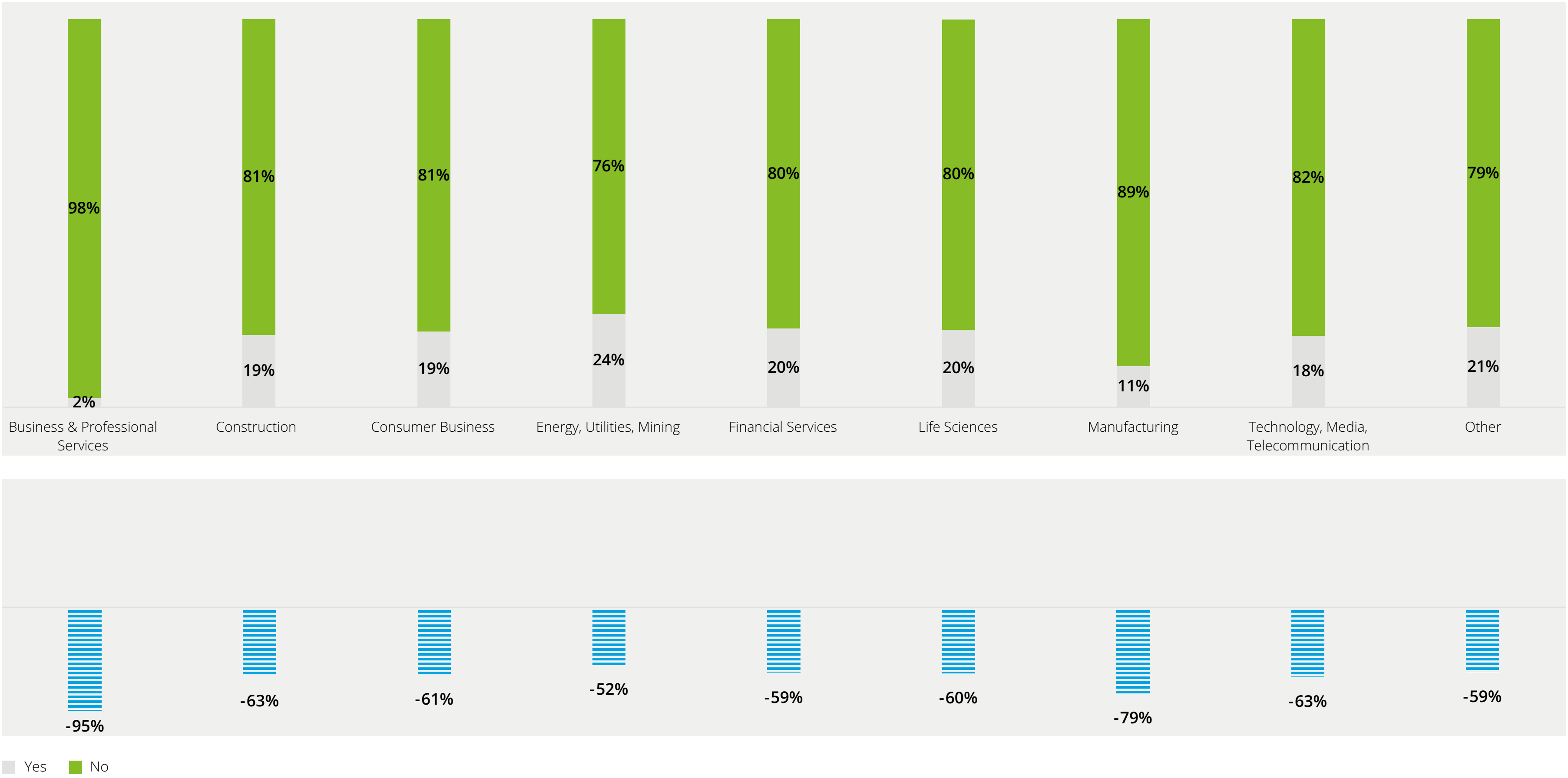
Is this a good time to be taking greater risk onto your company's balance sheets?



When it comes to recognising that conditions in 2023 will not favour taking more financial risk, there is a clear unanimity across all industries: the net balance ranges from -95% in the Business & Professional Services sector to a 'high' of -52% in Energy, Utilities, Mining.

A quarter of respondents in that last sector are willing to take more risk – possibly because Russia's invasion in February 2022 has caused severe disruption to energy supplies, those of natural gas in particular. This has led to a surge in energy prices.[2,3]

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



2 https://www.wsj.com/articles/sliding-natural-gas-prices-deal-surprise-reprieve-to-europe-11673005590 *Retrieved on January 8th, 2023*

3 https://www.euronews.com/my-europe/2022/11/07/gas-and-electricity-bills-nearly-double-in-all-eu-capitals-new-data-reveals *Retrieved on January 8th, 2023*

How CFOs are financing their businesses amidst uncertainty

In the three surveys between 2020 to 2022, CFOs saw internal financing and bank loans as the most attractive sources of funding for their companies. In their predictions for 2023, equity (30%) has overtaken bank borrowing (25%), while internal financing (54%) remains the most attractive form of funding.

Corporate debt and equity are both seen as moderately attractive, with 50% of respondents perceiving them as neither attractive nor unattractive.

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

2023	Attractive	Neither attractive nor unattractive	Unattractive	Net Balance	2022 - attractive	Change
Bank borrowing	25%	34%	41%	-16%	44%	-18% ↓
Internal financing	54%	35%	11%	43%	55%	-2% ↓
Corporate debt	18%	48%	33%	-15%	22%	-4% ↓
Equity	30%	50%	21%	9%	33%	-3% ↓

Apart from those from Estonia and Kosovo, CFOs from all the Central European countries we surveyed regard internal financing as the most attractive source of funding for their organisations in 2023.

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

Share of respondents rating following sources as attractive	Bank borrowing	Corporate debt	Equity	Internal financing
Bosnia and Herzegovina	22%	11%	33%	67%
Bulgaria	19%	19%	19%	50%
Croatia	17%	15%	19%	53%
Czech Republic	27%	20%	31%	51%
Estonia	45%	36%	27%	36%
Hungary	15%	4%	26%	52%
Kosovo	50%	13%	25%	25%
Latvia	32%	32%	42%	66%
Lithuania	31%	31%	50%	69%
Poland	24%	6%	14%	54%
Romania	24%	26%	45%	54%
Serbia	28%	11%	11%	39%
Slovakia	10%	14%	24%	57%
Slovenia	36%	18%	32%	59%

For CFOs from the Business and Professional Services sector, bank borrowing and corporate debt are the least attractive sources of funding (with respective net balances of -34% and -32%). Internal financing, with a positive net balance of 64%, remains the most attractive option for the sector. Equity is the least attractive option for CFOs in the Energy, Utilities, Mining industry (with a net balance of -20%).

