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Global CFO Signals

Time to accelerate?

Q4 2013 Deloitte Member Firms' CFO Surveys: Albania & Kosovo, Australia, Austria, Belgium, Bosnia & Herzegovina, Bulgaria, Czech Republic, Hungary, India, Ireland, Latvia, Lithuania, Netherlands, North America, Poland, Romania, Serbia, Slovakia, Slovenia, Southeast Asia, Switzerland, and the United Kingdom

DTTL Global CFO Signals
February 2014

About the DTTL Global CFO Program

The Deloitte Touche Tohmatsu Limited (DTTL) Global Chief Financial Officer (CFO) Program is a CFO-centric strategic initiative that brings together a multidisciplinary team of senior Deloitte member-firm partners and experienced professionals to help CFOs effectively address the different challenges and demands they experience in their role. The DTTL Global CFO Program and network of Deloitte member firms harness the breadth of Deloitte member firms' capabilities to deliver forward-thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the ever-changing strategic shifts in the market.

About Deloitte Member Firm CFO Surveys

Twenty-two Deloitte member firms' CFO surveys, covering 57 countries, are conducted on a quarterly, biannual, or annual basis. They are "pulse surveys" intended to provide finance chiefs with information regarding their peers' thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industry wide perceptions or trends. Furthermore, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 34) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL's Global CFO Signals

The purpose of DTTL's *Global CFO Signals* report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the fourth-quarter 2013 CFO surveys from member firms in the following geographies:

Albania & Kosovo: In search of stability

Australia: Ready, steady…

Austria: Different directions?

Belgium: Fierce competition for growth

Bosnia & Herzegovina: Challenging times

Bulgaria: Sustaining restraint

Czech Republic: Betting on business sector

Hungary: Moving in the right direction?

India: Hope prevails

Ireland: Poised for growth

Latvia: Focused on growing profitability

Lithuania: Ready to invest

Netherlands: Ready for growth

North America: Still muted expectations

Poland: Getting back to normal

Romania: Cautious optimism

Serbia: Austerity vs. optimism

Slovakia: Conservative approach

Slovenia: Lack of optimism

Southeast Asia: Risk redefined

Switzerland: Riding a wave of confidence

UK: Expanding, investing, hiring

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Global CFO Signals
CFO Sentiment in Fourth-Quarter 2013

Do CFOs believe 2014 is finally the year of broad-based recovery for their own countries and companies? Judging by the sentiments in the Q4 2013 *Global CFO Signals* report, the choices they make this year may actually determine the speed and success of those recoveries.

What's clear from many of the 22 surveys in the report is that many CFOs are entering 2014 in a different mood than a year ago. Missing are the concerns over the eurozone and the U.S. fiscal cliff that once dominated headlines. While other macroeconomic risks have emerged—notably changing attitudes toward monetary policy—CFOs seem more focused on internal issues and planning for growth. And they are aided in many countries by less external uncertainty, strong balance sheets, and favorable credit conditions.

Such conditions have led to the strengthening of CFO optimism in several countries. In the UK, for example, business optimism is at its highest level in three-and-a-half years. Optimism in North America rose from a strong +42% last quarter to an even stronger +54% this time. And in the inaugural Southeast Asia survey, 44% of CFOs reported a positive outlook despite worries over the Chinese economy and political uncertainty.

Of course, not every country is recovering at the same rate. Several Central Europe countries, for example, are hampered by stagflation and continued uncertainty. Still, in the CE countries reporting, more CFOs have become more optimistic about their companies' prospects than have become less optimistic. Meanwhile in India, where CFOs are in a state of "pause" awaiting national elections, 68% still believe the economy—and their prospects—will be better in a year.

That current and future optimism is driving continued expansionary intentions in many countries. In Switzerland, for example, 44% of CFOs expect investment to rise over the next 12 months, and 90% of Dutch CFOs predict higher M&A activity over that same time. For their part, Australian CFOs report risk appetite at its highest level in four years. And in Belgium, CFOs are counting on results with over half budgeting over 2% growth and 20% aiming for 5% growth.

The biggest question now is will companies accelerate their plans—and when? Equipped with the internal wherewithal and the external green light to invest, CFOs seem firmly in the driver's seat. The next quarter may reveal whether they rev the engines or remain content to travel in low gear. What follows is a synopsis of sentiment:

North America

While CFOs in North America report strong optimism, their outlooks toward several economies are mixed. Some 81% say the North American economy is a substantial growth aid, but only 42% say the same for China and 25% for Europe. Moreover, expectations remain muted. Similar to last quarter, CFOs are anticipating year-over-year sales growth of only 4.1%*, the lowest since the Q2 2010 survey launch. In addition, earnings growth expectations came in positive at 8.6*, but this level is still far off the survey's three-year average of nearly 12%. More troubling, some companies are indicating a renewed focus on risk, business rationalization, and cost reduction after several quarters firmly focused on pursuing opportunity over limiting risk. Still CFOs in this region have the benefit of high cash availability and relatively little shareholder pressure to guide the "if" and "when" of their growth initiatives.

Europe

Across much of Europe, positive sentiments toward local economies and business prospects have solidified this quarter. Part of the reason is the palpable easing of uncertainty. In the UK, for example CFOs' perceptions of financial and economic uncertainty have dropped to the lowest level in more than three years. But it is the strength of their outlooks that is worth noting. Some 80% of Swiss CFOs are optimistic about their country's economic outlook, the highest figure since March 2011. An overwhelming 96% of Irish CFOs believe their economy has either returned to growth already or will do so in 2014. And you have to go back to Q4 2010 to find Dutch CFO optimism about their business prospects higher than it is now. In addition, throughout the region cheap and available credit is giving many CFOs the confidence to take advantage of current conditions to increase market share and expand.

Meanwhile, the outlook of CFOs in the 12 Central Europe countries reporting remains as diverse as the countries themselves. That's apparent in their views on their local economies. The dominant expectation for the region is stagnation (between 0 and 1.5%). But there are signs of improvement in such countries as Albania & Kosovo, Latvia, Lithuania, and Poland where many CFOs are projecting moderate GDP growth between 1.5% and 3%. Slovenian CFOs, however, are projecting recession. Despite those tepid forecasts, CFOs in the region are more positive about their business prospects and expect an uptick in M&A activity. But with the majority of finance chiefs (except in Lithuania) saying that now is not a good time to take risk onto their balance sheets, the trend may not bode well for rapid expansion in the region.

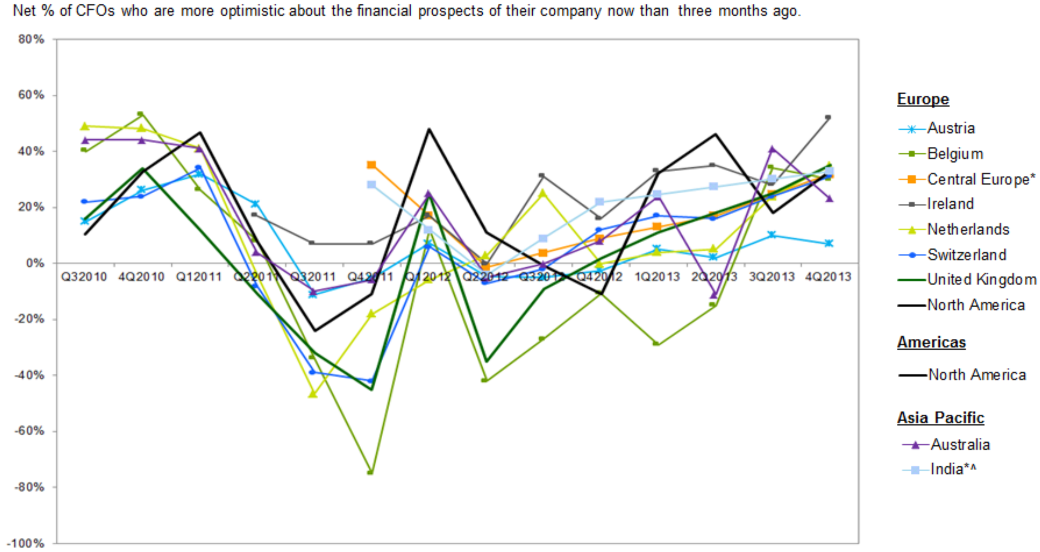
Asia Pacific

Finally, the picture that emerges from Asia Pacific this quarter is one of cautious optimism. In Australia, CFOs are much more confident heading into 2014 than they were a year ago, but remain cautious with their money. Despite ongoing interest in M&A and a moderate increase in capital expenditure, CFOs are primarily focused on organic expansion and cost containment. In India, they are focused on the longer term (after the upcoming general elections) with 45% maintaining a cautious neutral stand in the next three-to-six months. And in the inaugural Southeast Asia survey, positive developments in the SEA markets have fueled the current optimism, but CFOs remain bogged down by increasing regulatory compliance and worries over China. There, as in other regions, the key will be execution, execution, execution.

*Numbers have been adjusted to eliminate effects of stark outliers

CFO Sentiment: Net Change in Optimism

Net % of CFOs who are more optimistic about the financial prospects of their company now than three months ago.



*A trend line has been plotted for this country as the survey is conducted on a semi-annual or annual basis.
^ India's data point for this quarter reflects CFO sentiment for the year ahead.
Please note that the surveys conducted vary in timing, sample size and demographic of respondents. As such, these survey responses may not be a statistically accurate representation of the countries / regions identified. Please refer to the end of this publication for information on the scope and survey demographics for each participating survey.

Global CFO Signals

CFO Priorities: What Matters Globally Now

Priorities for 2014

Expansion and growth continue to be on the minds of many CFOs going into 2014. Some 71% of Ireland's finance chiefs, for instance, describe their corporate strategies as expansionary, as do many UK CFOs. What that specifically means in the UK is introducing new products or services or expanding into new markets (40%). In Australia, though, three-quarters of CFOs see growth coming from organic expansion in the coming year. That doesn't mean defensive strategies of increasing efficiency and cash flow management have fallen out of favor. In countries such as Belgium, they still top the list of CFO strategies. And in North America, after three quarters of a strong revenue bias, there is now a roughly equal focus on revenue growth and cost reduction. Meanwhile, in Central Europe, priorities fall into three categories: growth-seeking (Poland, Czech Republic); stability-seeking (Albania, Bulgaria, Serbia); and cost-advantage seeking (Latvia, Slovakia), all related to the broader economic environments. Achieving all these priorities, however takes capital spending. And that may be one reason North America's CFOs have muted expectations: while their capital spending expectations rose to 6.4% from 4.9% this quarter, they remain well below the survey average.

