

Global CFO Signals

Waiting to exhale

Q4 2012 Deloitte Member Firms' CFO Surveys: Australia, Austria, Belgium, Bulgaria, Croatia, Czech Republic, Hungary, India, Ireland, Middle East, Netherlands, North America, Poland, Romania, Slovak Republic, Slovenia, South Africa, Spain, Switzerland, and the United Kingdom



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 changing strategic shifts in the market.

About Deloitte Member Firm CFO Surveys

Twenty Deloitte Member Firms' CFO surveys, covering **38** countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO 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. Further, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 35) 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 2012 CFO surveys from Deloitte member firms in the following geographies:

- Australia:** Shifting gears?
- Austria:** Small steps forward
- Belgium:** Preparing for 2014
- Bulgaria:** Caution rules
- Croatia:** Increased optimism
- Czech Republic:** Wariness mounts
- Hungary:** Contradictory signals
- India:** Cautious optimism
- Ireland:** The Celtic comeback?
- Middle East:** Optimism amid tensions
- Netherlands:** Uncertainty accepted?
- North America:** Less uncertainty, little clarity
- Poland:** Concerns continue
- Romania:** Uncertainty weighs heavily
- Slovak Republic:** Balancing act
- Slovenia:** Recession returns
- Spain:** Falling behind expectations
- South Africa:** Eyes on the goal
- Switzerland:** Same direction or new horizons?
- United Kingdom:** The search for opportunity

Global Contacts

Sanford A Cockrell III

Global Leader
Global CFO Program
Deloitte Touche Tohmatsu Limited
scockrell@deloitte.com

Lori Calabro

Editor, *Global CFO Signals*
Global CFO Program
Deloitte Touche Tohmatsu Limited
localabro@deloitte.com

Jennifer Chu

Chief of Staff
Global CFO Program
Deloitte Touche Tohmatsu Limited
jennchu@deloitte.com

For additional copies of this report, please email:

GlobalCFOProgram@deloitte.com

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Global CFO Signals

CFO Sentiment in Fourth Quarter 2012

To say that 2012 was a difficult year for CFOs around the globe is an understatement. Given the political uncertainties in the United States, the currency crisis in Europe, the slowdown in China, and various regulatory hurdles, CFOs had little clarity into the future or comfort level for investments. Judging from the results of the latest *Global CFO Signals*, however, Q4 may mark a turning point. But will 2013 be the year CFOs finally signal strong optimism about their companies' — and their countries' — prospects?

The good news is that in this issue of *Global CFO Signals*, which features surveys from 20 geographies (including inaugural surveys from Bulgaria and Slovenia), CFOs' optimism toward their companies' prospects turned positive in many countries. Moreover, some countries, including India, report greater optimism about their home economies heading into 2013.

Driving that optimism is the fact that several “uncertainties” have been at least temporarily resolved. Fears have receded over a single currency breakup in Europe. U.S. elections played out, and the fiscal cliff was avoided (for now). And perhaps more importantly, many CFOs put their financial houses in order, with strong balance sheets and better cost structures that position their companies for growth.

In South Africa, growth is being supported by better capital and funding conditions as well as opportunities on the continent. And in the Middle East, steady oil prices and large public expenditures are bolstering CFO optimism.

Still, there is a palpable “wait-and-see” attitude in many countries. In the UK, for example, large companies enter 2013 with a stronger focus on

cutting costs and increasing cash flow than at any time in the last two years. In North America, CFOs are only projecting a 4.3% growth in capital spending — the lowest in survey history. Even in Ireland, which has been consistently upbeat in recent surveys, CFOs believe that real economic growth is at least another year away.

What seems clear is that CFOs and their companies have the means to grow. They just need the confidence — and, in many cases, the regulatory clarity — to get started. What follows is a synopsis of sentiment by geography:

The Americas

In North America, 40% of CFOs reported rising pessimism in Q4, similar to the previous quarter, while in the U.S. specifically, net optimism (the difference between the percentage of CFOs expressing rising and those expressing falling optimism) fell from zero two quarters ago to -21 in Q4. The main culprits in the U.S. were sluggish economic performance and the fiscal cliff drama, which remained unsettled as CFOs filled out their surveys. These factors took a toll overall on capital investment expectations, as well as domestic hiring, which is expected to rise 1.0%, with 28% expecting cuts — a new survey high.

Asia Pacific

The Indian and Australian surveys illustrate the positive movement of CFO sentiment in Asia Pacific. In India, 62% of CFOs are optimistic about the future of their economy, citing recent regulations that encourage FDI inflow, tax reforms, and reduction of fuel/non-fuel-subsidies. About 34% are also optimistic about their companies' performance, while only 12% are less

optimistic. Meanwhile, in Australia, CFOs are displaying stronger signs of optimism for their companies' prospects and in their appetites for risk. Recent interest rate cuts are one driver, bringing the cost of credit to its lowest level since the survey began.

Europe

In Europe, where the currency crisis wreaked havoc on CFO confidence in the past year, CFOs have mixed outlooks, but remain cautious. In the UK, 20% of CFOs are now more optimistic about their own companies' prospects compared with 16% in Q3, but perceptions of financial/economic uncertainty remain high. In Switzerland, expectations for revenues and margins have recovered, but 80% still name cost control their top priority. In Belgium, risk appetite has seen its biggest increase in three years, but CFOs appear to eye next year for a recovery. Encouragingly, 27% of Irish CFOs believe their companies have already returned to growth, but optimism dropped from a net 31% in Q3 to a net 17% this quarter.

Central Europe

The outlooks in Central Europe are as diverse as the countries reporting. CFOs in five of the eight

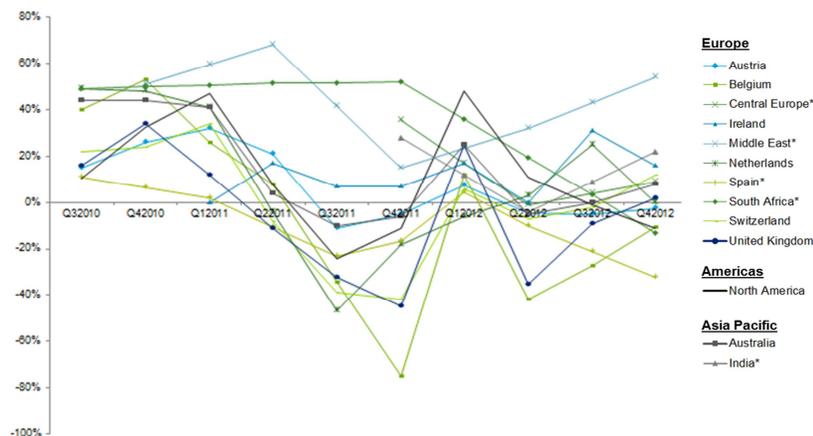
countries expect their companies' prospects to remain unchanged from six months ago. The majority of Slovene CFOs (52%), however, are currently "less optimistic" than they were last survey, while Bulgarian CFOs are most optimistic (67%). Regarding their own countries, CFOs in Slovenia, Croatia, and Hungary expect a return to recession, while those in Poland, the Czech Republic, Romania, and Bulgaria expect minimal growth and stagnation. In export-driven Slovakia, 60% expect moderate economic growth.