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

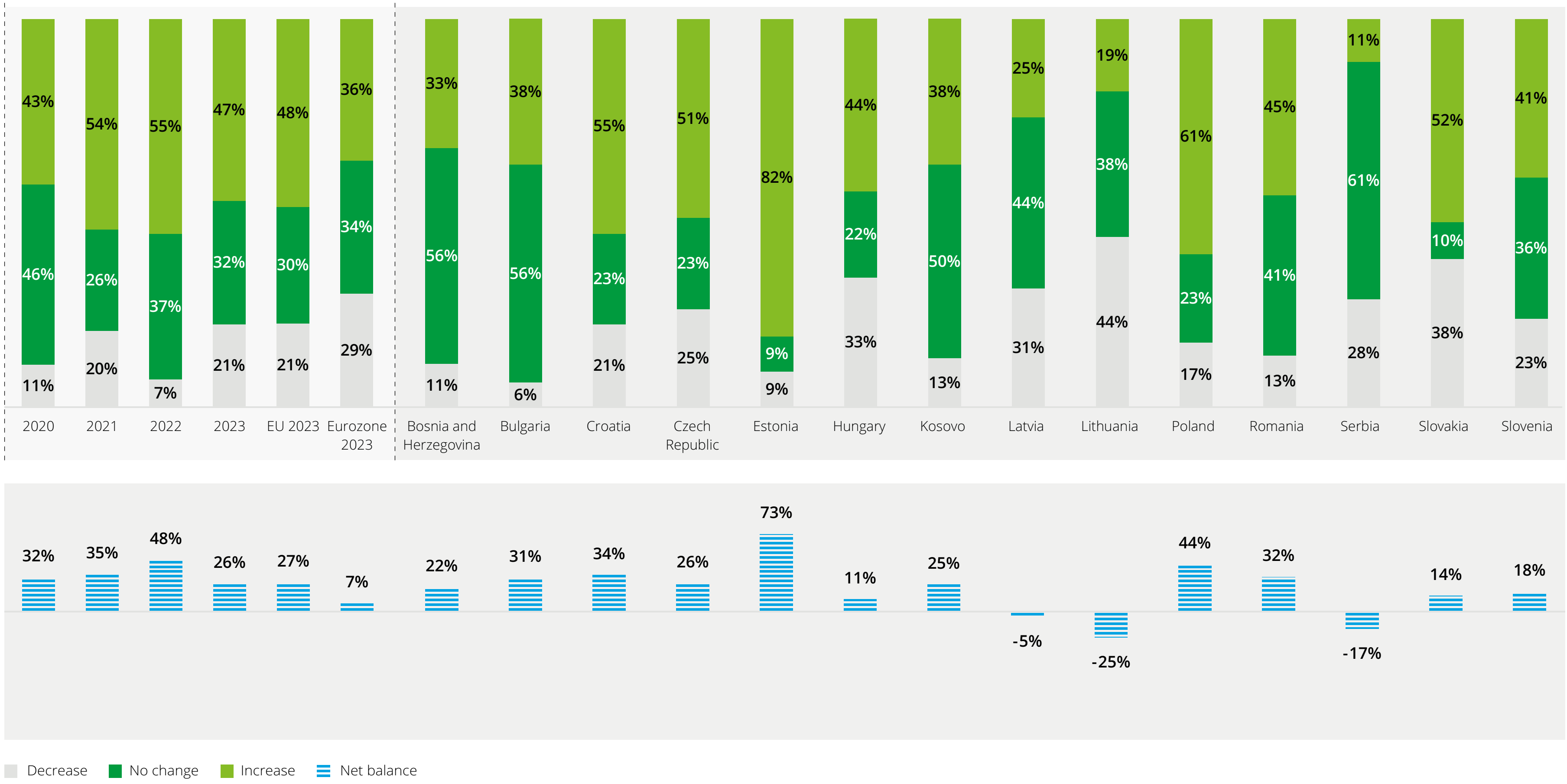
		Business & Professional Services	Construction	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Technology, Media, Telecommunication	Other
Bank borrowing	Net balance	-34%	-16%	-16%	-28%	-22%	-25%	-2%	-27%	-10%
	Neither attractive nor unattractive	25%	28%	42%	32%	32%	45%	32%	40%	32%
Internal financing	Net balance	64%	44%	43%	36%	34%	50%	43%	57%	35%
	Neither attractive nor unattractive	32%	37%	30%	40%	42%	30%	39%	27%	35%
Corporate debt	Net balance	-32%	-2%	-3%	-8%	-16%	-5%	-15%	-20%	-17%
	Neither attractive nor unattractive	50%	47%	49%	36%	46%	35%	54%	50%	49%
Equity	Net balance	2%	26%	15%	-20%	5%	20%	9%	13%	6%
	Neither attractive nor unattractive	48%	47%	40%	32%	43%	60%	56%	50%	54%

CFOs expect M&A levels to rise in the year ahead

Like last year, most CFOs expect the level of M&A activities in their industries to increase in the year ahead (47%, compared with 55% last year). A third of respondents, meanwhile, expect no change. The EU nations taking part in the research share broadly the same outlook, although there is some deviation when these views are compared with those of CFOs from the Eurozone.

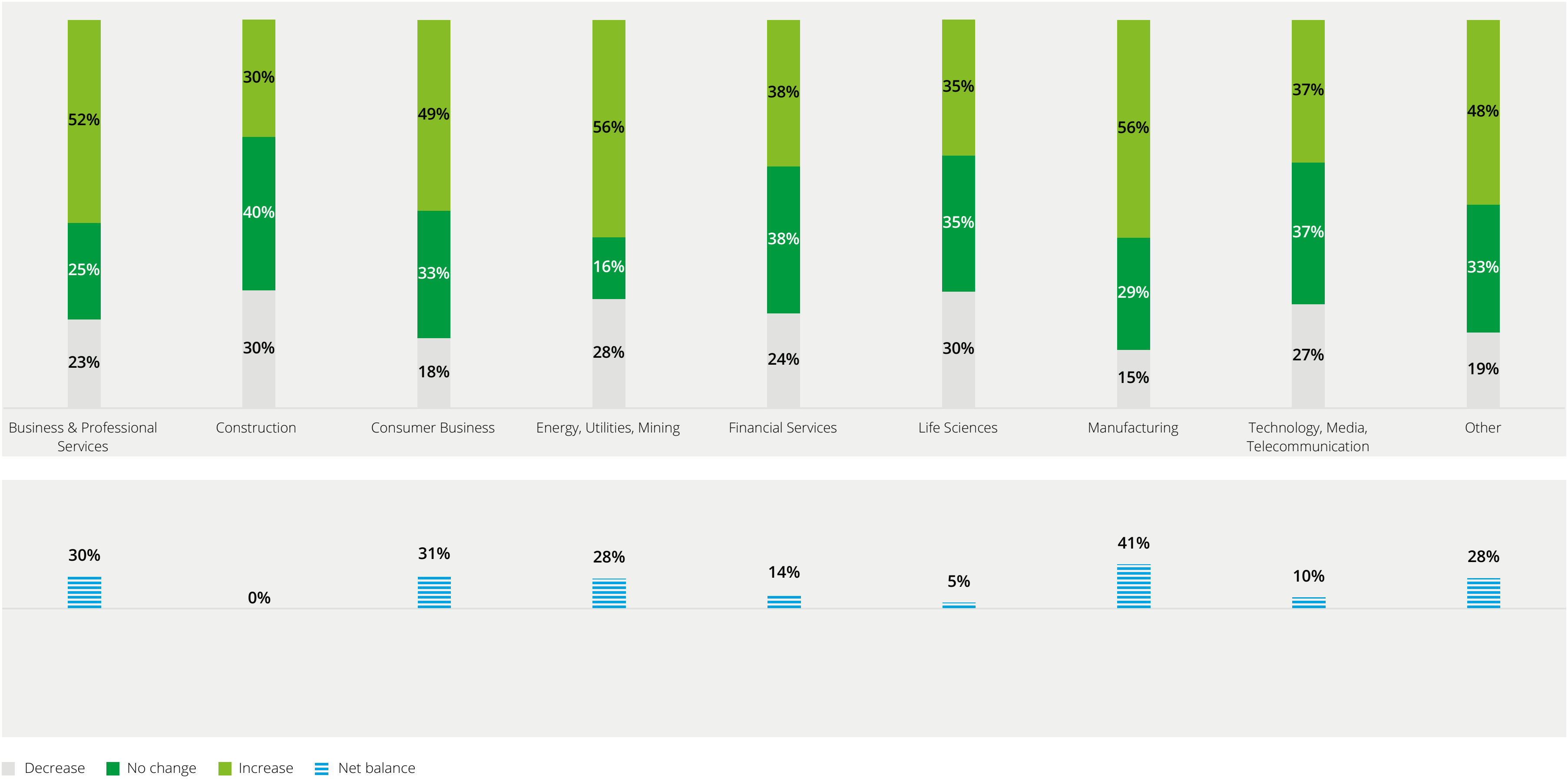
Between 51% and 55% of CFOs from the Czech Republic, Slovakia and Croatia are particularly optimistic about M&A levels in their organisations, with respective net balances of 26%, 14% and 34%. A majority of respondents from Serbia, Bulgaria and Kosovo believe M&A levels will not change in their markets. Those from Lithuania and Serbia recorded the most negative net balance (-25% and -17% respectively).