Lingering—and emerging—risks

The world may look like a less risky place at the start of 2014, but that doesn't mean CFOs have less to worry about. In North America, for example, the effects of U.S. monetary policy are weighing heavily on CFO moves. In Belgium, for the first time in two years, CFOs' are more concerned about the competitive position of their companies than they are about economic recovery. The same goes for Ireland's CFOs, 42% of whom believe that market uncertainty could have a negative impact on their businesses over the next 12 months. Meanwhile in Switzerland, 42% of CFOs see rising wage costs as a risk factor. But that could be viewed as a positive sign since it is to be expected during a period of economic recovery. In the Asia Pacific region, CFOs in Australia, India, and Southeast Asia list regulatory concerns as a top stressor. In fact, those concerns are paramount for 31% of Australia's CFOs. And in Southeast Asia, where China's slowing economic growth also looms large, changing regulatory requirements are one of the drivers of greater CFO involvement in risk management. Some 67% of CFOs named external global industry changes in regulations and compliance as the main reason they are involved in risk management, and 58% said the same about domestic compliance policies.

Local pros and cons

CFOs are very sensitive to local issues, and with good reason. In India, for example, CFOs consider the country's backdated bureaucratic structure to be a major roadblock to operations. In North America, fears abound that adverse governmental policies and gridlock (like what led to the government shutdown in October 2013) will inhibit their growth plans. And in Australia uncertainty over federal government policy remains a concern for about a quarter of CFOs, despite the election of the Liberal/National coalition in 2013. CFOs also have clear ideas about what is needed to further improve their local environments. While an overwhelming majority of Ireland's finance chiefs believe that their country has returned to growth, they believe that investing in certain industries will stimulate further growth—notably the information and communication technologies (32%) and energy (15%) industries. And in countries, such as Slovenia, CFOs view government support for export-oriented companies and policies to attract foreign investment as crucial to recovery. Of course, there is sometimes an advantage to just being local. In Switzerland, for example, there is an increasing emphasis on "Swissness" as a quality marker and a means of differentiating Swiss companies from their competitors.

Measuring success

What exactly do CFOs expect their growth strategies to yield? Revenues, for starters. Some 83% of Ireland's CFOs expect their revenues to increase over the next 12 months, as well as operating cash flows (75%). Belgium's finance chiefs are similarly upbeat with more than half expecting revenue increases of more than 2%, and 20% aiming for 5%. And expectations for revenues and profits among UK CFOs are at their highest level in three-and-a half years. Other measures are not expected to benefit as much. Discretionary spending in Australia, for example, is expected to take a hit, with 44% of CFOs anticipating cuts. What success is still not yielding in many countries, though, is increased employment. GDP growth is again the key factor in changes in unemployment in Central Europe, with CFOs in countries anticipanting stagnation also predicting higher levels of unemployment. In North America after a disappointing return to 1.3%* last quarter, this quarter's number for domestic hiring is essentially flat at 1.4%*. More troubling, some 25% of Austria's CFOs intend to cut headcount as do more than 30% of finance chiefs in the Netherlands. The UK is a bright spot with more than half of CFOs surveyed expecting a pick up in hiring this year.

Deloitte Member Firm CFO Surveys:

Fourth Quarter 2013 Highlights

Albania & Kosovo
In search of stability

Divergent outlooks

The expectations about the economic growth in Albania in 2014 are mostly about stagnation and moderate growth with only 3.4% of CFOs expecting recession. However, sentiments are not fully shared by CFOs in Albania and Kosovo. Not a single Albanian CFO expected GDP to grow by more than 3%, while more than 10% of respondents in Kosovo expect this growth rate.

CFOs in Albania and Kosovo are less pessimistic than the average in Central Europe. Most CE countries believe growth will be between 0 and 1.5% (Czech Republic, Croatia, Hungary, Serbia, Bulgaria, and Bosnia) with recession being feared mostly in Slovenia (over 60%). The few CFOs in CE who expect growth to exceed 3% are those in Poland, Lithuania, Latvia, and Kosovo.

As overall market conditions have seen no significant changes, fewer CFOs rate the prevailing economic uncertainty as high or above normal. More CFOs are rating external uncertainties as normal (up from 35% in the first half of 2013 to 45%). In fact, Albanian and Kosovo CFOs rank first among countries whose CFOs believe external conditions are normal, followed by the Czech Republic (43%) and Slovakia (35%).

A call for investment

Driving revenue increases in new markets and making new investments are the top priorities of Albanian and Kosovo CFOs. They believe current markets are saturated and expect revenue growth to stream from new markets instead.

Highlights from the H2 2013 Albania & Kosovo CFO Survey:

- Revenue growth and increasing market share in new markets are the top priorities for companies, along with the need for new investments.
- Unlike the previous report, the number of CFOs expecting the M&A market to grow increased, moving toward the regional average.
- For two consecutive six-month reports, a majority of 80-85% of CFOs continue to believe that this is not a good time to bring new risks onto the balance sheet.
- Some 35% of CFOs expect borrowing costs to go down, making Albania & Kosovo the second most optimistic nation in Central Europe, just behind Romania (39%).

The need to improve liquidity, which last time was placed above cutting costs and growing revenues in current markets has fallen to last place. At the same time, there is a trend towards business restructuring and remodeling emerging as a greater priority for Albanian CFOs than in the first half of 2013, with 25% saying it's highly probable.

Hesitant to take risks

For two consecutive reports, 80-85% of CFOs have indicated that this is not a good time to bring new risks onto the balance sheet. This percentage is also consistent between Albania and Kosovo, indicating similar levels of caution in with CFOs in Kosovo becoming more risk-averse in the second half of the year. It also makes CFOs in Albania and Kosovo fourth in the list of most risk-averse CFOs in the CE region (they were sixth in the first half of the year).

Australia

Ready, steady…

Positive heading into 2014

Australia's CFOs finished the year more confident than they began it, consolidating a number of trends revealed during Q3 2013. Optimism is still strong, uncertainty is falling, and the appetite for risk is the highest since the survey began in 2009. Because CFOs have significant input into the decisions made and spending undertaken by their organizations, their confidence is important for growth in the economy in 2014.

In fact, CFO sentiment strengthened in Q4 2013, with net 23% more positive about the financial prospects of their company than they were last quarter. While not improving as rapidly as it did in Q3, this result represents a continuation of the momentum that emerged through 2013.

Optimism continues to be driven by the strengthening global economy—particularly in the United States and, to a lesser extent, China and Europe. Low interest rates, the falling value of the Australian dollar, and federal government policy are still having positive effects, but concerns linger around commodity price weakness and the nation's multispeed economy. CFOs appear to be slightly more comfortable and getting on with business, following the steadying of the new government and the global economy.

With this newfound comfort level, CFOs' appetite for risk is gradually increasing, having reached its highest level since the survey began. Some 44% believe now is a good time to introduce risk onto their balance sheets, continuing a trend of increasing confidence and a greater willingness to take action.

Highlights from the Q4 2013 Australian CFO Survey:

- Confidence continues to strengthen with a net 23% of respondents more optimistic than they were three months ago.
- Optimism is buoyed further by the strengthening U.S. economy along with favorable domestic conditions, including interest rates, the local dollar, and government policy.
- Risk appetites at its highest level since the survey began, with44% of CFOs keen to add risk to their balance sheets.
- Organic expansion remains the most popular growth strategy for 2014, with 77% of CFOs anticipating an increase.
- The majority of CFOs said they were seeing pressure to optimize capital or return cash to shareholders, while more than half said that pressure had increased in the last 12 months.

Fall in perceptions of uncertainty

The rise in optimism has been matched by a gradual fall in CFOs' perceptions of economic uncertainty over the last three quarters, which is at its lowest level in more than two years. Some 57% still regard economic uncertainty as being above normal, though this is well down from Q3 2013 (71%) and Q2 2013 (83%).

While the majority of CFOs (58%) still expect the current levels of uncertainty to last between one and two years, the number anticipating that it will last less than a year fell to just 6%, from 23% last quarter. The number expecting uncertainty to continue for more than three years or indefinitely rose slightly.

Funding remains stable

Credit remains cheap and readily available, which is good news for companies requiring borrowed capital to fund their growth strategies. Bank borrowing remains the most attractive source of funding, just ahead of internal funding and corporate debt. Equity raisings are seen as far less attractive by CFOs. Meanwhile, 44% of respondents reported credit to be somewhat or very cheap (42% in Q3) and 78% described credit as somewhat or very available (up from 76% in Q3).

There was a minor uptick in the percentage of CFOs who intend to raise their own debt levels in the next 12 months to 34% in Q4. This continues 2013's upward trend in the number of finance chiefs expecting their debt levels to increase. The strength of these intentions however is more modest than CFOs' views of the level of leverage across Corporate Australia. A net 41% of finance chiefs see Australian balance sheets as underleveraged, up from a net 28% in Q3.

Pressured to optimize cash

Almost 70% of CFOs said they were experiencing pressure from institutions, the media, and analysts to either optimize capital through growth initiatives (such as M&A) or return free cash to shareholders. Fifty percent of CFOs reported that the pressure for capital optimization or higher shareholder returns had increased in the last 12 months. This follows findings from Bank of America Merrill Lynch's September fund managers' survey, which found that 54% of investors want companies to cut cash levels and boost capital spending, an eight-year high.

M&A outlook improves

The survey identified M&A as the most popular form of capital optimization among CFOs in the next 12 months, followed by capital expenditure programs, divestment of non-core assets, and further pay-down of debt. However, only 16% of companies are planning to return capital to shareholders in the next year and one-third have no planned capital structure changes.

The M&A outlook has improved significantly since this question was last asked in Q1 2013. At the end of 2013, 30% of CFOs reported that there were more pressing matters than M&A activity to be addressed within their organizations, down from 43% in Q1. In addition, this quarter, 41% of CFOs said there were some good smaller bolt-on acquisition opportunities in the market, while one-third identified some undervalued assets as potential opportunities. Others were taking a more cautious approach, with 34% not actively seeking to acquire but open to exploring new buy or sell opportunities.

Austria

Different directions?

Opposite perceptions

Since our last survey, CFO attitudes seem to be going in two different directions. Concerning the market, the respondents to our current survey see a positive development. However, concerning their own companies, they see a slight turn to the worse.

Specifically regarding the Austrian market, there has been a shift in the number of CFOs who believe there will be an upturn (currently 54%). Only 10% believe the economy will worsen compared with 13% in the last survey. And none of the CFOs expect a substantial worsening in the first quarter.

As for their companies, this quarter some 33% of CFOs report being more optimistic about their companies' prospects versus 37% last quarter (26% are less optimistic compared with 27% last quarter). And when it comes to jobs, the majority of companies (60%) still intend to keep their staff at current levels. Only 19% intend to increase their staff levels in the upcoming months compared with 23% in our last survey. A quarter of CFOs expect a decrease in employee levels in the near future.

Investing more

The most positive sentiments are reflected in the climate for investments. In our current survey, 34% of respondents believe that the climate will improve in the next quarter. And even though the majority of CFOs still believe they will invest the same amount as the previous quarter, there has been a 2% shift in finance chiefs who plan to invest significantly more than in the last quarter (6% vs. 4% last quarter).