Middle East/Africa

Finally, the South African survey found CFOs investing for the future, even though 26% reported deterioration in company performance over the previous six months. Still, the Middle East stands out for the strength of its outlook. A net 54% of CFOs are more optimistic about their companies' prospects than six months ago — despite political instability and regional tensions. And for 2013, CFOs there predict that optimism will translate into increased operating cash flows driven by higher revenues, stricter credit controls, and continued cost reductions. The latter is a priority shared with their global CFO peers — many of whom are waiting to also share their optimism.

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. Central Europe encompasses survey data collected from Croatia, Czech Republic, Hungary, Poland, Romania, and Slovakia.

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: A Global Perspective



Primed for growth?

Growth does not just happen, of course. It takes favorable economic conditions, smart investment, and strong execution. While some CFOs around the world voiced optimism about the changing economic landscape, not everyone is ready to put funds at risk — or take on new debt. In North America, for example, it was not just capital investment expectations that fell. R&D (2.7%) and marketing/advertising (2.0%) investment also hit survey lows. Meanwhile, in the Netherlands, only 12% of CFOs say now is the time to take more risk onto their balance sheets. The good news, though, is that in many countries such as Switzerland, credit remains cheap and available, and in others, such as Belgium, CFOs' risk appetites have significantly improved. Still, CFOs remain cautious — even about how to grow. In Australia, for example, “looking within” continues to be an overarching theme, with CFOs prioritizing organic expansion and investment in new products, services, and markets. In the Middle East, 47% of CFOs are planning for strategic alliances as a risk-averse approach to inorganic growth over mergers and acquisitions — compared to 13% six months ago.



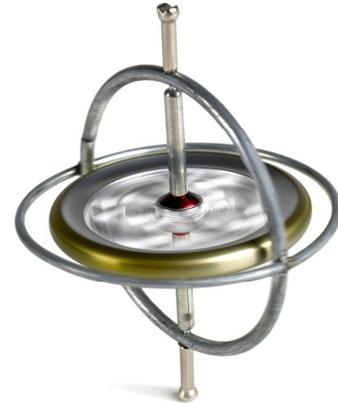
Talent capabilities – and challenges

While some countries are still focused on reducing headcount, others remain concerned about the people they are missing. In South Africa, for example, CFOs name the skills shortage as their top business risk factor – greater than the fragile state of the global economic recovery. In response many of them are launching a multi-pronged attack with more than half implementing succession planning at specific levels and formal talent strategies to address staff needs. In India, the availability of a specialized workforce, its development, and associated cost remain areas of concern. In some Central European countries, CFOs see the quality and cost of talent as crucial to future growth. Of course, improving finance's ability to be a business partner is a constant struggle, but one that can lead to greater productivity. That is one reason three-quarters of Australian CFOs plan to invest in training and development and 48% are creating a more inclusive workplace. Moreover, being a better business partner is also the driver for CFOs in North America to improve finance's capabilities around strategic planning (52%), IT/information management (48%), and budgeting and financial planning (47%).



Everything is local

While many of the factors worrying CFOs are global, what happens in their own home countries is very much on their radar screens. In North America, for example, the fate of health care reform added to CFO angst over political uncertainties. While recent Indian government initiatives have bolstered CFOs' views of the future, more than 54% consider inflation and its subsequent pressure on commodity prices as economic concerns. Taxes received particular CFO ire in Spain, where 88% of CFOs believe that new tax burdens imposed by the government will affect their companies negatively. But in the UK, CFOs by and large think the Bank of England has monetary policy, which includes interest rates, inflation, and the availability of credit, right. Meanwhile in Australia, upcoming federal elections later this year may actually be the impetus for growth. Given that governmental policy consistently ranks as one of the CFOs' top sources of financial and economic uncertainty, resolving the "hung" Parliament could be just what Australian companies need to start investing again.



Looking forward to 2014?

So when will things improve? That remains a tricky question and the answer may depend on your location. In Spain, for example, virtually all CFOs (98%) believe there will not be an improvement in economic indicators before the second half of 2013, and, of these, nearly one-third (29%) do not expect it before the first half of 2015. In Belgium and Ireland, CFOs do not expect solid economic recovery much before 2014. And in several Central European countries, CFOs believe things will get worse before they get better. What is clear is that recovery will be a slow process and one that may start close to home. In the Middle East, for example, the majority of the 30% of CFOs who are planning M&A transactions are aiming for targets aligned to existing businesses and within the Middle East and North Africa (MENA) region. Similarly, in South Africa, over half the companies surveyed are now focused on revenue growth from emerging markets and Africa. Of course, it should be noted that these are CFOs being surveyed. By nature and experience, they know not to say times are good, since they know how quickly things can change.

Deloitte Member Firm
CFO Surveys:

Fourth Quarter
2012 Highlights

Australia

Shifting gears?



Modest turnaround in optimism

Optimism levels bounced back into positive territory, with a third of CFOs more optimistic about their companies' financial prospects than three months ago. More than half of the CFOs surveyed identified falling interest rates as having a positive impact on their confidence levels. Uncertainty about federal government policy continued to hamper business optimism, with CFOs naming it as the external factor with the greatest impact on confidence. The continuing high value of the Australian dollar was also a source of concern. Global factors held less sway over business confidence this quarter with CFOs less worried about the slowdown in China and European sovereign debt in particular. Even so, CFOs highlighted U.S. economic uncertainty in the lead-up to the recent "fiscal cliff" negotiations as something to be concerned about.