Over the next 12 months how do you expect M&A levels to change in your country?



CFOs from the Energy, Utilities, Mining and Manufacturing sectors are the most positive in their predictions for M&A levels in the year to come, closely followed by those from the Consumer Business sector. CFOs from the Manufacturing sector, meanwhile, recorded the highest positive net balance (41%).

Over the next 12 months how do you expect M&A levels to change in your country?



IV. Company growth outlook

Number of CFOs who feel less optimistic than six months ago about their companies' financial prospects:

43%

Number of CFOs who predict their revenues will increase:

58%

Number of CFOs who expect no change in their debt-servicing capabilities:

56%

Financial outlook becomes grimmer

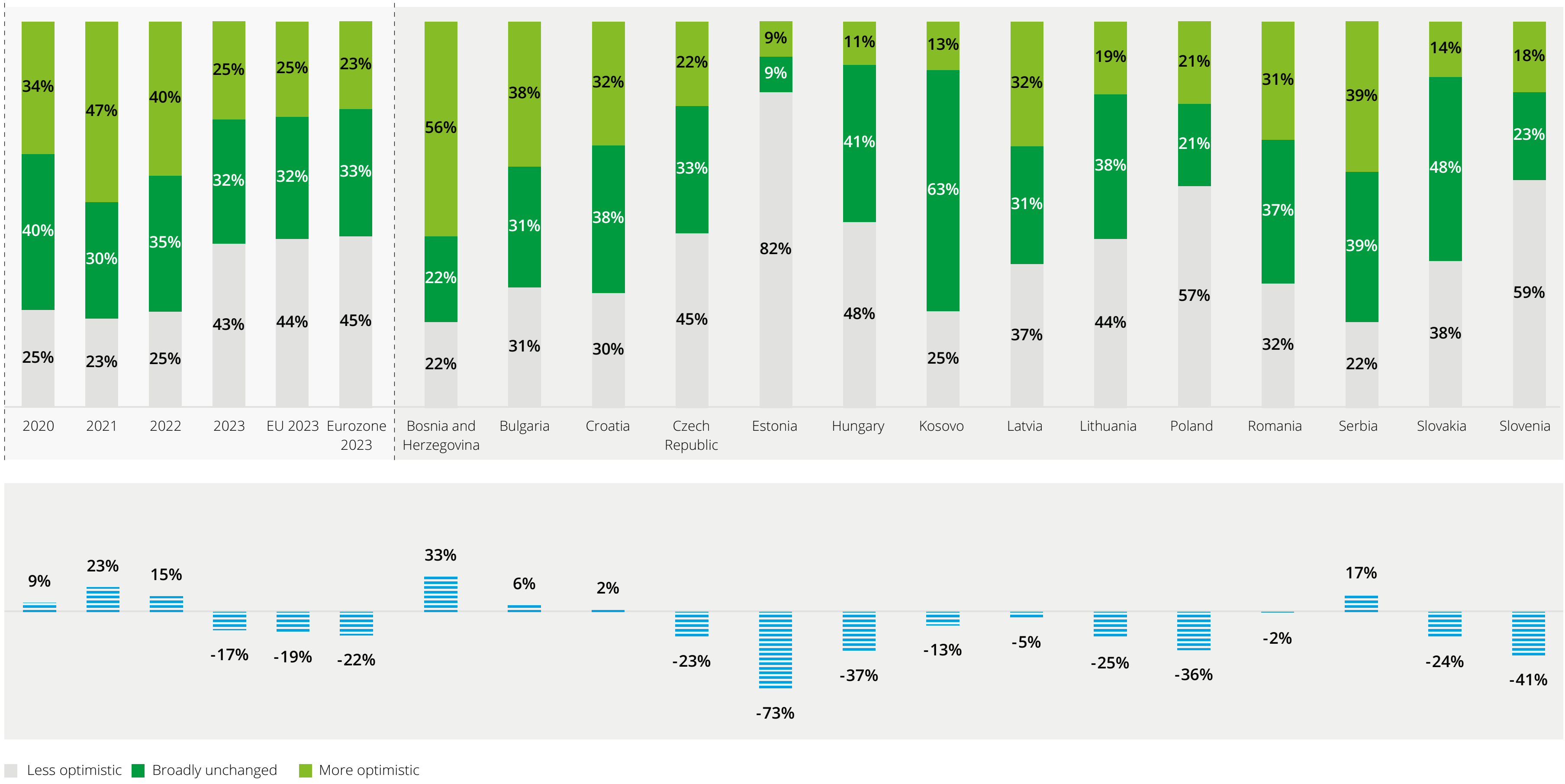
After predictions of economic recovery for 2022, driven by the gradual easing of lockdown measures, CFOs have become more pessimistic about the financial prospects for their companies in 2023. This can be attributed to the fact that high inflation, lower growth and tight monetary policy are all making themselves felt.

The mood among European CFOs became grim after the Russian invasion of Ukraine in February 2022, and has plummeted even further as the conflict has dragged on. In the survey, 43% of the CFOs say they are less optimistic than six months ago about their companies' financial prospects for the next 12 months. Precisely a quarter describes themselves as optimistic, significantly down on the last two years.

Overall, the net balance for financial prospects declined from 15% in late 2021 to -17% in late 2022 (when the current survey was conducted). This steep decline may be attributed to the severe disruption caused by the war in Ukraine, which has dimmed the prospects for economic recovery following the pandemic.

The same sentiments are also prevalent in the Eurozone. CFOs from Estonia are the most pessimistic, with just 9% predicting an improved financial outlook for their organisations. Almost 60% of respondents from Slovenia say they are less optimistic, while close to half (48%) of those from Slovakia believe their financial prospects are broadly unchanged.