Highlights from the January 2014 Austrian CFO survey:

- Some 54% of CFOs expect an upturn in the economy in the next quarter.
- For 34% of the finance executives surveyed, the climate for investing is expected to improve.
- Revenues will remain even compared to last quarter for 35% of the questioned CFOs.
- The majority (60%) of CFOs plan to retain their current staff levels over the coming months; 19% expect to hire more.
- To 60% of CFOs, the rate of inflation is expected to stagnate over the next few months.

Credit availability down

When it comes to the availability of credit, Austria's CFOs expect things to get worse. In Q4 2013, for example, 29% of the CFOs expected availability to be good, but now only 24% still believe that. Some 12% (down 8%) think that healthy availability of credit for their company is very unlikely. The majority doesn't expect any changes in credit availability.

Positive toward stock markets

Expectations for the Austrian Stock Exchange have risen for the second survey in a row.

Belgium
Fierce competition for growth

Remaining cautious

CFOs entered 2014 very differently from the way they entered 2012 and 2011. For many businesses, 2013 was not a grand year, with more than half of respondents reporting their organizations had not made the budget for 2013. Based on our survey panel, 2013 was particularly difficult for smaller businesses: 70% of organizations with a turnover of less than 100 million euro did not perform as budgeted.

But the new mood of optimism reported in the Q3 2013 survey still prevails. Following five quarters in which CFOs were outright pessimistic about the financial prospects for their businesses, the majority of CFOs confirm the optimistic mood that already surfaced in the third quarter. International businesses that derive more than 70% of their turnover outside Belgium are, however, less optimistic than those that have significant business in Belgium.

Moreover, corporations have learned to operate within the new economic and financial environment. The dominant view among CFOs is that the current level of economic and financial uncertainty is still above the normal level. But the proportion of finance chiefs reporting that economic and financial uncertainty as high has continuously and significantly decreased over the past 18 months.

Concerned about competition

Top concerns for CFOs going into 2014 are very similar to those reported in last years' outlook: first is their competitive position within the industry and markets (up from second place last year); second is the pace and level of the economic recovery (down from first place) and third is the impact of regulation. In the construction and manufacturing industries, commodity prices provide some reason for concern. CFOs are not particularly worried about access to capital or funding.

Those concerns don't seem to be dampening expectations, however. Almost three-quarters of survey respondents have budgeted top-line growth for 2014. Close to 60% of the businesses also expect to improve operating margins. Growth ambitions of many CFOs are impressive: More than half budget growth of over 2%, more than 20% even budget growth of over 5%. Local businesses budget somewhat less growth than more internationally-oriented businesses.

Highlights from the Q4 2013 Belgian CFO survey:

- Following five quarters of pessimism, the optimism that surfaces in Q3 2013 remains strong for 2014.
- CFOs' ambitions for their businesses are upbeat with more than half budgeting more than 2% growth and 20% aiming for 5%...
- Risk appetite remains low and only 15% of corporations plan to increase capital spending in the next 12 months.
- Equity financing has never been rated as attractive since the launch of the survey in 2009.
- CFOs' projections on Belgian economic growth are moderate, with less than 10% of the CFOs expecting growth of more than 1%.

Capital spending remains low

Few CFOs report they will increase capital spending in 2014. Plus, their appetite for taking additional risk on the balance sheet remains low. The (low) growth projections for Belgium and the eurozone continue to inhibit investments plans, especially for the organizations whose business is predominantly local. For organizations that operate mostly in international markets, projected growth in the U.S., Asia Pacific, and emerging markets positively impact investment plans. But only a small minority of CFOs report increases in capital expenditure budgets for 2014.

Financing available, attractive

All three sources of external funding are considered attractive by the majority of CFOs. Whereas the attractiveness of debt and borrowings has remained stable over the last year, the attractiveness of equity has risen substantially compared with three months ago.

The availability of credit has continued to increase in Q4 2013. As in the previous quarters, bank credit remains hard to get for one-third of CFOs. Credit is still perceived as cheap for the average CFO.

Compared with last quarter, finance chiefs have also eased their expectations on the development of long-term interest rates in the next six months; currently only 46% of respondents expect an increase, down from 81% last quarter. CFOs seem to have been reassured that the Federal Reserve's tapering at quantitative monetary easing will only happen slowly.

Belgian-policy measures

The Belgian government has published new federal measures to support economic activity and job creation. On balance, CFOs believe that all measures will have a positive impact on their company, especially a decrease in labor cost.

Although CFOs believe that all of the new federal measures will have a positive impact, that impact looks insufficient to many CFOs: respondents still rate the way in which the federal government is setting the right priorities for financial and economic policy making as negative.

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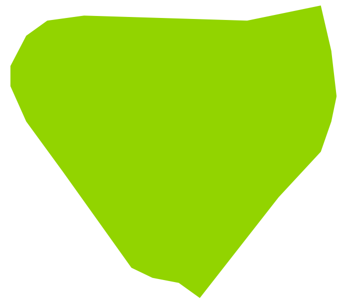
Bosnia & Herzegovina
Challenging times



Dependent on foreign transfers

The economy in Bosnia & Herzegovina (BiH) is struggling and set to grow slowly due to the continuing effects of the eurozone crisis, which will hinder investment and trade. Growth is slow because of a poor export performance; in addition, the region continues to face high unemployment, a lack of confidence, and low industrial production. It is very likely that this situation will remain unchanged for the near future. Hence, the BiH economy continues to be fragile and dependent on foreign transfers.

Still, 57.4% of CFOs are more optimistic about the financial prospects of their companies compared to the first half of 2013, while 32% remain unchanged in their views. Only 10.3% see future prospects as less positive. In addition, 63% of companies rated the general level of external financial and economic uncertainty facing their businesses as high or above normal.

Expecting stagflation, unemployment

Only 25% of interviewed CFOs believe that this is a good time for new investments and taking more risks on to company balance sheets.

This correlates with the GDP growth expectations of BiH CFOs. The survey shows that a majority of participants (71%) expect stagnation, while 21% expect moderate growth and 8% expect recession.

Unemployment is yet another area in which an unfavorable trend is expected. The survey shows that 42% of participants now expect no change. At the same time, it shows that 38% of respondents expect a moderate increase, and 4% a significant increase, in the numbers of unemployed.

Stretched between strategies

More than half of respondents said that growing revenues in current and/or new markets was their top priority for the year ahead, while a vast majority will focus on reducing costs. This corresponds to an overall impression among BiH CFOs regarding the future outlook of the economy: they are being “stretched” between strategies – on the one hand to preserve market share or consolidate internally through the better use of available resources, and on the other to achieve growth. More than half (54%) of CFOs stated that improving liquidity is an important or the most important focus for the next 12 months.

Consistent with these findings is the fact that BiH CFOs are not keen on new investments and that over a third of participants do not see new investments as a high priority. Instead, BiH CFOs expect business remodeling or restructuring to be a priority in the next 12 months (71%). This is consistent with their cost-reduction strategies and focus on the better use of available resources.

As for deal activity, 53% of BiH CFOs believe that mergers and acquisitions will increase over the next 12 months, which to a certain extent aligns with the latest trends across Europe.

Highlights from the H2 2013 Bosnian & Herzegovina CFO Survey:

- Some 71% of CFOs in Bosnia & Herzegovina expect stagnant GDP growth in 2014.
- More than half (57.4%) of CFOs are more optimistic about the financial prospects of their companies compared to the first half of 2013, while 32% remain unchanged in their views.
- A significant majority (63%) of companies rated the general level of external financial and economic uncertainty facing their businesses as high or above normal.
- A slight increase in unemployment is expected, while significant talent shortages in the finance area are anticipated.

Bulgaria
Sustaining restraint

Slightly improved outlook

For more than a year now, the Bulgarian economy has been exposed to a volatile political environment, which has submerged the indications of recovery in the EU and kept uncertainty high. This Bulgarian CFO Survey reveals a slightly improved outlook following the decline in optimism noted six months ago. However, CFOs are still cautious in their attitudes, and the moderate confidence they expressed in the second half of 2012 has not yet returned.

Moreover, for 66% of CFOs, the level of external financial and economic uncertainty is still high or above normal, while another 7% believe it is very high. In fact, the number of respondents who accept the level of uncertainty as normal has been steadily growing and now makes up 28%, a more than twofold increase over the first survey. It seems that finance chiefs have gotten used to running their businesses in a volatile environment over the last 12 months, a reality that is increasingly perceived as normal.

Optimistic stabilizes

The noticeable decline in CFO optimism observed in our previous survey is confirmed in this edition. Some 42% of respondents feel very or somewhat optimistic about the financial prospects for their companies, and 41% report no change in attitude.

Revenue growth, more investment

Revenue growth in current and new markets is among the top two priorities of around 71% and 60% of respondents, respectively. Attitudes toward making new investments (55% placed it in the top half of their priority list) reflect an increased willingness to allocate resources to support growth; six months ago this figure stood at 45%. Improving liquidity is still as important: 58% place it as one of their top two priorities (compared with 57% six months ago).

More M&A expected

Expectations of an increase in M&A activity still dominate CFO sentiment (46%), as in previous surveys, although the group with no view on the direction of market development continues to be strongly represented. One in three finance executives suspend their judgment by anticipating no change. Probably encouraged by a few major deals that were closed in the past year, some CFOs (7%) believe the latent market potential is yet to be unlocked in the year to come.

Local context

The political uncertainty Bulgaria experienced throughout the whole of 2013, which is set to continue in 2014, is an area of concern for 17% of CFO respondents. One in six respondents predicts it will affect their companies' business plans very negatively. In the opinion of the majority (76%), political tension will be somewhat unfavorable for the business environment.

Highlights from the H2 2013 Bulgarian CFO Survey:

- Optimism remained stable with 42% of CFOs now very or somewhat optimistic about the financial prospects of their companies.
- For 66% of CFOs perceive the level of external financial and economic uncertainty is high or above normal.
- Economic stagnation is still seen as the most likely scenario for Bulgaria; 24% expects moderate growth.
- Revenue growth in current (71%) and new markets (60%) is among the top priorities for Bulgarian CFOs.

Czech Republic

Betting on the business sector

Another difficult year

Despite some optimistic predictions, 2013 did not become the turning point toward growth in the development of the Czech economy. The uncertainty arising from the parliamentary elections, which promised a result that would significantly affect business conditions, was further aggravated by weak economic growth.

For 2014, CFOs share the same view on the economy as most analysts (for example, they expect 2014 to see the end of the economic recession). While recession was expected by only one-fifth (18.3%) of the CFOs surveyed last year, a prognosis that unfortunately came true, in the recent survey it is expected by only 1.6% of respondents. Almost one-third (29%) of the CFOs expect a moderate growth in the economy (GDP growth from 1.5% to3%). More than two-thirds (69.4%) are rather prudent in their expectations for growth, and expect either stagnation or a slight economic improvement.