In a holding pattern

While CFOs were marginally more optimistic about their companies' prospects, concerns over external financial and economic uncertainty remain entrenched, with results tracking at similar levels over the past three quarters. This has manifested in a series of conservative business strategies as companies bide their time until the environment improves. For example, most CFOs cited cost management as the top concern for 2013. Meanwhile more than half of respondents are expecting to reduce discretionary spending in the coming year. The outlook for acquisitions continues to slide, with only 38% indicating an interest in M&A in the next year. For the first time since the survey began, more CFOs were expecting to reduce leverage than to increase it. Hiring intentions for the next year were split three ways, with close to 30% of respondents planning to increase headcount, another 30% planning to reduce staffing levels, and the remainder expecting employee numbers to remain stable.

Highlights from the Q4 2012 Australian CFO Survey:

- CFOs were more optimistic (33%) than last quarter (23%), but nearly half expect economic uncertainty to continue.
- Appetite for risk has improved, with 23% of CFOs saying now is a good time to take risk onto their balance sheets.
- Expectations for revenues continued to rise this quarter, with 70% of CFOs forecasting improvement, up from 65% and 51% in Q3 and Q2 respectively.
- CFOs were less concerned about global matters this quarter, focusing instead on local concerns, such as government policy and the high value of the Australian dollar.
- For the first time since the survey began, more CFOs are looking to reduce leverage (30%) than increase it (22%).

Interest rates and the dollar

With two cuts to the official cash rate in the fourth quarter, more than half of the CFOs surveyed said interest rates had improved optimism levels. The cut also made bank borrowing and corporate debt more attractive funding sources. The cost of credit has also fallen to its lowest levels since the survey began. More than two-thirds of respondents expect the Reserve Bank of Australia's official cash rate to continue to fall, while 22% expect it to be at the same level in 12 months.

The value of the Australian dollar affected the confidence of CFOs to a greater extent than in previous quarters despite only 19% of CFOs nominating the high Australian dollar in their top three concerns for 2013. Close to two-thirds of respondents expected the Australian dollar to remain between US\$1.00 and US\$1.05, up from 29% who felt this way six months ago. This suggests CFOs previously saw the high Australian dollar as “just a blip,” but are now resigned to the exchange rate being a longer-term reality.

Election time

The looming 2013 federal election is likely to be a turning point, especially where economic uncertainty is concerned. Federal government policy has consistently ranked as one of the top sources of financial and economic uncertainty for CFOs over the past few quarters, with 71% of respondents viewing it as a negative impact in this survey. This is an increase of 5% from Q3. While government policy uncertainty was the major factor affecting optimism, it was ranked fourth on the list of CFO top issues for 2013. This may reflect an assumption among CFOs that the election may restore economic stability and provide the impetus for Australian companies to start moving again.

Productivity matters

Companies are increasingly focusing on productivity, with 79% of CFOs noting that they currently measure productivity (up from 63% in Q1 2012). Still, that leaves one in five companies that do not measure productivity. More than half of the respondents were pulling at least six of the “productivity levers,” indicating a multipronged approach to improving productivity in many organizations. Most companies were focused on building revenue, while more than half were looking to apply business process improvements. Nearly three-quarters of respondents were planning to invest in training and development, as well as new information and communication technology, while 48% were creating a more inclusive workplace.

Austria

Small steps forward



Expectations improve

Austrian CFOs' outlooks toward economic development have improved since the last survey. Currently, 31% of CFOs are expecting the economic situation to improve in the next few months, compared to only 12% last quarter. The same can be said of the CFOs who think the economy is going to decrease in the next few months. In the previous survey, 52% of CFOs saw the economy decreasing, whereas currently, only 28% see the situation worsening. The majority (41%) believe the economic situation will remain stable for the next few months.

Revenue expected to rise

When it comes to their own companies, Austrian CFOs also expect improvement. A total of 43% say their company's revenue will increase in the next months. Yet, while they think the climate for investing in their businesses will improve, the majority of CFOs are not planning more investments than in the last quarter.

When it comes to jobs, there is a decrease in the number of companies that want to keep their staff consistent. Instead, there is an increase in those that want to decrease their current staff as well as an increase in companies that want to increase their current level. This points to a more active personnel management strategy attempting to improve company effectiveness.

Despite credit, M&A viewed negatively

For the third time in a row, the percentage of CFOs who believe in very good credit availability has increased (24%), and 19% believe in a good availability of credit. Still, compared to the last quarter, the mood toward M&A has not changed. The Austrian CFOs are still focusing on their core business without major plans for M&A.

Highlights from the Q4 2012 Austrian CFO survey:

- About 30% of CFOs believe that the economy will improve, and only about 12% anticipate a recession or economic crisis.
- About 43% of the CFOs expect an increase in their revenues, compared to 20% who expect a decrease and 32% who believe revenues will stay the same.
- Credit availability is viewed optimistically again, and nearly 24% of the CFOs believe in a very high availability of credit.
- Despite their outlook for credit, the majority of Austrian CFOs are not planning more investments than in the previous quarter.

Responding to enforcement – or not

Last quarter, when asked when they thought the Austrian government may likely introduce enforcement, the majority of CFOs answered that it would be in 2015. However, the law has been passed very quickly and will be in force from mid-2013. Therefore, in this survey we wanted to know how and if Austrian companies are preparing for this law. It was not very surprising that a total of 55% of the concerned companies have not taken additional activities to prepare for this law so far.

Belgium

Preparing for 2014



Slowly recovering

A year ago, the Belgium CFO survey reported that “for many CFOs 2012 already seems to be a lost year – and the recession might be long.” Chances are 2013 will not be that different. More than 60% of CFOs do not expect the Belgian economy to recover prior to 2014. Growth in 2013 will be flat – at best. CFOs are, however, somewhat more optimistic about demand for their products and services than the economy as a whole.

Against this backdrop, CFO sentiment remains pessimistic, but has continued its slow recovery from the extreme lows of one year ago. But on the verge of 2013, CFOs see a lot of resemblance between today’s economic situation and its impact on their organizations and last year’s situation: uncertainty remains high with +80% of CFOs rating the general level of economic and financial uncertainty high or above normal levels. Like last year, CFOs are mainly concerned about the timing and pace of the recovery and their organization’s competitive position. The impact of regulation and of Belgian financial and economic policy-making completes the top three concerns.

Still not on budget

Pessimism was high when many of the CFOs were preparing their 2012 budgets. Still, 43% of respondents’ companies have not achieved their financial budget for 2012 – only slightly lower than in 2011. On the positive side, many managed to make up ground during the second half of the year after a very bad second quarter, when close to 60% reported they were running behind budget. The outlook for 2013 is looking brighter than 2012: as opposed to last year, revenues and operating margins are both expected to increase.