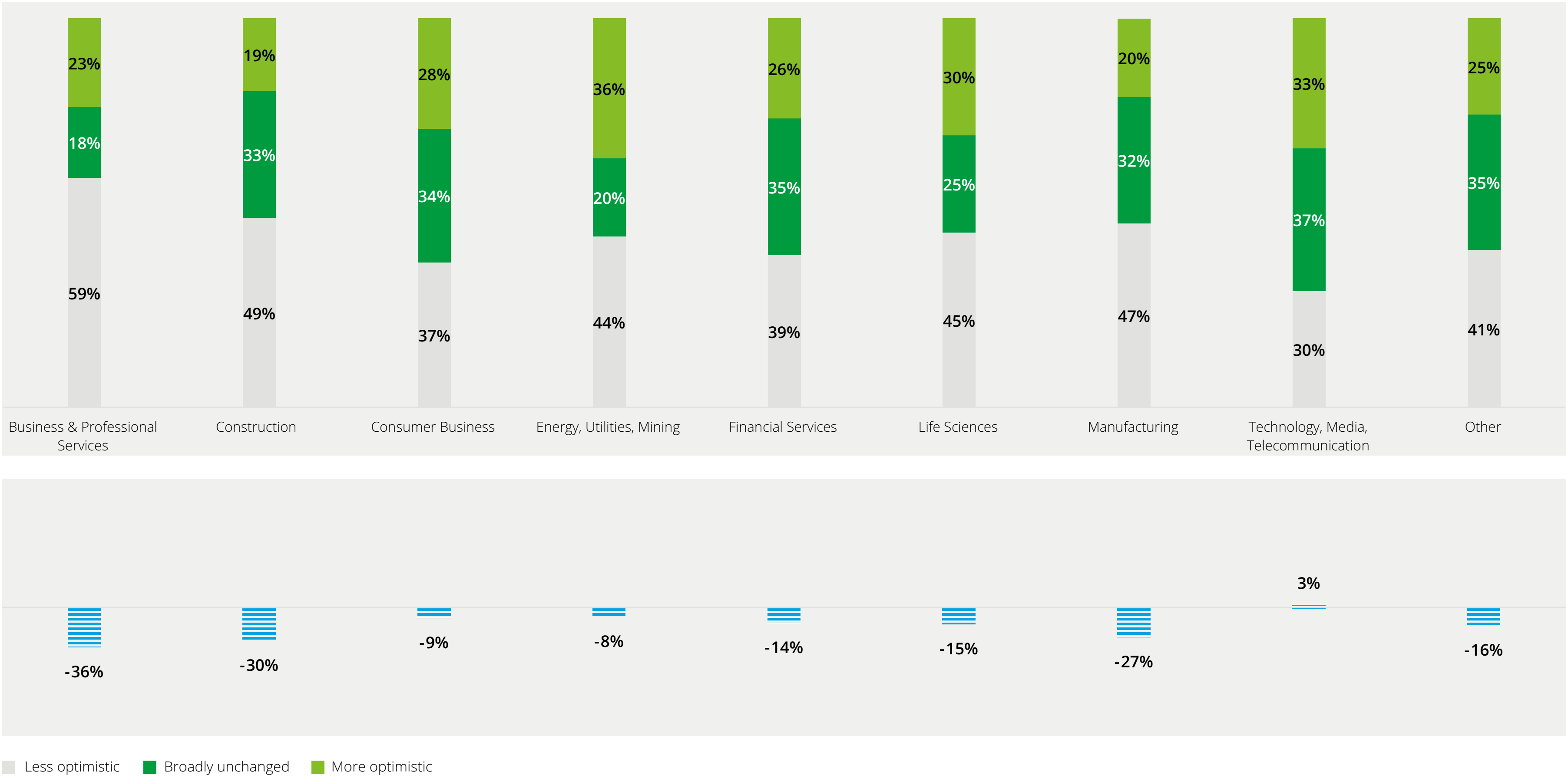
Compared with six months ago, how do you feel about the financial prospects for your company?



The global economy continues to be weakened by the war, through disruptions to trade, pressure on food and other commodity prices and energy price shocks, all of which contribute to rising inflation. In addition, rapid monetary tightening by central banks in response to inflationary pressures is making the outlook for the Central European economy still more concerning.

The sectoral results also reflect the overall tone of the survey. All sectors have become less optimistic about their financial prospects. CFOs from Business & Professional Services organisations are the most pessimistic: 59% of CFOs in this sector say they are less confident (declining from a net balance of 24% in 2022 to - 36% in 2023).