Impact on optimism

Still, in a year-on-year comparison, there is an apparent growth of optimism among CFOs in the Czech Republic that is reflected in the highest value recorded since the introduction of our survey (43%). For half of the respondents (50.8%), the financial prospects of companies remain the same as in the past; nevertheless, even this number suggests that companies in the Czech Republic trend towards good performance. Moreover, the number of CFOs who were not very optimistic about the financial growth of their companies has decreased by more than half.

Highlights from the H2 2013 Czech Republic CFO Survey:

- CFOs expect the country to emerge from recession and almost one-third expect moderate GDP growth (between 1.5% and 3%).
- The percentage of CFOs who perceive external financial and economic uncertainty as high has fallen from 28% in the last survey to 14.3%.
- Currently, 30.2% of CFOs are willing to take greater risk onto their balance sheets.
- New loans are viewed as accessible by almost four-fifths (79%) of CFOs.
- There is a significant rise in companies expecting revenue growth from current markets (59.1% vs. 52.2%).

Taming uncertainty?

The instability of the Czech economy, contrasts with CFOs' perception of uncertainty. Although some still perceive the level of external financial and economic uncertainty as above normal, the number who perceive it as very high is low (3.2%). In addition, the percent of CFOs who perceive the extent of external uncertainty as normal has increased noticeably, with a year-on-year increase from 23.2% to 42.8%.

Focus on current markets

Asked about their business focus for 2014, Czech CFOs continue to cite new ways of increasing revenues. The level of priority ascribed to increasing sales reflects that the "economic mode of companies" has been overcome. Compared to past surveys, though, there is more emphasis on new markets and a significant rise in companies prioritizing current markets (59.1% vs. 52.2%).

Hungary
Moving in the right direction?

Highlights from the H2 2013 Hungarian CFO Survey:

- Some 26% of Hungarian CFOs expect moderate GDP growth (1.5% - 3%), up from 2% last survey.
- The proportion of CFOs expecting M&A levels to rise has increased significantly, and just 5% expect a decline (vs. 15% six months ago)...
- The number of respondents who consider the level of uncertainty to be normal jumped in just one year from 16% to 33%.
- Contrary to the increasingly negative expectations in the past 18 months, CFOs now expect an expansion of M&A activities in Hungary for 2014.
- About two-thirds of Hungarian CFOs do not expect to lack financial expertise in the years to come, which is an exception in the region.

Optimistic predictions

CFOs' expectations of GDP growth are much more optimistic than in previous forecasts. The proportion predicting a recession fell from 40% to 5%, and those expecting moderate growth increased significantly from 2% to 26%. This shows that CFOs' expectations of growth next year reflect recent GDP forecasts of Hungarian and international organizations, as well as the recent positive news about economic growth. This result, however, is not outstanding in a regional context. Of the 13 countries surveyed, only CFOs in Bulgaria, Bosnia, Serbia, Croatia, and Slovenia appear to be more pessimistic about growth.

Second most pessimistic

Compared with the past two years, Hungary's CFOs are now increasingly optimistic about their companies' prospects. This is in correlation with the positive changes seen in economic growth and macroeconomic indicators. Some 36% of respondents are more optimistic about their current financial prospects than they were six months ago. The same indicator was 15% lower a year ago. Although this is clearly a positive change, Hungary still is the second most pessimistic country in the CE region.

There is also widespread disagreement among Hungary's finance chiefs CFOs about the scale of external uncertainty threatening their companies. The number of respondents who consider the level of uncertainty to be normal jumped in just one year from 16% to 33%, which is another more positive result compared with previous years. Although Hungarian CFOs see the current financial outlook as a little brighter than last time, three out of four believe that now is still not the right time to take on higher risks.

Positive changes in M&A

In line with economic trends, CFOs' expectations about the likely number of M&A transactions have also been negative recently. However, expectations for the year to come suggest positive changes in Hungary. The proportion of respondents expecting M&A activity levels to rise has increased significantly and just 5% expect a decline in the number of transactions (compared with 15% six months ago)

Bullish on financing

The generally positive sentiment is also reflected in CFOs' attitudes toward funding opportunities. Significantly fewer CFOs than last time believe that corporate loans are difficult to access today.
In addition, a slightly improving trend has been underway over the past two years in CFOs' expectations for financing costs. While only 21% expect those costs to fall, 43% (5% more than last year) expect them to rise.

India
Hope prevails

Macro outlook: neutrality to optimism

The Indian economy has witnessed some truly unexpected times in the recent past. While inflation and rupee depreciation continue to be of concern, the heightened political inaction and inability to bring about economic reforms at desired levels as well as the increased scrutiny by the government for regulatory compliance have emerged as some of the key challenges for Indian organizations.

Despite a neutral stand taken by 52% of CFOs toward the current situation (3-6 months), around 68% believe that the economy is likely to take a positive turn longer-term, reflecting an optimistic outlook regarding the future beyond the one-year horizon. The neutrality can be attributed to the pre-election phase, leading to policy paralysis, which hampers the decision-making process.

Industry overview: uncertainty reigns

At an industry level, pricing pressures are considered the main growth inhibitors by more than 48% of finance chiefs. Furthermore, most industry segments are finding it challenging to achieve and sustain top-line growth in the marketplace and remain competitive, amidst new and innovative offerings being made available by other players. A shortage of trained manpower with the desired skill-sets is considered another key challenge by almost 40% of survey respondents. Industry regulations and legislation are the two other chief areas of concern.

Interestingly, in addition to policy, CFOs consider the country's backdated bureaucratic structure to be a major roadblock. They believe that there is a need for the government to improve its attitude and action toward economic reform and to adopt some pragmatic reforms in industry regulation.

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Highlights from the 2013 Indian CFO Survey:

- Some 68% of CFOs continue to be positive and hopeful about the future state of the Indian economy, beyond the one year horizon.
- Almost 60% of CFOs consider a slowdown in the domestic economy as an economic concern, followed by rupee depreciation and volatility.
- From an industry perspective, more than half of CFOs are finding it difficult to achieve and sustain market growth.
- Given prevailing uncertainty, almost 45% of CFOs do not anticipate any notable changes in their current organizational strategies.
- Close to 50% of CFOs believe managing costs to be a top challenge.

Organizational outlook: neutrality rules

While 40% of CFOs are optimistic about their organizational growth, almost 45% are maintaining a cautiously neutral stand in the next three-to-six month horizon, in view of the forthcoming national elections. Only 9% of respondents expect a further worsening of the situation in the next one year period, down from 12% in the 2012-13 survey.

Almost 60% of CFOs consider revenue growth/preservation in existing and new markets as the utmost critical factor hampering organizational growth. But 47% of respondents also feel that cost reduction is an area of concern, followed by availability of talent. Hence, in these volatile times, CFOs need to concentrate on designing innovative cost-cutting models to ensure sustenance and profitability without eroding organizational values.

Ireland

Poised for growth

Closing on a high note

The final quarter of 2013 heralded a host of developments that indicate Ireland is poised for growth. Most notably, Ireland became the first eurozone country to exit an international bailout—the EU-IMF bailout program in mid-December. The rate of employment growth is accelerating according to the Central Statistics Office (CSO). October also brought what has been promised to be the second to last in a long line of austerity budgets, with €2.5 billion worth of spending cuts and tax increases announced. Indications suggest that economic activity gathered pace as the year progressed. This was supported by a steady decline in inflation, with the annual rate close to zero by November. The year culminated with *Forbes* magazine rating Ireland as the best country in the world to do business.

That outlook was echoed in the findings of the Q4 2013 survey. From a macro perspective, a majority of CFOs believe foreign direct investment, exports and GDP will increase over the next 12 months, while an overwhelming net 88% believe the unemployment rate will decrease over the same time. It is therefore not surprising that 96% of CFOs believe the Irish economy has either returned to growth already or will do so in 2014.

Lack of pessimism

Net optimism reached a yearly high in Q4 2013 with more than half of respondents (52%) having a positive outlook on the financial prospects of their companies compared with a net 28% in Q3 2013. For the first time since the survey began, no CFO responded as being less optimistic.

Continuing the trend from Q3 2013, no CFO respondents perceived the level of external financial and economic uncertainty as "very high" this quarter. Some 44% of respondents believe that it is a good time to take greater risk onto their companies' balance sheets. This represents an increase of 20% from Q3 2013.

Highlights from the Q4 2013 Irish CFO survey:

- More than half (52%) of CFOs are more optimistic about the financial prospects of their companies; no one was less optimistic.
- A net 75% of respondents expect operating cash flow s to increase over the next 12 months.
- According to 62% of the CFOs, foreign direct investment will increase over the next 12 months.
- To 70% of CFO respondents, improvements in public policy measures could be made to help ensure appropriate credit availability.
- A net 55% believe capital expenditures will increase over the next 12 months.
- Retention of talent remains a priority for 92% of CFOs despite pressures to engage in cost cutting and downsizing.

Looking forward to growth

For 71% of CFO respondents, expansionary is how they describe their corporate strategy (a slight decrease from Q3 2013). Long-term growth of their products and services continues to be the strongest influencer on respondent companies' investment plans for the next 12 months, with 70% of respondents citing it as having a positive influence. Europe is seen as the most important market by Ireland's CFOs with regard to their companies' investment plans. In fact, half of respondents cite actual or expected growth in Europe as having a positive effect, a rise of 20% from last quarter. Market uncertainty is once again the greatest concern to CFOs over the next 12 months, with 42% of respondents feeling it could have a negative effect on their business.

Bigger appetite for risk

Some 44% of respondents believe that it is a good time to take greater risk onto their balance sheets. This represents an increase of 20% from Q3 2013. Still, tight credit conditions continue to restrict business growth. More survey respondents cited new credit as hard to get as opposed to easily available this quarter. While multiple factors contribute to the availability of credit for businesses, perceptions among the majority of CFO respondents are that public-policy measures involved in creating the conditions necessary to ensure appropriate credit availability for businesses are poor or very poor. This suggests that CFOs are looking to the Irish government to continue to provide support as businesses tackle this hurdle.

Bent on expanding

CFOs appear optimistic in relation to Ireland's return to economic growth, with 40% of respondents believing that the Irish economy has already returned to growth. Moreover, 63% of CFOs surveyed believe that their own companies have already returned to growth. CFOs anticipate a lag in economic growth within the wider eurozone, with the majority of respondents anticipating that the eurozone will not return to growth until the second half of 2014.

Nearly one-third (32%) of all CFOs surveyed believe that the government should invest in the information and communications technologies sector in order to stimulate further Irish economic growth. Of these CFOs, half believe monetary support should be provided and half believe policy support should be provided. Fifteen percent of CFOs surveyed believe that the energy industry is one that requires government investment. Of this group, 43% believe policy support is required, and 57% believe monetary support is required.