Highlights from the Q4 2012 Belgian CFO survey:

- More than 80% of CFOs rate the general level of economic and financial uncertainty as at high or above normal levels.
- For more than 50% of respondents, sentiment about the financial prospects for their company has not changed.
- About 43% of companies have not been able to achieve their financial budgets for the year – similar to last year.
- Bank borrowing remains hard to get; lending terms are expected to strengthen.
- The cost of labor threatens employment. Some 54% of CFOs expect headcount in their companies to go down by the end of 2014.

Labor costs threaten jobs

This survey also asked CFOs how they expect headcount to evolve over the next two years, and the results offer cause for concern for the Belgian labor market. About 54% of CFOs expect headcount in their organization to be lower by the end of 2014 than it is today. Policy measures with a direct impact on the reduction of the cost of labor are on top of the CFOs’ priority list. Decreasing the social contribution of employers, skipping one index adjustment, and reforming the automatic wage indexation system potentially have a positive impact on the organizations. Still, it is clear that for many organizations, cutting personnel costs will be top of the agenda over the next two years. CFOs’ expectations on headcount reduction suggest that recent government measures will not have a significant impact.

Euro-worries ease

European Union President Herman Van Rompuy reported on December 14, 2012 that “the worst of the euro crisis is behind us.” This time CFOs tend to agree: only 10% of respondents seriously consider the possibility of one or more Eurozone members leaving the currency union, down from 42% in the second quarter. As a consequence, very few companies are making plans to deal with this scenario. In fact, less than 10% of the CFOs are currently changing their plans to manage the risk of the euro stress.

Cautiously preparing for growth

Corporations continue to look for growth, but with prudence. This quarter risk appetite has seen the first marked increase in 18 months, while cost reduction and cash flow management remain high priorities. The focus of corporations is on organic growth. Expectations for merger and acquisition activity – while still moderate - continue to rise slowly. CFOs report their 2012 investment plans have been negatively impacted by the high level of general financial and economic uncertainty, Belgium’s financial and economic policy-making, and the depressed growth projections. As little improvement is expected for the next 12 months in these areas, increases in investments are likely to remain modest as well.

On the positive side, access to funding has not been a major inhibitor to investments. With interest rates at a historic low, corporate debt and bank borrowing are attractive means of financing. Long-term interest rates are expected to remain low, while CFOs anticipate pricing terms and lending terms to become tougher. Although its availability has slightly increased, bank borrowing remains hard to get for the average CFO.

Bulgaria

Caution rules



Avoiding big moves

One might expect the Bulgarian economic outlook to be characterized as “uncertain,” given the challenging economic environment worldwide. And judging from the results of the inaugural Bulgarian CFO Survey, there is little doubt: CFOs expected economic stagnation in 2012, and even though there are indicators of a more optimistic future, they remain cautious.

Specifically, the majority of Bulgarian CFOs expected a growth rate between 0% and 1.5% in 2012. Unlike the majority of CFOs in some other Central European countries who expected recession, very few Bulgarian CFOs were so pessimistic. Even though just 5.6% expected growth, optimism in Bulgaria was nonetheless the highest in the region. Comparing this finding with the recent Bulgarian Outlook report, it is clear that the recovery remains quite fragile, particularly given that the rate of growth has slowed from 1.7% in 2011 to 0.8% in 2012.

Optimistic, but careful

When it comes to their own companies’ prospects, almost 67% of participating CFOs feel either somewhat more optimistic or very optimistic compared to six months ago. The views of one third of the questioned CFOs remain unchanged. However, the majority remain cautious about placing risk onto their balance sheets. More than 70% of respondents do not think that now is the time for risk-taking. In addition, more than half of CFOs do not intend to change their level of leverage over the next 12 months; just 17% are aiming to reduce their current level.

Revenues vs. costs

CFOs are focused on operational improvement, with 70% citing reducing costs as their most important or second most important task. However, revenue growth is increasingly coming

Highlights from the H2 2012 Bulgarian CFO Survey:

- Uncertainty about the economic environment continues. Some 72% of Bulgarian CFOs say the level of uncertainty is high or very high.
- Almost 67% of CFOs are either somewhat optimistic or very optimistic about the prospects for their own companies.
- There is little risk appetite. More than 70% of CFOs say now is not the time to be taking more risk onto their balance sheets.
- New investments are a top priority for just 28% of the respondents.

onto CFOs’ radar screens, with 44.4% planning to focus on growth within their current markets and a third on new markets.

New investments to support growth are a top priority for just 28% of the CFOs, which possibly reflects their attitudes toward new risks. Only 18% plan to concentrate on improving liquidity.

The majority of respondents (61%) also agree that business remodeling and restructuring will be a priority over the next 12 months. Companies will have to seek new, innovative ways of production, selling, and distribution, which might ultimately cause them to change their business models.

Views of the Bulgarian financial system

To 83% of CFOs the financial system in Bulgaria is seen as providing a favorable environment to develop and execute business plans and budgets. The 17% who responded negatively should not necessarily distract from the importance of the overall stability of the financial system. It rather indicates the relative insignificance that those respondents ascribe to the macro-environment.

Croatia

Increased optimism



Economics weigh heavily

Croatia is going through a difficult time, and the CFOs' responses reflect the sentiment of the whole country. Croatia is currently, after almost four recessionary years, experiencing one of the weakest economic recoveries recorded in an emerging market.

The Croatian government is currently conducting a moderate austerity program, which will decrease government spending and have a negative impact on corporate sales. The majority of companies are cutting costs; private spending remains a low level; and exports will be reduced due to a slowdown in important export markets.

But not everything is negative. Compared to the results of the previous survey, published in spring 2012, there is evidence of increased optimism. In fact, some 51% of Croatian CFOs now believe that the financial prospects of their companies are either unchanged or less optimistic, compared to 63% last survey. Still, 51% of CFOs now expect recession in 2013 (21% last survey), and 47% expect economic stagnation.

Priorities for 2013

Consistent with the findings mentioned above, CFOs are still averse to new investments. A significant proportion puts new investments in the lower half of their priority lists, as was the case in the spring survey. New investment might have a positive impact on future revenue growth (which is considered by the CFOs to be one of their most important goals), but it has been rendered largely impossible by the liquidity problems and cost-cutting affecting most companies.

The most important task for Croatian CFOs remains the reduction of indirect costs, as was also noted in the spring survey. This is followed in importance by revenue growth from current markets and reducing direct costs.

Highlights from the H2 2012 Croatian CFO Survey:

- Some 51% of Croatian CFOs believe the financial prospects of their companies are either unchanged or less optimistic, down from 63%.
- Whereas only 21% of CFOs expected a recession in Croatia in the last survey, 51% now expect it in 2013.
- The percentage of CFOs who believe unemployment will rise significantly rose from 3% last survey to 16%.
- Just over 40% of CFOs are planning to reduce their debt ratios, compared to 33% in the spring survey.