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

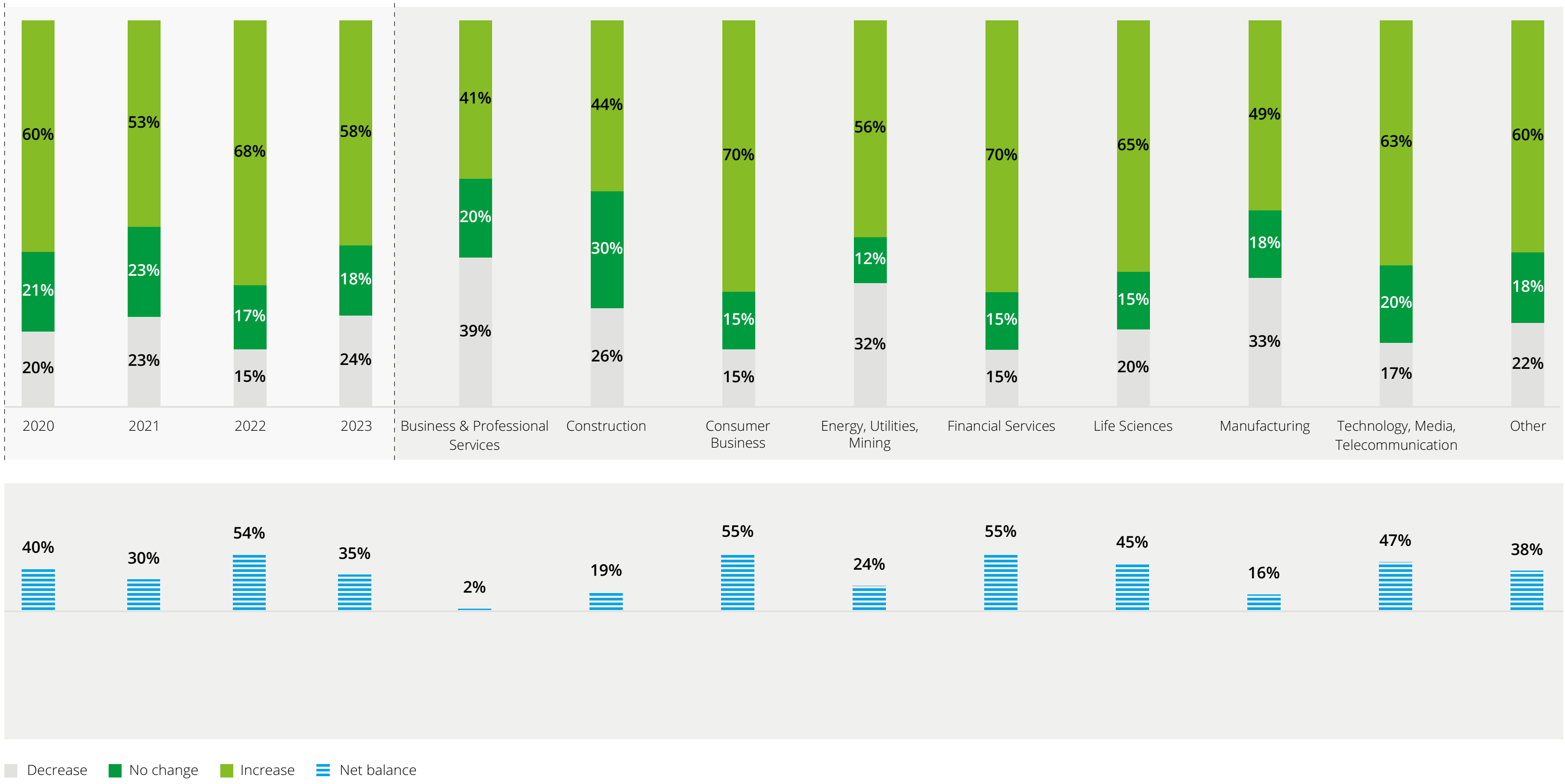


An upward trend for anticipated revenues

The net balance of expectations for how revenues will change over the next 12 months has deteriorated somewhat, from 54% in 2022 to 35% in 2023. Despite this, well over half (58%) of Central European CFOs still believe their revenues will increase, compared to a quarter (24%) anticipating a decrease.

We can see similar trends across all sectors: CFOs are generally optimistic that their revenues will increase in the next 12 months, although this confidence has declined since the same period last year. Those in Financial Services and Consumer Business are the most optimistic, with 70% expecting an increase. Those in Business & Professional Services are the least positive, with 39% expecting their revenues to decline in 2023.

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



Operating margins expected to decline

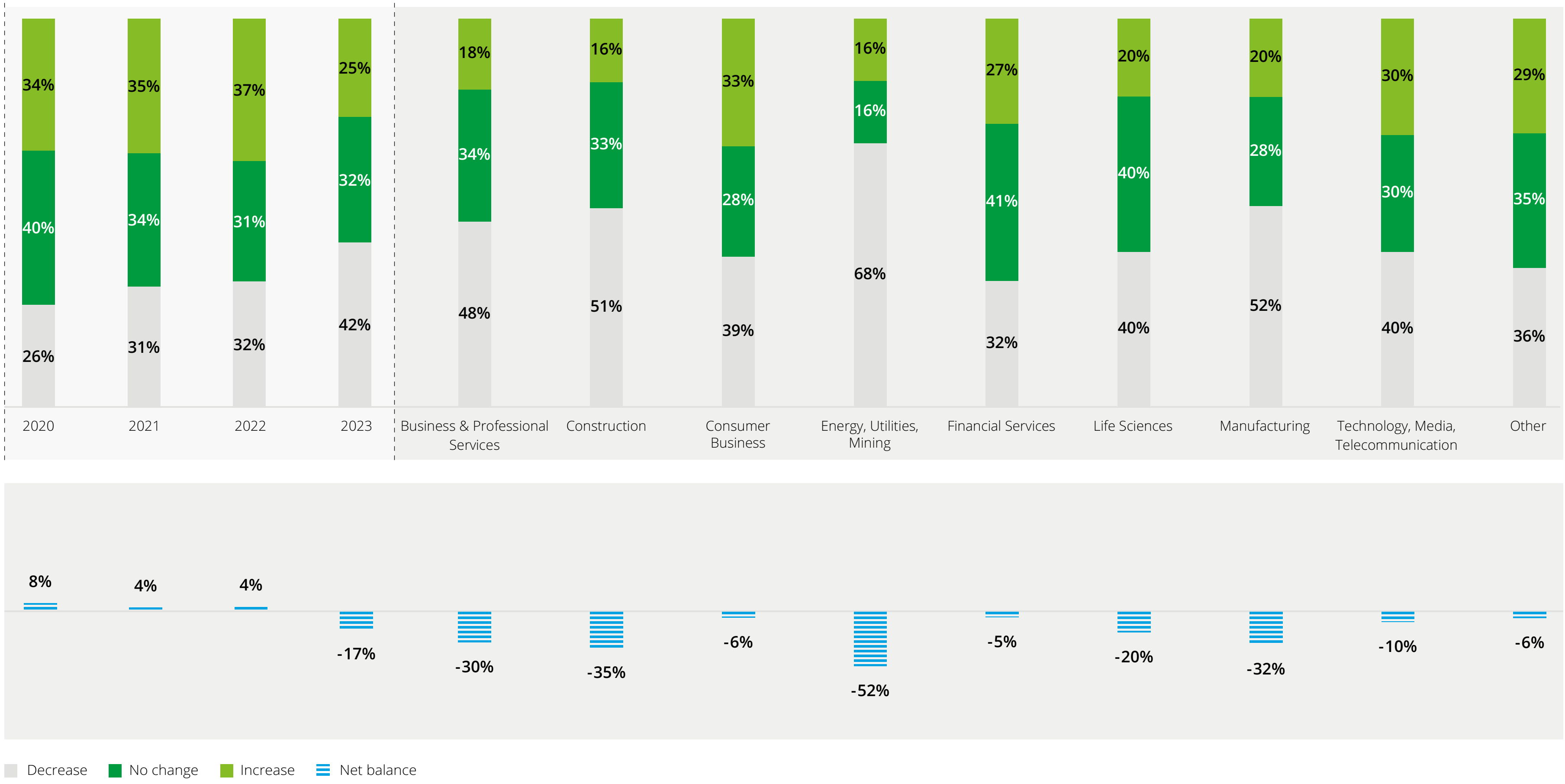
The net balance of expectations relating to operating margins has declined sharply, from 4% in 2022 to -17% for 2023 – the lowest level since the survey began more than 10 years ago. This figure even undercuts the lows seen during the COVID-19 pandemic. That said, around a third of CFOs in Central Europe (32%) believe there will be no significant changes in the levels of operating margin their organisations are set to achieve, similar to the figures for both 2022 (31%) and 2021 (34%).

This pessimism may be attributable to various factors, including rising commodity prices, higher energy costs, the lack of availability of natural gas and disruption in global supply chains.

CFOs in the Energy, Utilities, Mining sector are the least optimistic, with a net balance of -52%. While all sectors recorded a negative net balance, the least pessimistic were Financial Services (-5%) and Consumer Business (-6%).

The biggest fall in net balance over the last year was recorded by the Business & Professional Services sector (from 25% to -30%). Optimism in the Life Sciences and Technology, Media, Telecommunication sectors has also been on a clearly downward trajectory since last year.

In your view, how are operating margins for your company likely to change over the next 12 months?