Latvia
Focused on growing profitability

Continuing to outperform

In 2013, Latvia continued to outperform the rest of the Central European countries surveyed in terms of economic growth. GDP growth in the second quarter reached 4.3%, but was still below the 5.6% annual rate of 2012. Although the economy grew, it could still be classified as being in recovery mode, with GDP last year still 10% below 2007 levels.

According to forecasts by the CEEMEA business group, GDP growth of 4.0% is expected this year, with Latvia sustaining growth of 4.0-4.5% in the medium term. The main driver of this growth is domestic consumption (household spending, construction, and retail sales) although manufacturing is also starting to show positive growth rates after a weak first half of the year.

As in the previous survey, CFOs predict that Latvian GDP growth will be bearish in 2014. Despite the fact that 2013 GDP growth has been higher than expected, more than 60% of CFOs expect only moderate economic growth of between 1.5% and 3% in 2014; 24% expect economic stagnation, with a growth rate between 0% and 1.5%. Only 14% of finance chiefs expect the country's GDP to grow by more than 3%. In comparison with the last survey, the aggregate outlook of CFOs has become slightly more pessimistic.

Marginal increase in uncertainty

Compared with the last survey, when 72.3% gave the same answer, the increase in perceived external financial and economic uncertainty has been marginal. Still, this financial and economic uncertainty is affecting company decision-making in a very direct way, as it influences decisions on whether or not to hire new workers or undertake capital investments. Latvia's CFOs are cautious—88% of those surveyed do not think that this is the right time to take greater risks on to company balance sheets.

Highlights from the H2 2013 Latvian CFO survey:

- Moderate economic growth is expected for 2014 (real GDP growth between 1.5% and 3%).
- For 88% of CFOs, now is not the time to be taking greater risk onto the balance sheet.
- More than 45% of CFOs believe that talent shortages in finance will likely remain a problem.
- Some 69% of CFOs expect a decrease in Latvian unemployment over the next 12 months...

  Almost three-quarters (73%) of Latvian CFOs expect M&A transactions to increase over the next 12 months.

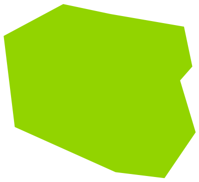
Revenue growth, cost reduction

Similarly to the results of the previous survey, Latvia's CFOs expect that their business focus to be on increasing revenue in the next 12 months. More than 45% of them are planning to focus on increasing revenue from their current markets and 12% on increasing revenue from new markets (49% and 22%, respectively last year).

Reducing costs was the second most popular business priority for the next 12 months. Some 20% said that they will focus on reducing indirect costs (14% in the last survey), and 12% said that their focus will be on reducing direct costs (14% last survey).

Furthermore, making new investments is not currently a priority; just 8% of CFOs surveyed think that new investments to support growth will be their main business focus, which might reflect the previously mentioned high levels of uncertainty among Latvia's CFOs.

Lithuania
Ready to invest



Return of a Baltic tiger?

Although Lithuania's economic growth is among the fastest in the EU and local analysts have started to talk about the country becoming a Baltic tiger once again, CFOs' optimism is unexpectedly on the wane. Some 14% fewer of them consider the financial outlook to be somewhat optimistic compared with six months before. It is also important to note that the remaining optimism is "cautious"—none of the respondents see prospects as being very optimistic.

In fact, CFOs are less optimistic than six months earlier about the financial prospects of their own businesses. This is most likely to be attributed to a change in GDP growth drivers, switching from export in the past to domestic demand and consumption today. The slowdown in their main export markets has increased the risk that Lithuanian businesses will not meet their growth targets, and this is reflected in CFO expectations.

Business focused on investments

In recent years, many businesses have concentrated on cost-cutting initiatives and put their investment projects on hold because of their uncertainty regarding a recovery. This time, CFOs' responses indicate that investment is now at the top of their agenda.

Such a trend may be explained by several factors, including underinvestment during the downturn; successful operations during recent years that have enabled funds for investment to accumulate; attractive costs of financing; and the need to continue improving efficiency.

Highlights from the H2 2013 Lithuanian CFO survey:

- Despite the positive prospects for Lithuania's GDP growth, CFOs are less optimistic than six months earlier about the financial prospects of their companies.
- Some 57% of CFOs believe that now is a good time to take greater risk on the balance sheet.
- The percentage of CFOs who think credit is easily available went up from 13% to 23%.
- Some 40% of CFOs find bank borrowing an attractive funding source.
- Significantly fewer CFOs think that business restructuring will be a priority over the next year—70% versus 27% last survey.

Credit availability improving

The availability of new credit for companies is improving—the percentage of surveyed CFOs who think credit is easily available rose from 13% to 23%. Some 86% now believe that credit is easily or normally available.

Turning to the costs of finance over the next year, sentiments have not changed much, but one can observe the growth of modest optimism. Ten percent more CFOs expect those costs to remain the same, and 8% fewer expect them to increase somewhat; 63% of those surveyed still expect an increase.

Preparing to join eurozone

With joining the eurozone getting substantially closer, CFOs seem to be unconcerned by its impact on their businesses—30% fewer than just six months ago now think joining the eurozone will have a significant impact.

Netherlands
Ready for growth

Economy to grow marginally

In contrast to the seemingly bright global prospects, the Dutch economy is expected to grow by a marginal 0.5% according to the Netherlands Bureau for Economic Policy Analysis. This is mainly driven by exports. In addition, dynamics on the domestic market will continue to be limited, with the unemployment rate expected to remain high, and very few new jobs created.

Still the Netherlands climbed out of recession in 2013, and the NEVI/Markit's Purchasing Managers' Index for the Dutch manufacturing sector increased from 56.8 in November to 57.0 in December, a 32-month high. The increase was driven by the strongest rise in new orders during the past 32 months.

Seeing bright spots

Against this backdrop of international optimism and the Netherland's modest recovery, CFOs seem to be in a good mood, given the rise in business confidence to 35% from 24% last quarter. This is the highest score since Q1 2011. Moreover, some 30% believe that the level of external financial and economic uncertainty facing their business is normal—the highest level since Q4 2010.

Credit cheap, somewhat available

In addition, the level of risk appetite has proven to be sustainable since Q2 2013 and now stands at 32%. Moreover, a net percentage of 23% of CFOs see credit as cheap, although only a net percentage of 5% see it as available.

Bank borrowing has gained favor again as the top source of corporate funding, while equity issuance is still seen as neither attractive nor unattractive. It is very unlikely that surveyed CFOs will issue equity over the next 12 months.

Highlights from the Q4 2013 Dutch CFO survey:

- Dutch CFO optimism increased to 35%—a level not seen since Q4 2010.
- There is less uncertainty about the economy, with 30% of CFOs rating current financial and economic conditions as normal, up from 11% in Q2 2013.
- The level of risk appetite has proven to be sustainable, with 32% of CFOs willing to take more risk on the balance sheet.
- Some 19% of CFOs expect their cash flow to increase by more than 20%, the highest level since Q1 2011.
- The main drivers of changes in cash flow are increases in products and services, better gross margins, and reduction of other operating expenses.

Expecting healthy cash flows

The percentage of CFOs expecting their cash flow to increase by more than 20% came in at 19%, the highest score since Q1 2011. Some 67% of CFOs expect their free or operating cash flow to increase anyway. The main drivers of CFOs' opinions about changes in cash flow are an increase in products and services, an increase of gross margin as well as a decrease of other operating expenses. Some 38% of CFOs expect to hire new personnel.

Still positive toward M&A

CFOs outlook on the M&A market remains very good. The outlook on the private equity market equalled the highest score since Q1 2011: 86%. Some 92% of CFO expect the corporate M&A market to increase over the next 12 months.

North America

Still muted expectations

Retrenching already?

CFOs in North America have been mostly optimistic throughout 2013, and this quarter's results provide a high note to end the year. Fifty-four percent of finance chiefs express improved optimism about their companies' prospects (up from 42% last quarter), and 21% express declining optimism (down from 24%).

But similar to last quarter, you would not know CFOs are optimistic by looking at their year-over-year expectations. At just 4.1%*, sales growth expectations are the lowest since the Q2 2010 launch of this survey (although 82% of CFOs do expect gains). Earnings growth expectations rose to 8.6%* from last quarter's survey-low of 8.0%*, but this level is still far off the survey's three-year average of nearly 12%.

Capital spending growth expectations fell sharply to just 4.9%* last quarter and rebounded to 6.4% this quarter, but this level is still well off the survey average of 8.6% (Manufacturing is the relative bright spot at 8.4%). And after a disappointing return to 1.3%* last quarter, this quarter's number for domestic hiring is essentially flat at 1.4%*.

Perhaps amplifying these muted expectations are signs that companies are beginning to become more defensive and less growth-focused. After several quarters firmly focused on pursuing opportunity over limiting risk, and much more on growing and scaling than on contracting and rationalizing, the tide appears to be shifting. To a greater extent than at any point in the past year, companies are indicating a focus on risk, business rationalization, and cost reduction.

Highlights from the Q4 2013 North American CFO survey:

- CFO optimism continued its positive trend, rising to 54% this quarter, up from 42% last quarter.
- Sales growth expectations fell to 4.1%, their lowest in the survey history. But earnings growth rose to 8.6% from last quarter's survey low of 8.0% (still below the historical average).
- Domestic hiring growth expectations improved to 1.4% about even with last quarter's estimates.
- Perceptions of the North America's economy softened with 26% describing conditions as good down from 38% last quarter. By comparison, 32% are optimistic about China; 4% are optimistic about Europe.
- Seventeen percent say they have received Board pressure to return cash, and the same proportion say their Boards are worried about pressure from activist investors.

Looking for growth engines

North American CFOs still see North America as the strongest growth engine, but their confidence has ebbed a bit. Eighty-one percent of CFOs say economic growth in North America is a substantial growth aid—well above the 42% who say the same for China and 25% for Europe. But just 26% rate the region's economic health as more good than bad (down from 38%), and 12% now rate it as more bad than good (up from 9%). Still, 55% do expect the economy to be stronger in a year, and just 7% expect it to be worse (up from 2%). By comparison, 32% regard China's economy as good (up from 25%), and 38% expect it to be better in a year; the numbers are 4% and 23%, respectively, for Europe (up from 2% and 14%).

As CFOs look ahead, most say they are the beneficiaries of high cash availability and relatively little shareholder pressure around their cash plans. More than half say they have added sources of liquidity over the past few years, but just 17% say they have received board pressure to increase dividends or buybacks, and the same proportion say their board is worried about activist investors. But more than one-third admit they are facing conflicting pressure from long-and short-term investors, and about 20% say increased scrutiny of their cash plans has influenced their business decisions.

Policy pressures mount

This quarter, CFOs' chief worries center less on China and Europe and more generally on worldwide economic growth and government policy. Fueled by another Washington legislative showdown and a resulting government shutdown, CFOs voice rising concerns about gridlock and fiscal policy. Monetary policy concerns escalated, and more CFOs expressed concerns about the effects of "quantitative easing" and its eventual wind-down.