When the country's economic and financial uncertainty is taken into account, it is not surprising that companies are trying to achieve cost reductions in the short term. It is, however, surprising that more than 10% of companies still see improving liquidity as their least important task, especially when the continuing lack of liquidity is taken into consideration. On the other hand, the improvement of liquidity still presents one of the most important tasks for the CFOs.

Availability of talent

The majority of Croatian CFOs do not expect talent shortages in the area of finance over the next year. Opinion is quite divided, however, with 55% stating that no talent shortages will occur. Of those who are expecting talent shortages, 38% expect it mostly at the top level, 30% at a senior level, and 22% at a middle level. With as many as 90% of the 45% who expect a shortage believing that it will occur on these positions, it is evident that middle to top management are the positions that may lack talent in the next year.

Czech Republic

Wariness mounts



Seeking a path to growth

Current prognoses predict that the Czech economy will see a decline and that unemployment will see a slight increase over the year. This situation is confirmed by newly published economic data.

According to the first preliminary growth estimates of economies in the European Union in the third quarter of 2012, the year-on-year information on the decline in Eurozone economies is 0.6%. The situation in the European Union is slightly better, with the decline of 0.4%. The Czech economy, with a year-on-year decline of 1.5%, is in the group of countries with the worst results.

Even though the direct impact of these facts on the Czech economy has been limited, our latest survey shows that the market is aware of these adverse macroeconomic impacts. Some 45% of respondents anticipate that the unemployment rate will slightly increase, and 45% assess the level of external financial and economic uncertainty as higher than usual. The stagnation of the economy is anticipated by 73% of respondents.

Impact on optimism

Against this backdrop, more than 40% of respondents say they are optimistic about the outlook for their companies, compared to 27% six months ago. The optimism translates into the willingness to jumpstart growth using additional external sources. Six months ago, only 5% of CFOs planned to increase the debt burden of their companies in the following six months. Currently, 20% of CFOs are planning to increase their companies' debt burden. The declining tendency

Highlights from the H2 2012 Czech Republic CFO Survey:

- Some 40% of Czech CFOs are optimistic toward their own companies' business prospects, while 13% are pessimistic.
- Currently, 20% of CFOs are planning to increase their companies' debt burden, compared to 5% six months ago.
- The principal priorities of Czech CFOs remain the same – growth in sales and reduction in costs.
- Some 45% of Czech CFOs assess the level of external financial and economic uncertainty to be higher than usual.
- Restructuring the business model is being considered by 23% of CFOs.

in the intentions to decrease the level of indebtedness is apparent. A significant position of Czech banks and low interest rates are some of the reasons for this attitude. Banks are very willing to provide funding to clients under attractive conditions. In addition, the survey shows the belief in the sustainability of favorable financial conditions.

Focus on talent

CFOs see their financial teams as sufficiently strong, and they definitely do not complain about a lack of talented employees. Nevertheless, the retention of talent on their teams is regarded as a top issue. In a wider perspective, the quality and cost of manpower will be important factors that will decide the success of companies and entire economies.

Hungary

Contradictory signals



A sense of easing?

It is widely accepted that Hungary is facing difficult times, with an economy substantially smaller than it was in 2008, low investment levels, and comparatively high inflation. However, there are indications within the latest CFO survey that suggest some of the country's finance executives are beginning to sense some easing.

A higher proportion of respondents than last time anticipate a reduction in unemployment levels, for example. Close to 20% of respondents predict unemployment will ease during the months to come, while 40% overall believe it will rise. This is a considerable improvement on December 2011 figures, when more than 60% of respondents believed that unemployment would increase and just 5% that it would fall.

In addition, more express greater willingness to assume a higher level of risk on their balance sheets, for example, while a smaller proportion are predicting a further deterioration in the ability to raise funds. Currently, 16% of respondents now see the time as right for assuming a higher level of risk. This indicator was close to zero in the last survey (2%).

These are, however, rare moments of optimism in the midst of overwhelming expectations of recession or continued economic stagnation. In fact, while in the previous survey slightly less than 40% of respondents expected recession and almost 12% some moderate growth in GDP, this time 52% expect the economy to shrink and only 2% believe that Hungary's economy will show even moderate growth. And while views on economic uncertainty are similar to last survey, there are some differences. While the proportion of those anticipating "high" unpredictability dropped from 35% to 22%, for example, the proportion of those expecting "extremely high" uncertainty jumped from 5% to almost 12%.

Highlights from the H2 Hungarian CFO Survey:

- More than half (52%) of CFOs expect the economy to shrink, and only 2% expect Hungary's economy to show even modest growth.
- A decisive majority of respondents (80%) see their companies' financial prospects as either unchanged (42%) or less optimistic (33%).
- The percentage of CFOs who consider levels of external financial and economic uncertainty high or extremely high has dropped from 40% to 33%.
- Close to 20% of CFOs predict that unemployment will ease during the coming months, while 40% expect it to rise.

Availability of funds

A moderate improvement in expectations regarding the availability to raise funds is apparent. While in the last survey, 57% believed that loans were scarce and 38% thought they were normally available, now 47% regard them as available and 53% as scarce.

Goals for the year

Increasing revenue from existing and new markets will be a very high priority, with 37% of CFOs marking it as their most important goal and 32% placing it second. More than half also ranked increasing revenue either first or second (on a scale from 1-6). New investments, meanwhile, represent the least important goal. This might have some correlation with the growth forecasts for the Hungarian economy, showing that CFOs now see (moderate) opportunities for growing revenues from existing markets.

India

Cautious optimism



Encouraged about the future

Despite the Indian government's proactive initiatives such as increasing incentives for investors (in sectors such as insurance, pension, multi-part retail), reducing subsidies (oil), and the proposed disinvestment of public sector units (energy, natural gas), the CFOs continue to remain uncertain about the short-term impact of these reforms. Some 57% are neutral about the current economic condition of India, whereas only 17% are optimistic. However, the respondents show increased optimism for the future, with 62% expressing a positive sentiment. Respondents consider recent regulations that encourage FDI inflow, tax reforms, and reduction of fuel/non-fuel subsidies as positive enablers that enforce their future optimism.