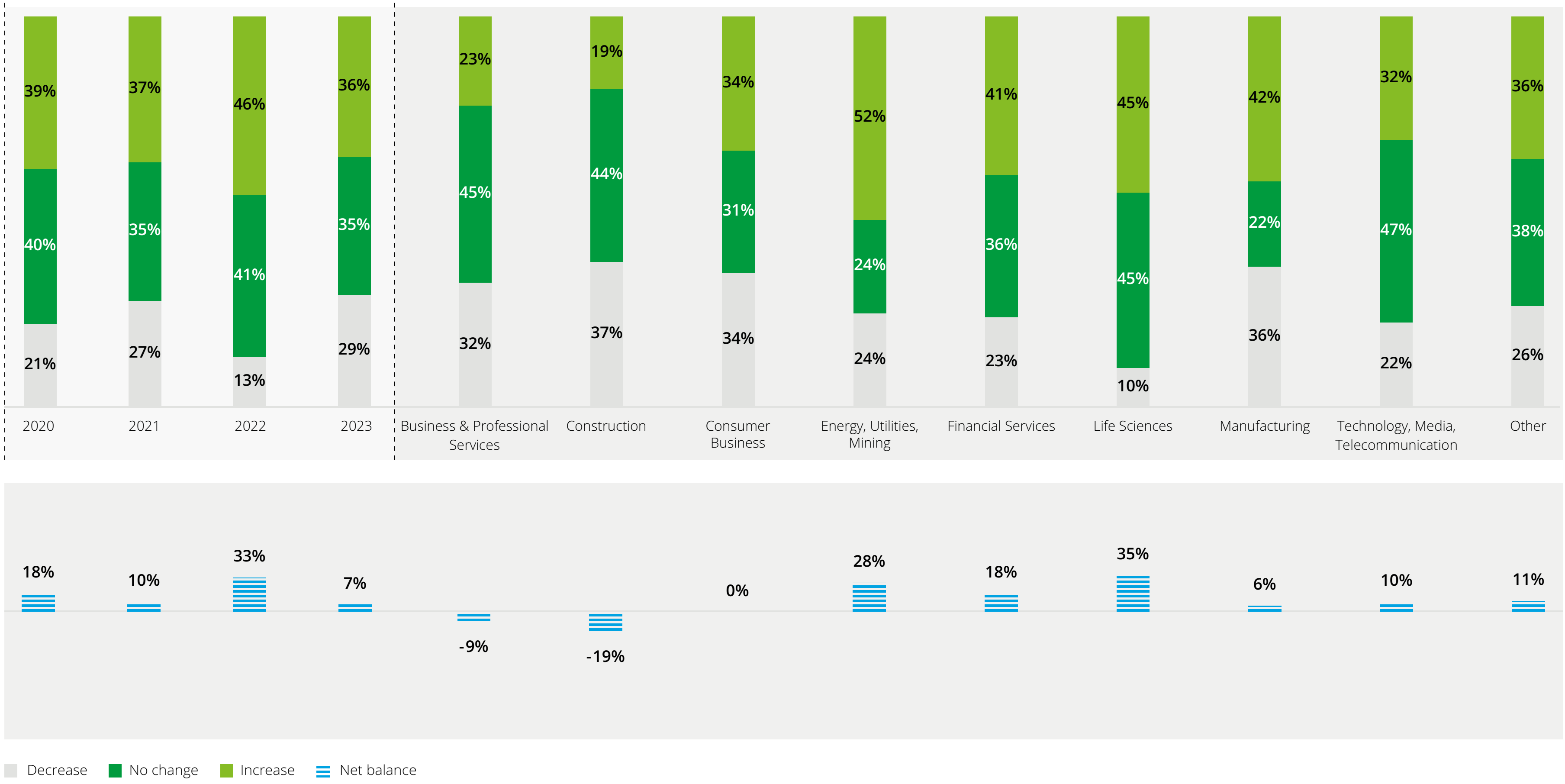
A modest adjustment expected in the CAPEX outlook

With rising interest rates and squeezed operating margins, expectations for CAPEX investments in 2023 have mostly been somewhat less optimistic than in 2022. The net balance of expectations for CAPEX has declined steeply, from 33% in 2022 to 7% in 2023. Close to a third (29%) of CFOs tell us they will decrease their CAPEX investments over the next 12 months, while 35% are planning to make no change during the same period.

Looking across sectors, when we compare level of net balances in 2023 and in 2022, CFOs in Construction are the most pessimistic, with a net balance of 30% last year and a net balance of -19% this year.

CFOs in Life Sciences are the most optimistic (when compared with 2022) about how CAPEX for their companies is likely to change over the next 12 months. This is the only sector in which the net balance (year-to-year) increased (from 21% to 35%).

In your view, how is capital expenditure (CAPEX) for your company likely to change over the next 12 months?

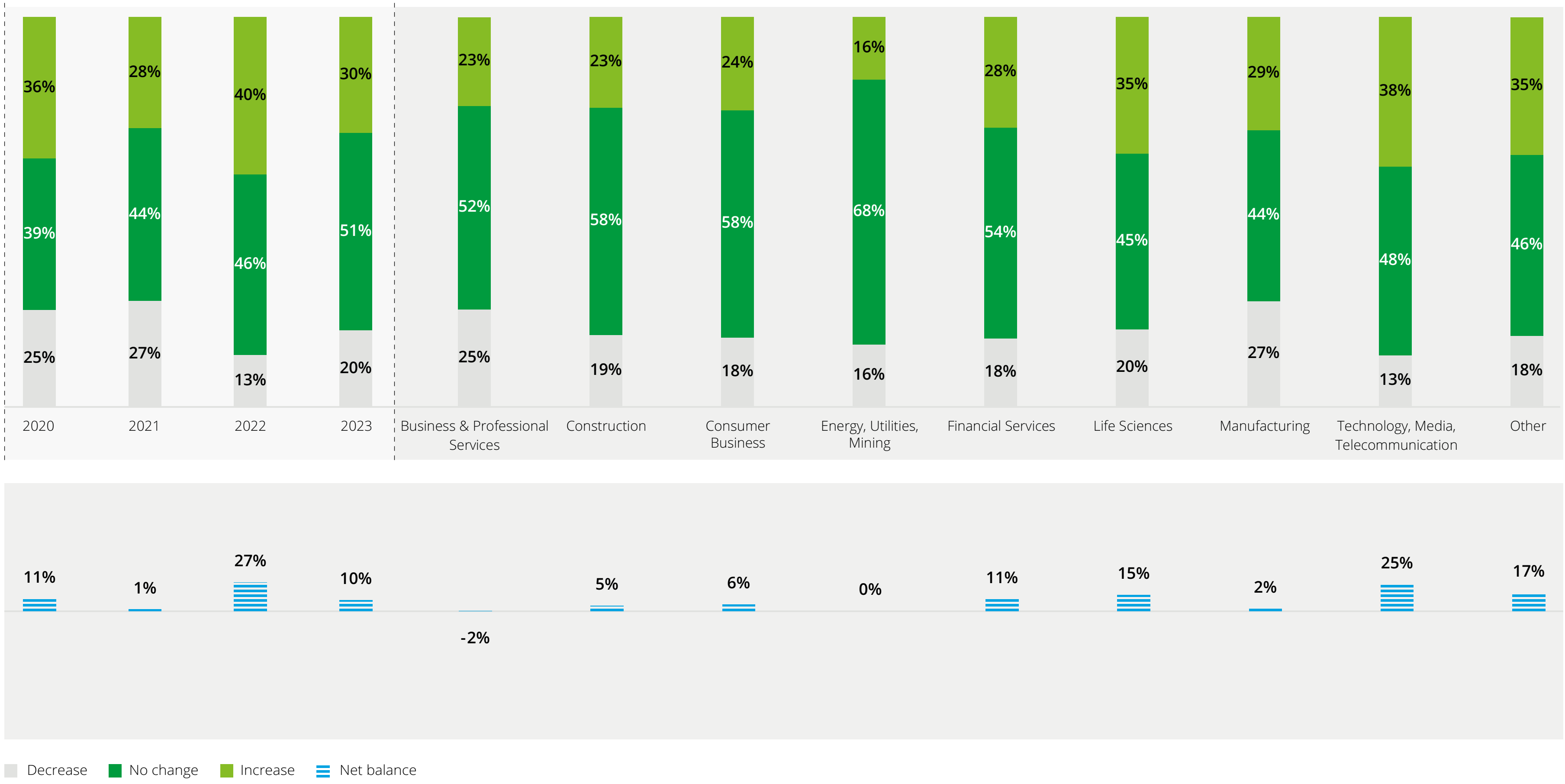


A moderately optimistic outlook for employment

When it comes to employment, the net balance of expectations for hiring employees has declined from 27% in 2022 to 10% in 2023. However, half of the CFOs across the Central European countries we surveyed say the levels of employment in their companies will not change. At the same time, the current shortage of skilled labour has emerged as one of the top risks for CFOs in 2023.