Industry and company-specific concerns continued this quarter as CFOs expressed growing concerns that governments will take more active roles within industries—and not just within Financial Services. Concerns also remain about competition, pricing, aligning costs with revenue, and companies' general ability to execute well on current strategies.

Aligned with the business units

Last quarter's findings showed that CFOs have a growing role in strategic decisions—especially "corporate" or "cross-unit" decisions. This quarter's findings provide insights into how CFOs are building relationships with business unit leaders and supporting operations.

CFOs provide three broad strategies for building solid relationships with the business. First, get on the same page as the business leaders (learn the business, clarify finance's role, and foster frequent communication). Second, deploy the right finance organization (get the right talent, implement the right structure, and set the right metrics/expectations). And third, help deliver business results (get basic "steward" services right, get included in key decisions, and solve business problems).

What's next?

Many economists are optimistic as they look toward 2014, forecasting stronger North American growth, Europe's emergence from recession, and China's stabilization.

But this quarter's CFO worries and expectations suggest several macroeconomic events and trends are casting a shadow on their business planning. Entering a year ushered in by debt ceiling discussions and punctuated by mid-term congressional elections, U.S. fiscal and monetary policy remain top CFO concerns. And CFOs' still-declining year-over-year expectations suggest they may have doubts about how economic growth will hold up when quantitative easing finally slows and eventually ends.

*All numbers with asterisks are averages that have been adjusted to eliminate the effects of stark outliers.

Poland
Getting back to normal

Optimistic outlooks

The latest predictions regarding the Polish economy again show growing optimism among Polish CFOs. More than 60% expect GDP growth to exceed 1.6%. Finance chiefs also expect inflation to be low. A total of 88% of CFOs believe that the inflation rate will be below 2.9% next year. And almost half (49%) expect it to be in the 2%-2.9% range, while 39% predict it to be under 2%.

The economy is getting back to normal and appears to be stable enough for Polish businesses to focus on priorities like growing revenues and operations optimization. In addition, Polish CFOs are ranked in the top three of the 13 countries covered by the Central Europe survey in five categories: plans for increasing financial leverage; intention to increase risk appetite; availability of new bank loans; GDP growth; and decreasing unemployment.

Gaining momentum

The net level of optimism, expressed as the percentage of respondents who anticipate an improvement minus the percentage of those who predict a deterioration, has gone up from +24% to +44%. The percentage of CFOs who are optimistic about the prospects for growth of their companies has increased to 54% over the past six months.

In addition, more CFOs feel the level of uncertainty is normal (up from 5% to 30%). The number of CFOs who see the level of uncertainty as high had halved (from 50% to 24%).

Focused on revenues, savings

Revenue growth continues to be one of the top priorities for Polish firms. More than three quarters of respondents will generate growth in their existing markets, whereas 70% will generate revenue from prospective markets. Revenue can be hard to earn, however, due to the growing pressure on prices and stiff competition.

Highlights from the H2 2013 Polish CFO Survey:

- The business environment is returning to **normal** operational state: CFOs predict a sustainable level of growth at 2% (60.7% predict > 1.6%) and a low inflation rate of under 3% (88%).
- Net optimism among Polish CFOs has increased from 24% to 44%.
- Price pressure (34%) and maintaining financial liquidity in a time of economic growth (20%) are the main challenges for 2014.
- The percentage of CFOs who see a recession and fall in demand as the main risks has fallen from 48% to 17%.
- To 37% of respondents finding the right employees has become increasingly difficult.

Interestingly, there is an increasing focus on optimizing direct costs, which is the second main priority for more than 70% of businesses. It seems Polish businesses are focused on investing in the competitiveness of their businesses. Consequently, it is to be expected that companies may implement operational excellence, lean manufacturing, and ongoing improvement in their core operating areas. In fact, in 2014, restructuring will be the key priority for 30% of the Polish respondents, a trend that is true of all countries in the CE survey except Lithuania.

Pricing pressures mount

Price pressures stemming from the fight for market share and liquidity problems are seen as considerably greater key risks than in the previous survey of May 2013. The percentage of respondents who see the recession and falling demand as the key risk, however, has dropped from 48% to 17%.

Romania

Cautious optimism

Outlook improved

Optimism about the economic outlook has improved lately, due to the better-than-expected performance of Romanian exports, industry, and agriculture, which are likely to push the GDP real growth rate toward 3% in 2013. However, it is possible that business sentiment might slightly deteriorate again in the aftermath of recent hikes in excise taxes and the introduction of a 1.5% tax on nonresidential assets.

Still, Romania benefits from strong macroeconomic indicators: low public external debt (which has stabilized below 40% of GDP), a moderate consumer inflation rate (1.55% at end-2013), and a low level of the twin deficits: current-account (around 1.5% of GDP) and budget shortfall (approximately 2.5 % of GDP) in 2013.

Other factors to consider when balancing the positives and negatives include the emergence of a growing SME sector, an expected increase in EU funding over the next decade, and the need to plug gaps in infrastructure through investment and development projects. In addition, the levels of education in Romania continue to be relatively good, feeding local competitiveness.

Surprisingly optimistic

When it comes to their companies' prospects and growth expectations for the economy as a whole, Romania's CFOs express increased optimism for 2014 compared with previous surveys. The positive nature of their sentiment ranked among the most optimistic in the region. Some 92.6% believe that the Romanian economy will continue to grow in 2014, with 51.9% expecting slow growth (up to 1.5% year-on-year) and the remaining 40% anticipating a moderate advance (between 1.5% and 3%). Elsewhere, expectations for higher Romanian unemployment levels over the next 12 months have decreased significantly, from 55% of respondents in May to 44.4% at the end of 2013.

Highlights from the H2 2013 Romanian CFO Survey:

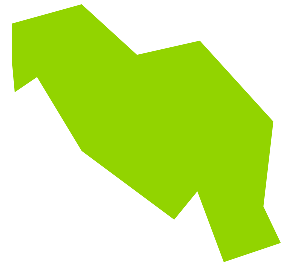
- Some 92.6% of respondents expect the Romanian economy to grow in 2014, with 40% expecting a moderate advance (between 1.5% and 3%).
- The majority of respondents (56%) are fairly optimistic about their company's financial prospects, up from 40% in the previous survey.
- Most CFOs (81.4%) consider risk levels to be high or above normal.
- The percentage of CFOs who are pursuing growth in new markets has increased from 47.7% to 58.3%.
- Business remodelling and restructuring remain strong priorities for 85% of respondents.

Revenue in sight

Achieving revenue growth in current and new markets is still the top priority. Penetrating new markets is considered an interesting target by 58.3% of CFOs, compared with 47.7% a year ago. This increasing interest in new markets might be linked to the fact that EU countries are likely to stagnate in the medium term, whereas emerging markets appear set to maintain robust GDP growth rates. At the same time, reducing direct and indirect costs continues to be a key priority. The most concerning aspect in the survey remains the relatively low importance given to new investments.

Lending costs falling

A radical change of expectations took place in the survey, as Romania's CFOs were the most optimistic in the region in terms of falling lending costs; six months before, they were ranked among the most pessimistic, after only Slovenia (73.4%), Lithuania (70.9%) and Estonia (55.7%).



Serbia
Austerity vs. optimism

Tough year ahead?

Although corporate expectations for 2014 are slightly better for both sales and profits, the recently announced Serbian government austerity measures—aimed at addressing public savings, fiscal stability, and promoting growth—mean that 2014 could be tougher than companies anticipate.

In fact, Serbia is one of the countries predicted to have the weakest economic growth in the CE region. The European Bank for Reconstruction and Development lowered its forecasts for Serbian economic growth to 1.7% for 2014. Moreover, the unemployment rate continues to be high and more job losses are expected due to the expected restructuring activities of unprofitable businesses.

Optimistic toward own prospects

For their part, 72% of CFOs believe that Serbian GDP will suffer from stagnation in 2014. Only 21% expect moderate growth (1.5% to 3%), with no one expecting anything higher. Obviously pockets of optimism continue to exist due to the diversity of growth that became an unavoidable characteristic of the financial crisis, when some industries were less affected by the downturn than others.

Toward their own companies' financial prospects, CFOs are fairly optimistic, though—54% of CFOs, up from 49% six months ago. Some 43% now also believe their financial prospects to be unchanged or less optimistic.

Just as six months ago, 82% of interviewed CFOs rank the general level of external financial and economic uncertainty facing their businesses as above normal or higher. There is, however, an increase in the percentage of respondents who consider financial and economic uncertainty to be very high (18% versus 10% last survey). It is therefore understandable that 93% of respondents feel that today's unpromising external economic signals make this not a good time to take greater risk on to company balance sheets.

Highlights from the H2 2013 Serbian CFO Survey:

- Growing revenues from existing and new markets are priorities for the year ahead.
- Serbian CFOs predict that the economy will stagnate in 2014, with GDP growth of below 1.5%.
- Almost three-quarters (72%) of respondents see business restructuring as a likely priority in the next 12 months.
- CFOs expect an increase in unemployment to continue, while significant talent shortages are likely to emerge in senior and top level financial management.

Focused on revenues

Half of CFOs surveyed are focused on revenue growth from current and/or new markets (47% six months ago), while 45% are set to focus on reducing costs and improving liquidity (44% six months ago). Revenue growth is the most important area of focus for Serbian companies for the next 12 months, with new market opportunities lagging behind existing ones. This is one of the reasons why making new investments is not an important priority for companies; they do not want to take risks so much as improve operational efficiency and increase productivity.

In addition, 71% of respondents expect business remodeling and/or restructuring to be a likely priority over the next 12 months. This is consistent with the widespread cost-reduction strategies and focus on the better use of available resources.

At the same time, 75% of CFOs think that M&A activities will remain unchanged in the near future, while 25% anticipate an increase; no one is expecting a decrease.

Slovakia
Conservative approach

Continued stagnation expected

The Slovak economy grew by only 0.8% in 2013, and according to 51% of CFOs surveyed, that stagnation (that is, no growth or a maximum year-on-year growth rate of 1.5%) is expected for 2014. But, whereas only 18% of CFOs expected moderate GDP growth in 2013, expectations for moderate growth in 2014 are 46%. Predictions of economic recession decreased 8% compared with 2013.

Still, one-third of CFOs surveyed expect an average degree of financial and economic uncertainty, while more than 60% predict above average or high uncertainty. This translates to a slight increase compared with the earlier 2013 CFO survey, when only 50% of CFOs classified the degree of financial uncertainty as above average and high.

Growth prospects improve

According to CFOs surveyed, the expectations of Slovak companies are significantly more optimistic than for the previous quarter, with almost 50% of respondents expressing a positive opinion. Negative opinions decreased from 30% to 18%.