Macroeconomic uncertainties

CFO sentiments remain weak about the current state of the economy. More than 54% of CFOs consider inflation and its subsequent pressure on the commodity input price (fuel, non-fuel) as top economic concerns and anticipate such challenges will continue to persist in the short-term. While the Reserve Bank of India (RBI) continues to debate between adopting growth incentives and reducing exposure to possible inflationary and deficit risks, GDP slowdown is expected to go unabated in the short term. Similar concerns were exhibited by the respondents, with some 51% expressing uncertainty about the political direction toward upcoming reforms.

However, CFOs are positive about the future state of the economy, with some 48% indicating optimism over regulatory changes to increase globalization and FDI inflow. Moreover, the government has revised its fiscal deficit target at 5.3% of GDP as RBI continues to exercise restraint by bringing the government's current

Highlights from the H2 2012 Indian CFO Survey:

- Some 62% of Indian CFOs are optimistic about the future state of the Indian economy.
- Almost half of CFOs consider inflation, political direction toward economic reforms, and increased commodity prices as key economic concerns.
- The primary industry-specific concerns are the availability of people, changing cost structures, and pricing trends.
- Some 34% of CFOs believe their organizations will perform better over the next quarter; 12% are apprehensive about poor performance.
- More than 50% believe revenue growth/preservation, cost reduction, and maintenance of the talent pool as important organization-specific challenges.

spending, especially on subsidies, under control. More than 39% of the participants view reduction of subsidies (such as those on oil) as important policy enhancements.

Industrial concerns continue

Although the industrial production in India has rebounded to 8.2% (October 2012), maintenance and sustenance of similar growth rates is potentially challenging. More than 45% of the CFOs continue to express concern over changing cost structures, inflationary pricing trends, industry regulations, and unavailability of adequate and skilled resources as important concerns. Although CFOs still look forward to government intervention to address current industry concerns, they consider other factors (skill-set unavailability, cost

structures, and pricing trends) equally critical. Industries such as financial services, energy, consumer business, life-sciences, telecommunication, and manufacturing continue to be affected by the lack of a capable and skilled labor force. On an overall level, companies are striving to sustain/grow revenue by increasing market reach and serving their customers better. Companies are also keen to enhance performance by enhanced monitoring, measurement, and accountability. More than 60% of the respondents express the need for predictive analytics and targeted/customized offerings (based on location, demographics, history, etc.) to sustain and grow the demand for their products. About 57% of the participants indicated the need for enhanced corporate performance management (KPI monitoring, scorecard, strategic and financial planning, etc.) for enhanced governance and productivity.

Neutral toward performance

When CFOs were last polled about the future performance of their organization, 31% were optimistic and 35% of them were apprehensive. In comparison, 34% now indicate that their organizations will perform better, and only 12% are concerned about poor corporate performance. There was, however, an increase in the number of respondents - from 34% to 54% - who expected no change in their organizational performance going forward. This indicates that CFOs are neutral about performance in the near term.

More than half of the CFOs surveyed indicated revenue sustenance, cost reduction, and maintenance of the talent pool as important organization-specific challenges. Of these, revenue growth or preservation continues to be a major concern due to low consumer demand (domestic and international). At the same time, balancing profitability and margin maintenance remain challenges due to elevated input costs, asset / working capital management challenges, a complex corporate tax environment, and liquidity maintenance (with adequate financing). CFOs also indicated that talent, such as availability of specialized or skilled workforce, development, and associated cost remain areas of concern.

Moving forward

The sentiments expressed by CFOs indicate that they are exhibiting caution regarding the present state of the Indian economy. However, their level of optimism is significantly higher for the future. Regulations to encourage foreign investors, subsidy cuts to reduce the fiscal deficits, and moderate interest rate cuts to fuel the economy, are viewed as drivers of a positive outlook.

CFOs are faced with the continued need to grow/preserve revenue, implement cost containment initiatives, generate value for shareholders, make prudent use of capital, and maintain investment-grade value. In addition, CFOs may also have to continuously engage in organizational streamlining activities, such as increasing operational scalability, consolidating their businesses and improving access to resources, and capabilities to improve their working capital usage efficiency.

Ireland

The Celtic comeback?



Longer road to recovery seen

The final quarter of 2012 commenced with Time magazine heralding “The Celtic Comeback.” While there was strong debate on the validity of this headline, with varied end-of-year economic indicators, the Q4 Irish CFO Survey results suggest that CFOs believe there is further to travel along the road to recovery.

Optimism among CFOs respondents has dropped this quarter from a net 31% in Q3 to a net 17% this quarter. Encouragingly, 27% of respondents believe their company has already returned to growth. However, the results show that CFOs believe 2014 is a more likely timeframe for a return to growth for the economy. Although Ireland has made a tentative return to capital markets and continues to have robust exports, the country is still struggling to grow. The European Commission trimmed its growth forecast for Ireland for 2012 in November to 0.4% down from 0.5% previously, with prospects for 2013 also cut.

Despite uncertainty in the economic outlook, in November, ratings agency Fitch moved Ireland’s economic outlook from negative to stable. This means that Moody’s is now the one rating agency to rate Ireland at sub-investment grade. Although Fitch’s rating is not an upgrade, it is the first positive move on Ireland’s grading since the current crisis began. Improved market sentiment has helped lower bond yields; Q4 saw bond yields continuing to decrease, with record low yields recorded in December. And for the first time since this survey began, CFO respondents cite bonds to be at fair value.

Highlights from the Q4 2012 Irish CFO survey:

- Some 90% of CFOs believe Budget 2013 will have a negative or negligible impact on employment and job creation.
- Net optimism among CFOs fell 14%.
- Some 27% of CFOs believe their companies have already returned to growth this quarter, but real economic growth is another year away at least.
- Almost 30% of CFOs cite market uncertainty as a key external financial challenge facing their business.
- A net 37% of CFO respondents expect increased profitability within the next six months. This remains broadly in line with Q3 (net 39%).
- To 79% of CFOs, the economic, social, and political benefits of hosting the EU Presidency will outweigh the financial costs involved.

Top risk concerns

Market uncertainty continues to be the category of risk that concerns CFOs most. Two-thirds of respondents cited market risk as the main concern facing their businesses today. Internal risks do not rank as high, according to CFO respondents. Strategic risk was cited as the top internal risk for 20% of CFO participants, with both operational and financial risks ranking as important risks for just 7% of the Irish CFO respondents. In addition, when asked about their top three external challenges facing their businesses, 29% cited market uncertainty, followed by low growth (25%), and the global recession (23%).