We can see a similar trend across all sectors, with most CFOs saying they will increase hiring in the next 12 months. CFOs in Technology, Media, Telecommunication (38%) are very optimistic that they will increase their headcount. But a sizeable proportion of the CFOs in the Manufacturing (27%) and Business & Professional Services (25%) sectors believe they will have to decrease their employee headcounts over the next year.

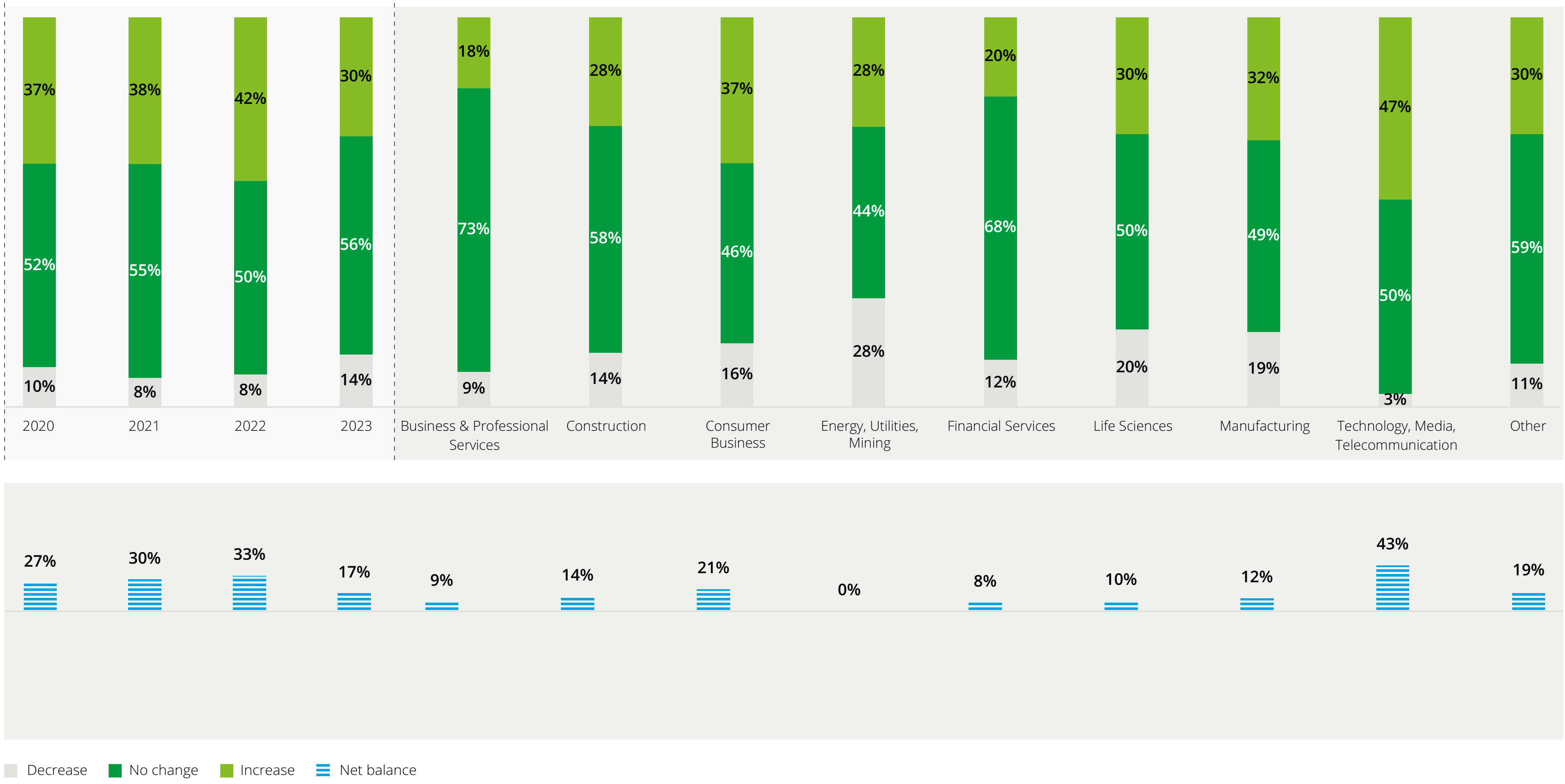
In your view, how is the number of employees in your company likely to change over the next 12 months?



A confident outlook for the ability to service debt

Participating CFOs believe that successfully developing their companies and maintaining control over their liabilities will improve their organisations' ability to service debt during the next three years. They remain unwaveringly optimistic in this regard – more than half the respondents (56%) expect no change in their debt-servicing capabilities. CFOs from the Technology, Media, Telecommunication sector are the most optimistic, with 47% expecting their organisations to improve in this area and only 3% anticipating their ability to decrease.

Over the next three years, do you expect your ability to service your debt to:



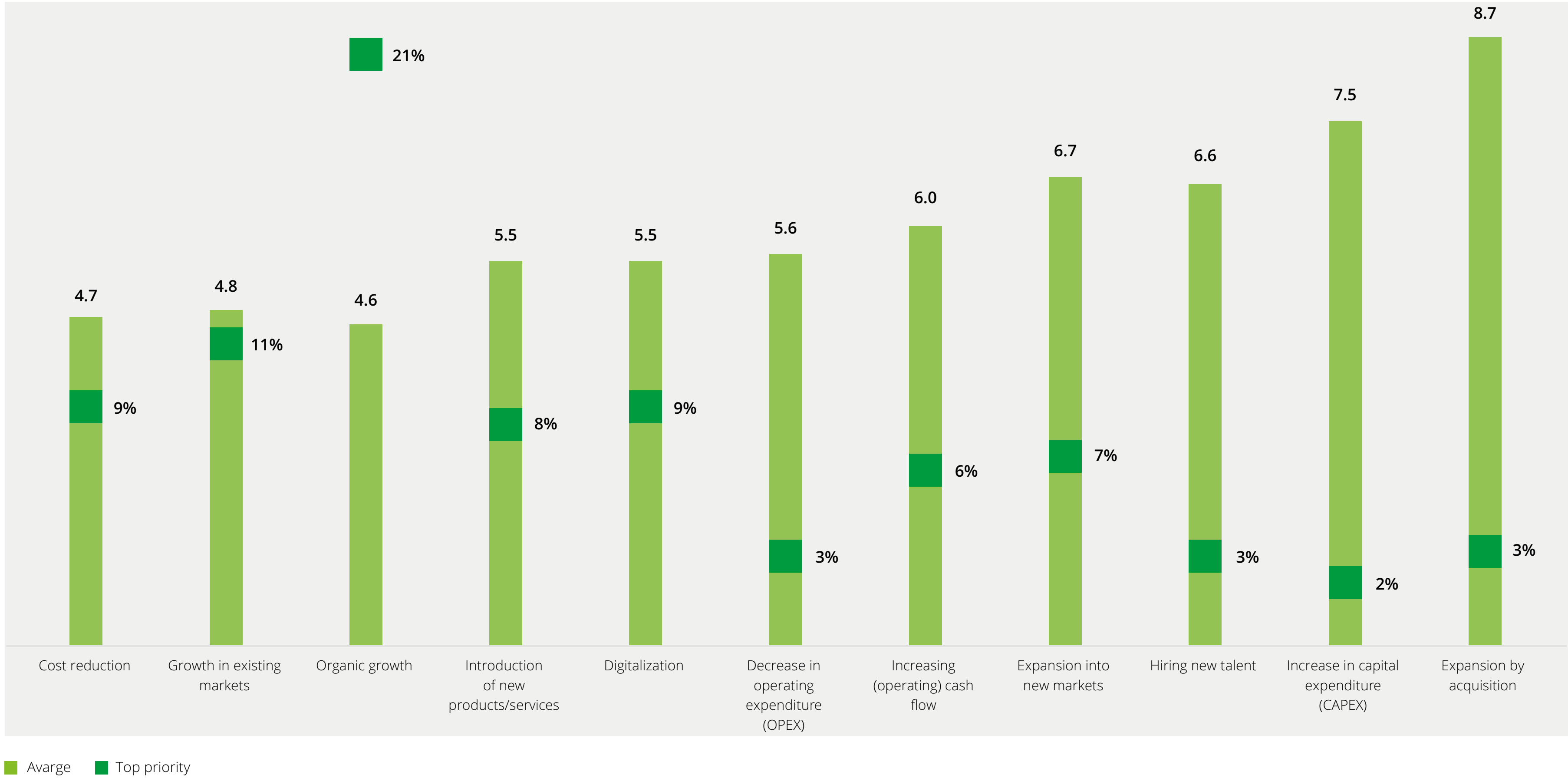
Expansionary strategies dominate the landscape

Many CFOs across all countries are planning to continue expansionary strategies, such as organic growth, growth in existing markets and digitalisation. Cost reduction is the top priority for only 9% of CFOs, confirming there is no distinct trend towards more defensive strategies in Central Europe.

There are visible variations in the levels of importance that CFOs attribute to different strategies, ranging (on a 1-10 scale) from 4.6 for organic growth to 8.7 for expansion through acquisition.

In the last survey, it was not surprising to see businesses emphasising expansionary strategies and business-transformation plans following the lifting of COVID-19 lockdowns. Now, due to socio-economic factors driven by war in Ukraine, the level of uncertainty felt by CFOs in Central Europe has risen to a new record level. However, CFOs have not markedly changed their approach: while defensive strategies are visible, it's expansionary strategies that look set to dominate across Central Europe in 2023.

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

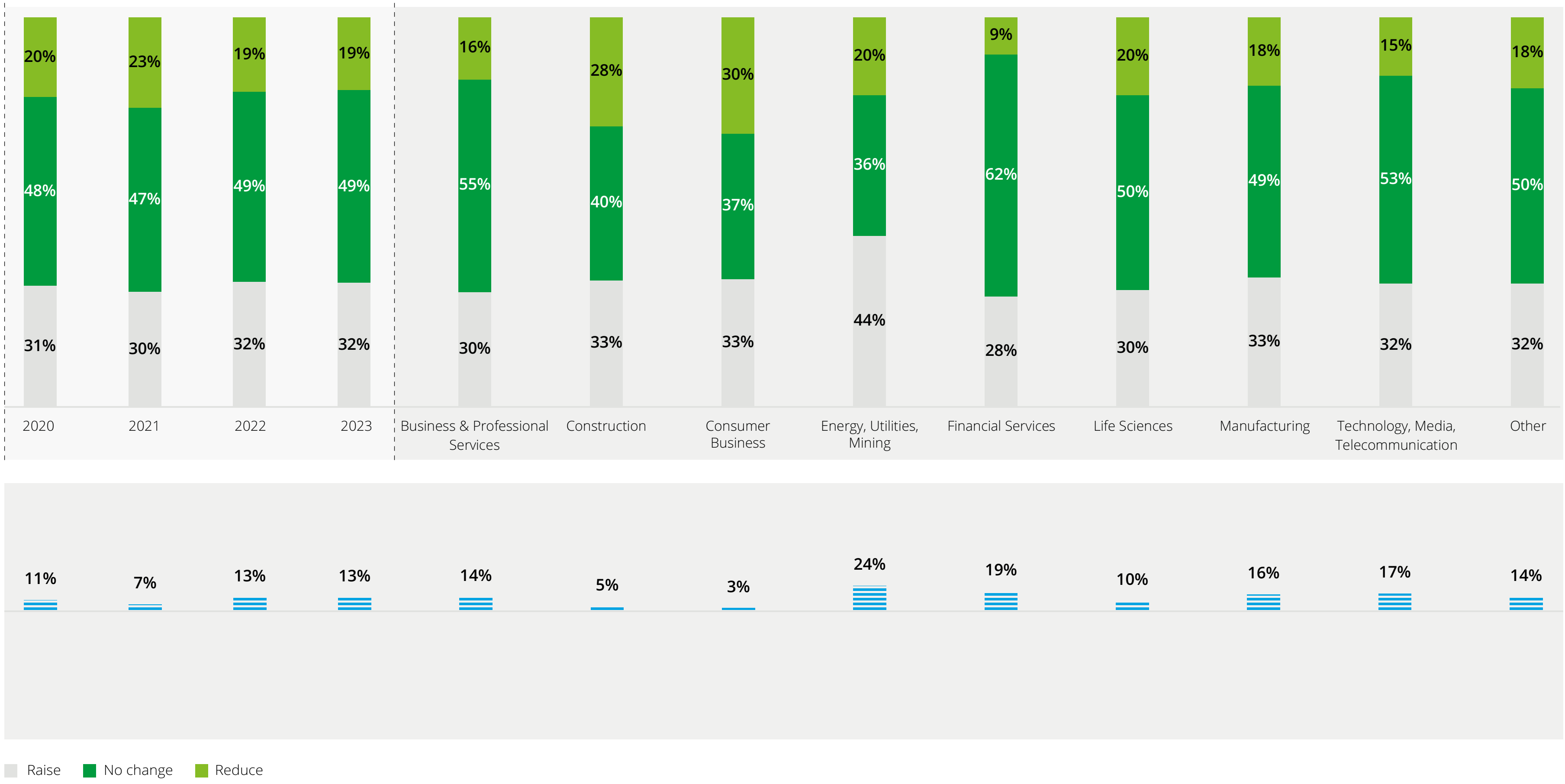


Gearing levels again remain steady

The next 12 months are unlikely to bring significant changes to companies' gearing levels. Just like in 2022, half of the respondents expect no change in this area. This attitude is most widespread among Financial Services CFOs, 62% of whom anticipate having the same gearing levels in 2023.

With 44% of CFOs in the Energy, Utilities, Mining sector expecting their levels of gearing to increase in 2023, this sector recorded the highest net balance in this regard (24%) of all the industries we surveyed.

What is your aim for your level of gearing over the next 12 months?



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