Such positive outlooks may be influenced by the economic forecasts for Slovakia, which suggest general economic growth for the upcoming period. What's move, overall economic confidence has improved to year-end according to recent survey data. Reasons for the positive outlook include expected growth in real GDP of around 1%, and forecasted growth of domestic demand and general consumption in 2014.

Reducing indirect costs

A key business focus for companies in Slovakia over the next 12 months is expected to be reducing indirect costs, to which 26% of CFOs assigned the highest priority; revenue growth from new markets achieved the same percentage. Overall, the survey showed that CFOs' main business focus will be geared towards cost reduction, both indirect and direct, as well as revenue growth in new and current markets.

In the survey, 79% of respondents said that this is not the right time to increase balance-sheet risk, only a 3% decline since the last survey. When one considers that CFOs' lowest priority is making new investments, this indicates that CFOs are cautious and striving to avoid risky moves.

Compared with the previous survey, CFOs' priorities are slowly moving toward revenue growth from new markets, at the expense of cost reduction. The priority in cost reduction is also changing—from direct to indirect costs. These moderate changes in CFOs' priorities are the result of the improved business environment and the positive economic outlook of Slovakia's main export markets

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Highlights from the H2 2013 Slovakian CFO Survey:

- More than half of CFOs expect the Slovak economy to stagnate in 2014, which is down from 66% in the last survey.
- The expectations for their own companies are up significantly, with almost 50% of CFOs saying they are optimistic.
- Almost 80% of Slovakian CFOs say that now is not a good time to take risk onto the balance sheet.
- Up to half of the participating CFOs envisage a talent and skills shortages in the workforce.
- The main businesses focuses of Slovakian companies in the next 12 months are both cost reduction and revenue growth.

Slovenia
Lack of optimism

No recovery until 2015

Economic conditions are not expected to improve in Slovenia in the short term. Despite the first signs of recovery in the euro area, domestic factors will constrain the recovery of the Slovenian economy. In 2012, the economy contracted by 2.5%, and it is expected to further contract by 2.4% in 2013 and 0.8% in 2014, respectively. According to the Slovene Institute of Macroeconomic Analysis and Development (SIMAD), a slight recovery is envisaged for 2015 when the economy is expected to grow by 0.4%.

Against this backdrop, Slovenia's CFOs forecast the following for 2014: further contraction of the economy, a decrease in employment, and stricter credit standards that reduce the availability of new financing. In addition, a vast majority (62%) of respondents believe that Slovenia will face another year of recession. And for the third time Slovenia's CFOs remain the most pessimistic about expectations for the country's growth this year among all the countries that participated.

Uncertainty still high

CFO's outlook on the financial prospects for their companies did not change significantly compared with the spring survey responses. Some 30% of surveyed CFOs feel fairly or very optimistic about the financial future of their companies. The share of CFOs who are less optimistic about their companies is 27%, which is the highest percentage among the Central Europe countries reporting.

Still, when asked how they would rate the general level of external financial and economic uncertainty facing their business, most CFOs (88%) responded that the level of uncertainty is above normal, high, or very high. It seems that the magnitude of uncertainty has increased among CFOs in comparison with our previous surveys. Almost 30% feel uncertainty is very high, which is considerably higher than in the spring 2013 survey (23%) and fall 2012 survey (7%) in the country.

Highlights from the H2 2013 Slovenia CFO Survey:

- Some 30% of the surveyed CFOs feel fairly or very optimistic about their financial future of their companies, which is consistent with the findings of the last survey.
- To 88% of CFOs, the current level of financial and economic uncertainty feels above normal, high, or very high.
- Among the 13 Central European countries, Slovene CFOs were the only ones who unanimously refused to take greater risk onto their balance sheets.
- More than half of the surveyed CFOs believe their financing cost will increase in the next 12 months, but this is lower than the 73% last time.

Focus on the year ahead

In the upcoming 12 months, Slovene companies shall focus primarily on improving liquidity of their companies. In addition, CFOs will focus on revenue growth on new and current markets The least important area of consideration highlighted by the CFOs was new investments. At the same time, half of the surveyed CFOs view remodeling or restructuring as a priority in the next 12 months.

Blaming government

CFOs believe that the government is responsible for the weak economic development in the last few years. More than one-third (35%) stated that the Slovene economy is mostly constrained by the excessive involvement of the government in the economy, and 24% of respondents view constant changes in government economic policy as the biggest obstacle.

Southeast Asia
Risk redefined

Optimistic despite China concerns

While there are worries that the Chinese economy will slow down and political uncertainty in Southeast Asia (SEA) will rise, overall, 44% of CFOs in the Southeast Asia region say they are more optimistic this quarter than last. However, public companies are slightly more pessimistic due to macro factors such as financial and economic uncertainty.

Of the 44% of optimists, slightly less than half say external factors, such as positive developments in their industries or markets drive, their optimism whereas the other half mention primarily internal and company-specific factors, such as their products or services, changes in their operations, financing, or assets, as drivers of their optimism.

Keeping CFOs awake

SEA finance chiefs have a long list of concerns keeping them up at night. Changing regulatory requirements, for example were ranked as one of the top stressors. In addition, China's slowing economic growth is a cause of concern, especially for companies that have become increasingly dependent on China's booming economy in recent years.

Other concerns include the stability of the financial markets. Changes in interest rates and fluctuating currencies are worries for most companies. In addition, given that SEA has one of the most complex production networks in the world, competition is a top stress factor. Member states trade extensively in not just finished goods, but also in raw materials and several intermediate goods. Private companies in particular are concerned about increasing competition resulting in price wars.

Highlights from the H2 2013 Southeast Asia CFO Survey:

- Some 72% of the surveyed CFOs have been much more involved in risk management practices compared to 12 months ago.
- The biggest worries among Southeast Asian CFOs include concerns regarding compliance and increased competition.
- Overall, 44% of CFOs in the region are more optimistic this quarter, but respondents expect economic uncertainty to continue.
- The survey reveals that 65% of Boards in Southeast Asia are involved in risk matters including compliance. Their involvement is much higher at public companies (88%) versus private companies (44%).

Focused on risk

In SEA, CFOs today are much more involved in risk management practices compared with 12 months ago. Due to changes in the external and internal environments the organizations face, 72% of the CFOs polled are more involved in risk management compared with 12 months ago and only 6% say they are less involved.

The main reasons for the shift are the constantly evolving global regulatory environment and the increasingly stringent domestic regulations for statutory, as well as industry-specific, reporting. In addition, more than half of the CFOs report that their companies have experienced an internal shift toward compliance and risk management. Internal drivers include changes within their organizations that results in the redefining of risk and compliance responsibilities that require CFOs to get more involved. The lack of talent to fill compliance and risk-related activities also forced 21% of CFOs to pay more attention to this area.

Which risks?

Not surprisingly, 90% of the polled CFOs mention regulatory and industry compliance as their number-one area of involvement in risk management, but only 76% noted external statutory reporting. It is also interesting to note that 85% of respondents report that they are involved in operational risk management while approximately 81% are involved in strategic risk management. As companies strive to strengthen their internal controls, 83% of CFO respondents say they are involved in managing and improving internal controls as well as remediating control issues.

The SEA CFOs are least involved in risks related to capital access and capital costs as well as managing IT risks. Their top mitigation strategies include strengthening their internal controls framework (90%); conducting continuous internal audits (77%), and implementing or overhauling their enterprise risk management system. Other tool to identify risks in operations and processes, such as whistleblower systems and better disclosure practices, are used by 52% and 48%, respectively.

Aiming for more strategic roles

Globally as well as in SEA, CFOs would like to play “above the line” by spending more of their time as strategists and catalysts, rather than “below the line” as operators and stewards. However, in SEA, CFOs' actual time allocation is spent as operators and stewards (as defined by the Four Faces of the CFO), with a little less emphasis on their “above the line” roles. SEA’s finance chiefs tend to be somewhat more involved in operator activities compared with other regions.

Despite the constantly increasing compliance and regulatory requirements, 39% of all CFOs surveyed currently spend approximately one day per week as stewards; however 49% would like to spend that amount of time. Currently, another 30% of CFOs spend up to one-and-a-half days per week on these activities, but only 28% would actually like to spend that much time.

On the other hand, 26% of CFO respondents are currently spending one-and-a-half days on average as strategists, whereas 38% of CFOs would like to allocate this amount of time to that role.

Switzerland
Riding a wave of confidence

Challenges, opportunities

Swiss CFOs' optimism about the economy has been steadily improving and rose even further in Q4. Some 80% of the CFOs surveyed are optimistic about Switzerland's prospects for economic growth, with fewer than 2% expressing pessimism. This gives a net balance of 79%, one of the highest values since the survey was launched in 2009. Accordingly, fears of a recession are also lower this quarter; just 4% of CFOs expect a Swiss recession over the next two years.

This more buoyant mood is also reflected in CFOs' forecasts for the economy. Against the backdrop of renewed growth in the Swiss economy since mid-2012, the upturn is expected to continue in 2014. The Swiss State Secretariat for Economic Affairs forecasts GDP growth in 2014 of 2.3%, reflecting sustained momentum in the economy.

Brighter corporate outlook

The corporate outlook continues to improve slowly but steadily, with 38% of CFOs more optimistic about their company's prospects in Q4 than in the preceding quarter. Just 7% are more pessimistic, while 55% report no change.

CFOs' expectations for revenue growth and operating margins in particular over the next 12 month remain positive. Some 35% expect margins to increase, while 23% expect them to shrink, a net balance of 12%. This is the most optimistic picture since the survey was launched in Q3 2009. In terms of revenues, 74% expect an increase.

There is also further evidence of improved expectations for capital expenditure. The upward trend has stabilized, even though the figure dropped slightly compared with Q3. In addition, CFOs' views on hiring are also improving. A net balance of 7% expect an increase in new hires over the coming 12 months.

Highlights from the Q4 2013 Swiss CFO Survey:

- Some 80% of CFOs have a positive economic outlook for Switzerland, the highest quarterly figure since March 2011.
- Investment expectations have picked up markedly over recent quarters. Two years ago, 75% of CFOs expected investment to fall; this quarter the figure is just 15%.
- Wage costs are seen by 42% of CFOs as a risk factor, which is to be expected during a period of economic recovery and low unemployment.
- CFOs' exchange rate expectations this quarter are around EUR/CHF 1.24, comfortably above the exchange rate floor of 1.20.
- For 2014, the average euro-Swiss Franc exchange rate assumed in company budgets is 1.23.

External risks receding

Swiss companies' appetite for risk has increased gradually over the last three quarters. Some 36% of CFOs now believe that this is a good time to take greater risk onto their balance sheets, only slightly down from Q3 and one of the highest percentages since the survey was launched. Overall, however, a majority of businesses remain risk adverse.

Closely linked to their appetite for risk is CFOs' assessment of corporate risk. External risks that are beyond the company's control, such as demand and currency-related risks and risks within the financial system, have gradually receded over recent quarters. However, having apparently reached a record low in Q3, they have now risen slightly. The strong Swiss franc in particular is now increasingly seen as a risk factor.