Staying domestic on funding

Confidence in the domestic capital market appears to be on the rise as the perception of funding availability from Irish banks and Government bond valuations have both improved in Q4. Domestic banks remain the preferred method of funding in Q4 with 46% of respondents citing it as their top choice for external finance. Meanwhile, preference for overseas banks as a funding source more than halved between Q3 and Q4, dropping from 30% to 14%. Equity and corporate bonds are both now the second most popular method of funding, according to CFO respondents.

Still, the perceived cost of credit remains high at 62% in Q4. But there was a decline of 45% from a net 68% of respondents in Q1 to a net 23% in Q4 who perceive credit as difficult to attain.

Relying on debt financing

The trend for reducing reliance on debt financing continues this quarter; 48% of respondents expect the total debt on their company's balance sheet to decrease over the next three years. In addition, the number of CFOs expecting their debt to increase over the same period is up 16% from Q3.

As for servicing the debt they already have, all of the CFO respondents expect their company's ability to either remain the same or improve over the next three years, suggesting CFOs' optimism that cash flows will increase during this time. Encouragingly, no CFO respondents expect their company's ability to service its debt to decrease over the next three years.

Cash reserves continue to be the preferred debt reduction mechanism among CFO respondents. Some 55% of the survey participants cite cash reserves/free cash flow as their favored strategy for reducing debt.

Reacting to Budget 2013

Reaction to Budget 2013 (the Irish Government budget for fiscal year 2013 delivered in December 2012) among CFOs surveyed was largely neutral – this is unsurprising considering the limited direct implications for Irish corporations. The 3% increase in the capital gains tax is not perceived by CFOs to be an important influencer in the decision to divest assets; while measures introduced increasing the cash receipts basis threshold for VAT were welcomed, with 75% of CFO respondents believing it will improve companies' cash flow. Last quarter, we reported that CFOs believed the predicted increases in Pay Related Social Insurance would be an inhibitor for both their company and stimulating employment and economic growth. These sentiments were echoed this quarter, with 90% of respondents believing the budget will have a negative or negligible impact on employment and job creation.

When questioned on what additional measure they would have liked to have seen the government undertake in Budget 2013, public sector reform was cited by several respondents. It is timely therefore that talks are due to commence early in 2013 on an extended Croke Park Agreement (the 2010 agreement between the Irish Government and various public unions) with the aim of delivering €1 billion in savings over the next three years. It remains to be seen whether these steps towards improving our budget deficit will improve CFO sentiment.

Middle East

Optimism amid tension



Optimism improves

Optimism among Middle Eastern CFOs improved in H2 2012 despite the political uncertainty in the region. A net 54% of CFOs feel more optimistic about the prospects for their companies compared to six months ago (net 33%). Increases in revenues, cash flows, and bank borrowings were sighted as the top three business metrics most likely to change in 2013. In addition, steady oil prices, combined with the continuance of large public expenditures serve as an underpin for strong economic growth relative to other parts of the world.

Organic growth and strategic alliances

Over the next 12 months, CFOs are focusing predominantly on organic growth, cost reduction, introducing new products and services, and increasing cash flows. Some 47% of CFOs are planning for strategic alliances, a steady increase from the 13% reported two years ago and an indication of increasing risk aversion. CFOs do not expect much change in the levels of M&A activity in the next 12 months. For the 30% of CFOs who are planning M&A transactions, the majority are aiming for targets aligned to existing businesses and within the MENA region rather than in other parts of the world. Only 10% of CFOs are considering an IPO at this time.

Debt to increase slightly

Some 46% of the CFOs expect the total debt on their balance sheets to increase a little over the next three years, with the expectation that their ability to service their debt to slightly increase or remain the same.

When asked to rank their debt reduction strategies over the next three years, CFOs cited utilizing cash reserves as the top strategy, followed closely by asset sales and equity issuance.

Highlights from the H2 2012 Middle Eastern CFO Survey:

- CFOs expect increased operating cash flows driven by increased revenues, stricter credit controls, and cost reductions in 2013.
- An increasing number of CFOs are considering strategic alliances as a risk adverse approach to inorganic growth over M&A.
- CFOs are expecting increasing competition challenging their company's market share over the next 12-24 months.
- Some 46% of CFOs expect the total debt on their balance sheets to increase a little over the next three years.

Changing competitive landscape

Increasing political instability was considered the top high-impact risk in H2 by CFOs, compared to increased military conflict noted in H1. A combined 74% of the CFOs rated the general level of external financial and economic uncertainty as either above normal or at a high level. This was the same percentage noted in H1. Due to this level of uncertainty, when asked if it is a good time to be taking greater risk into their balance sheets, 65% of the respondents would not do so.

More than three-fourths of CFOs expect an increasing level of competition challenging their companies for market share in the next 12-24 months. CFOs also expect a competitive landscape impacted by changes in regulations, new technologies, and consolidation in their industries.

Netherlands

Uncertainty accepted?



Fragile outlook continues

During the third quarter of 2012, the Dutch economy shrunk by 1% (the largest decline since 2009). No growth is projected for the fourth quarter either, according to CPB Netherlands Bureau for Economic Policy Analysis figures published in December 2012. This trend is expected to continue for the first half of 2013, due to the low level of consumer confidence, spending cuts, and stringent credit conditions. Basically, the economic outlook remains fragile.

Within this environment, Dutch CFO optimism hovers around the zero mark. The optimists and pessimists are equally divided resulting in a net score of 0%. Over half the CFOs state their outlook has not changed compared with the third quarter, indicating they continue to play the waiting game. Apparently, the CFOs are accepting the significant uncertainty in the business environment as a new kind of status quo.

Priorities for 2013: Staying organic

Striving for organic growth continues to be the top strategic priority for the majority of CFOs over the next 12 months. Two-third of the CFOs selected this strategy as a strong priority. Not far behind was increasing cash flow (55%).

Interestingly, raising dividends or implementing share buy-back programs are not on the 2013 top-priority list. Only 12% of CFOs expect a (significant) increase of dividends or share buy-backs for Dutch corporates in general. Still, according to CBS Statistics Netherlands, Dutch companies quoted at the Amsterdam Stock Exchange paid out nearly 17 billion euro in dividends to shareholders in 2012 (including a non-recurring payment of over 3.6 billion euro by ASML) compared with nearly 12 billion euro in 2011. Dutch-listed companies' share buy-back programs accounted for almost 1.7 billion euro in 2012 (2011: 3.2 billion euro).