In contrast, internal risks have been rising over recent quarters, although they are slightly lower this quarter. CFOs see capital costs and weaker cash flow as smaller risks than was previously the case, but their perception of risk on the cost side—wage and production costs—continues to grow. In fact, production costs represent the major perceived risk factor this quarter. This is to be expected during an economic recovery and is, therefore, a positive macroeconomic signal.

Advantageous financing environment

Although Swiss interest rates have been on a consistent downward trend, in 2013 they rose for the first time, especially long-term yields. As a result, the yield curve has become steeper: long-term yields have risen and short-term yields have fallen slightly, pointing to an expected medium-term interest rate rise.

Switzerland's credit environment, though, remains advantageous. CFOs' assessment of the cost of credit is virtually unchanged from Q3 (a net balance of 50%) while their assessment of the availability of credit has fallen slightly to 44%. Both indicators remain solidly positive, however.

CFOs' expectations for their future credit requirements also remain positive: 36% see their need for credit rising over the next 12 months, while 12% say their credit requirement is likely to fall. This gives a net balance of 24%, unchanged from the preceding quarter.

Challenges, opportunities

As usual at year-end, we asked CFOs specifically what they considered to be the biggest challenges and opportunities for their company over the coming year. What a difference a year makes: our look ahead to 2013 was still dominated by macroeconomic challenges, but these are much less evident for 2014. Corporate issues have come much more to the fore and there is renewed confidence in growth. Companies are more willing to seize new opportunities, particularly in foreign markets. Finance chiefs are also hoping that focusing more on innovation and "Swissness" will bring competitive advantages.

Swiss CFOs now see scope for growth returning and are planning for it, something that is perceived as both an opportunity and a challenge. Growth has to be managed, of course, and successful management requires staff with the right skills. While CFOs hardly mentioned recruitment problems (for example, a talent "bottleneck") during the last two years, this quarter they were cited more often. They also are concerned about reducing staff turnover rates and recruiting the right people. In terms of the challenges their companies face, many place a shortage of talent very high on the list—another positive sign in macroeconomic terms. A further challenge cited by a number of CFOs was improving the work/life balance of their employees.

Compared with the last two years, CFOs appeared less concerned about the strength of the Swiss franc or the crisis in parts of the eurozone this past quarter. They remain focused on securing operating margins, boosting efficiency and optimizing processes. Many companies are continuing the corporate fitness programs they started during the last few years, with a focus on operating margins. CFOs also highlighted increasing levels of regulation as a challenge, especially in the financial sector.

Swiss CFOs see growth in foreign markets as a potential opportunity for 2014. In line with other survey findings, higher levels of investment are seen as an opportunity, while many CFOs see innovation as a major driver of growth. As in 2013, there is an increasing emphasis on "Swissness" as a quality marker and a means of differentiating Swiss companies from competitors.

United Kingdom
Expanding, investing, hiring

In a buoyant mood

In the latest UK CFO survey, it is clear that finance chiefs are entering 2014 in a buoyant mood. A record 57% of CFOs say this is a good time to take risk onto the balance sheet, and business optimism is running at its highest level in three-and-a-half years.

Uncertainty and credit shortages, two major blocks to business activity, have eased substantially. In fact, some 60% of CFOs report that the level of economic and financial uncertainty facing their business is above normal, high, or very high—the lowest level in more than three years. Moreover, the cost of credit hit a new six-year low in the fourth quarter, and credit availability is close to a six-year high.

CFOs attach a 16% probability to the UK falling back into recession in the next two years, down from 40% a year ago. In addition, their views on the likelihood of a euro breakup remain low. They now assign a 10% probability to the euro area breaking up in the next 12 months, marginally higher than last quarter's estimate but well below the average reading in 2012.

Expansion eyed

The top priority for CFOs in 2014 is expansion, whether through introducing new products or services or moving into new markets. CFOs are also placing greater emphasis on capital spending, and 88% expect M&A activity to increase over the next 12 months. Our index of corporate expansion is back to levels last seen in early 2011, when the UK looked set for sustained recovery.

Few capital constraints

Financing conditions remain benign for the UK's largest corporates as evidenced by the cost and availability of credit. In addition, CFOs expect all forms of capital raising—bond issuance, bank borrowing, and equity issuance—to increase in 2014.

Highlights from the Q4 2013 UK CFO Survey:

- CFOs' expectations for revenues and profits are at the highest level in three-and-a-half years.
- For the first time since the financial crisis, CFOs report that bank borrowing is the most attractive source of funding.
- Perceptions of uncertainty are at a three-year low. On average, CFOs assign a 16% chance to the UK experiencing a recession in the next two years. down from 40% a year ago.
- A record 80% of CFOs say that bank credit offers an attractive source of finance.
- Risk appetite among CFOs is at the highest level since the survey began with 57% saying now is a good time to take risk onto the balance sheet.
- Some 88% of CFOs expect M&A activity to increase over the next 12 months.

Assessing UK monetary policy

Our special question this quarter assesses CFOs' thinking on monetary policy. A strong net balance of CFOs say the policies of the new governor of the Bank of England, Mark Carney have made them more positive about the UK economy. But most expect the Bank to raise interest rates by mid-2015, and almost a quarter expect rates to rise in 2014. In addition, CFOs are skeptical that the Bank will hit its inflation target. A majority expect consumer price inflation to be significantly above the Bank's 2.0% target in two years' time.

The message from this survey is that the UK's largest companies are gearing up to expand, invest, and hire. This quarter's findings bode well for the broad-based recovery policy-makers hope to see in 2014.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-two Deloitte member firm CFO surveys, covering 57 countries, are conducted on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey varies.

The following summarizes the survey scope and population of the participating member firms for this quarter. Member firms' CFO surveys can be accessed at www.deloitte.com/cfoconnect.

.Member Firm	Contacts	Frequency	Survey Scope and Population
Albania	**Elvis Ziu** Partner, CFO Program Leader +38138760314 eziu@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Australia	**Stephen Gustafson** Partner +61 (0) 2 9322 7325 sgustafson@deloitte.com.au	Quarterly	Conducted between December 9, 2013 and December 13, 2014; 64 CFOs participated, representing businesses with a combined market value of approximately AUD $295 billion or 19% of the Australian-quoted equity market.
Austria	**Mag. Gerhard Marterbauer** Partner +43 1 537 00 4600 gmarterbauer@deloitte.at	Quarterly	Conducted in January 2014; 121 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 23% have revenues in excess of €1 billion, and 47% have revenues greater than €100 million.
Belgium	**Thierry Van Schoubroeck** Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between December 11, 2013 and January 6, 2014; 73 CFOs completed the survey. The participating CFOs are active in variety of industries, 27% of the participating companies have a turnover of over €1 billion, 41% of between €100 million and €1 billion, and 32% of less than €100 million.
Bosnia & Herzegovina	**Sabina Milos Macura** Office Managing Partner +381 (11) 3812 111 mmacura@deloittece.com **Sabina Softic** Partner +387 (33) 277560 ssoftic@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Bulgaria	**Vasko Raichev** Partner, CFO Program Leader vraichev@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.

.Member Firm	Contacts	Frequency	Survey Scope and Population
Central Europe	**Gavin Flook** CFO Program Leader + 32 2 749 56 04 gflook@deloitte.com	Annual	All Central European CFO surveys were conducted between October, 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Czech Republic	**Martin Tesar** Partner in charge, Audit + 420 246 042 525 mtesar@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries.
Hungary	**Tamas Gaidosch** Partner, Enterprise Risk Services + 36 1 428 6644 tgaidosch@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
India	**Sanjoy Sen** Senior Director Deloitte Touche Tohmatsu India +91 (040) 6670 5734 sanjoysen@deloitte.com	Annual	Conducted between December 2013 and January 2014, the survey included participation from approximately 92 respondents, 46% of whom represented Indian companies, 43% MNCs from companies headquartered outside India, and 11% headquartered in India. Annual turnover of the participating companies are as follows: < Rs 250 Cr (34%), Rs 250-500 Cr (19%), Rs 500-1,000 Cr (14%), Rs 1,001-2,500 Cr(10%), > Rs 2,501 Cr (23%).
Ireland	**Shane Mohan** Partner +353 1 417 2543 smohan@deloitte.ie	Quarterly	Conducted in December 2013; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated.
Latvia	**Robert Stugis** Partner +371 6 707 41 20 rstugis@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Lithuania	**Saulius Bakas** Managing Partner +370 5 255 3001 sbakas@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Netherlands	**Jan de Rooij** Partner +31 (0) 6 5336 6208 JandeRooij@deloitte.nl	Quarterly	Conducted between December 14, 2013 and January 16, 2014; 23 CFOs representing a net turnover per company of approximately €2.1 billion, completed the survey. The responding companies can be categorized as follows: less than €100 million (22%), €100–499 million (17%), €500–999 million (9%), €1–4.9 billion (39%), more than €5 billion (8%), unknown (4%).
North America *(U.S., Canada, Mexico)*	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 11, 2013 and November 22, 2013; 96 CFOs participated from across the United States, Canada, and Mexico. Some 68% of respondents represent CFOs from public companies, and 79% are from companies with more than USD $1B in annual revenue.
Poland	**Krzysztof Pniewski** Partner, Finance Transformation +48 22 511 01 48 kpniewski@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Romania	**Ahmed Hassan** Country Managing Partner +40 (21) 2075 260 ahhassan@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.

.Member Firm	Contacts	Frequency	Survey Scope and Population
Serbia	**Nada Sudic** Partner +381 11 3812 110 nsudic@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries participants; all were CFOs in a broad range of industries.
Slovakia	**Zuzana Letkova** Partner, Audit +421 (2) 582 49 213 zletkova@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Slovenia	**Yuri Sidorovich** Partner, Audit ysidorovich@deloittece.com	Annual	All Central European CFO surveys were conducted between October 2013 and November 2013; 580 participants in 13 countries; all were CFOs in a broad range of industries.
Southeast Asia	**Hugo Walkinshaw** Executive Director, Consulting SEA CFO Program Leader +65 9836 8991 hwalkinshaw@deloitte.com	Bi-annual	The Deloitte SEA CFO Survey targets the CFOs of major companies in Southeast Asia. This is the first CFO survey conducted in this region. The survey was open for three weeks commencing October 7, 2013 and was completed by 53 CFOs, representing a wide range of industries.
Switzerland	**Dr. Michael Grampp** Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between November 16, 2013 and December 9, 2013; 124 CFOs participated, representing listed companies and the remaining representing large private companies.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between November 22, 2013 and December 9, 2014; 122 CFOs participated, including CFOs of 32 FTSE 100 and 41 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of major companies listed overseas. The combined market value of the 84 UK-listed companies surveyed is £641 billion, or approximately 30% of the UK quoted equity market.