Highlights from the Q4 2012 Dutch CFO survey:

- More than half of CFOs say their business outlook has not changed compared to last quarter.
- Almost half of the CFOs expect a modest cash flow increase of between 1% and 10%.
- Risk appetite levels remain low, with only 12% of CFOs thinking now is a good time to take greater balance sheet-related risks.
- Bank borrowing is perceived to be the most attractive source of funding.
- Around 61% of CFOs expect M&A levels to increase in the next 12 months.
- CFOs can benefit from R&D incentives in a more efficient way by incorporating this topic at a higher strategic level within the company.

Not a good time for risk

The levels of risk appetite remain low, with some 88% of CFOs saying now is not a good time to be taking greater balance sheet related risks, versus 12% who say it is a good time. Moreover, compared to the third quarter, more CFOs now say that the level of financial risk on their balance sheet has decreased over the last 12 months (45%).

When CFOs are asked to assess the level of external financial and economic uncertainty facing their businesses, 55% rate this level as high to very high, compared to 42% in the third quarter. Another 33% of CFOs rate these conditions to be above normal.

Bank on it

Funding preferences continue to be volatile. In this quarter's survey, bank borrowing gained in perceived attractiveness over corporate debt and equity and is now considered to be the most attractive source of corporate funding. The overall sentiment regarding cost and availability of credit, however, remains negative.

On the deal front, some 61% of CFOs expect M&A activity levels to increase in the next 12 months, while only 6% expect them to decrease. For 2013, the outlook remains indefinite. Current transactions are mostly sales-oriented. The economic outlook may need to be more promising for the M&A market to pick up.

Special topic: R&D tax incentives

Cash grants being abolished and budgets subsequently being transferred to fiscal incentives is a trend in the Netherlands and in many other countries across the world. Up to now, CFOs have not given high marks for the tax credits available.

The results of the CFO Survey show CFOs to prefer tax incentives to have a direct cash flow impact.

When asked what to do with the benefits gained from R&D incentives, about 30% of CFOs state these benefits will be invested in future R&D. However, over half the CFOs are undecided about how to allocate these benefits. About 45% of CFOs treat R&D incentives as a local matter within the company.

This indicates even more benefits could be gained by incorporating this topic at a strategic level within the company, enhancing a more efficient planning and monitoring process. Both national and international companies could benefit from this.

R&D and tax planning regarding cash grants is usually left to different units within the organization. Obtaining the best leverage from different types of tax grants and incentives, international as well as national, also requires the headquarters to set the appropriate KPIs for national or operational levels within the organization. The administrative burden will be reduced, as well as the compliance risks involved.

The EU will introduce the Horizon 2020 Program, a new research and innovation program, which is to run from 2014 to 2020, with an 80 billion euro budget. This intends to secure Europe's global competitiveness. Dutch companies should be planning to claim their piece of the pie.

Earlier, the Dutch CFO Survey of 2011 Q4 reported that 82% of CFOs considered the strategic significance of innovation to be crucial to very crucial when striving for growth or for the continuation of their company in the currently harsh economic climate. About 70% of CFOs then stated to have placed innovation high to very high on the board's agenda.

Accordingly, and in line with these results, the elaboration of the tax planning for R&D incentives should be strategically incorporated.

North America

Less uncertainty, little clarity



Caution rules again

In Q3 2012, it was apparent that the combination of sluggish economic growth, persistent European Union issues, approaching elections in the United States, and the impending “fiscal cliff” were making CFOs nervous. Even though corporate performance was largely positive and equities markets were doing well, Q3’s results indicated the sharpest decline in expectations in the two-and-a-half-year history of the survey.

One major source of uncertainty is now resolved. The U.S. elections are over, and not much seems to have changed. The president is still a Democrat, the House is still Republican-led, and the Senate still has a Democratic majority. In the aftermath, the fiscal cliff parties began working the inside and outside game of negotiations, but largely held to the same positions they held before. Little wonder that CFOs’ outlook does not appear to have changed much either.

In fact, lingering uncertainty has pushed CFOs’ investment expectations even lower – with new lows for growth in capital spending, R&D, and marketing investments. CFOs are cautious on domestic hiring too, and more of them are projecting cuts than at any time in the last two years. It is important to note that these expectations are largely premised on *not* going over the fiscal cliff and conditions *not* getting worse in Europe – since most CFOs also said they don’t expect either to be a factor in the near term.

No cliff plunge, but still danger

Only about one in five CFOs expected Washington to go “over the cliff” at the end of the year. Instead, they mostly expected modification or delay of the scheduled spending cuts. But that does not mean CFOs are not worried about the impacts of the fiscal cliff solution on an already stumbling global economy. In fact, the potential detrimental impacts of the fiscal cliff became CFOs’ “most worrisome risk” this quarter, surpassing global economic

Highlights from the Q4 2012 North American CFO survey:

- Roughly **30%** of CFOs say they are more optimistic this quarter. But net optimism – the spread between those more and less optimistic – the U.S. fell from -16 last quarter to -21 this quarter.
- Year-over-year sales growth expectations rose to 5.6%* from last quarter’s survey low of 4.8%.* U.S. expectations are just 4.8%* (4.3%* last quarter), with Canada at 5.5%* and Mexico at 10.6%*.
- Capital spending is expected to rise just 4.2%* – below last quarter’s survey low of 4.6%*.
- Domestic hiring expectations rose to 1.0%* from last survey’s low of 0.6%*. But 28% of CFOs say they expect cuts – a new survey low.
- CFOs remain concerned about Europe. But nearly 60% of CFOs expect the status quo to continue for the foreseeable future, and few say their companies have done much to prepare for other scenarios.
- CFOs are mostly satisfied with their capabilities in core areas like corporate finance, treasury, and audit. But they want to improve in areas that support their strategic role, such as IT/information management.

stagnation and the European crisis – both of which were stronger concerns last quarter. And they name fiscal policy as their top priority area for better policy clarity going forward.

Those worries are being particularly felt in the U.S. and Canada where CFOs’ sentiment has declined – not so much because pessimism has risen, but rather because fewer CFOs are becoming more optimistic. In the U.S., net optimism (the difference between the percent of CFOs expressing rising and falling optimism) fell from zero two quarters ago and -16 points last quarter to -21 this quarter. And in Canada, it fell from the 40s over the past two quarters to -6 this quarter.

Sales and earnings rebound

The good news is that CFOs' sales and earnings expectations have rebounded from their record lows last quarter. Sales are expected to rise 5.6%* overall, above last quarter's survey low of 4.8%*. Earnings are expected to rise 10.9%* overall, above last quarter's survey-low 8.0%*.

The bad news is that fiscal cliff uncertainty and/or skepticism appears to be depressing planned investments. Capital spending is expected to rise just 4.2%*, below last quarter's survey low of 4.6%*. Similarly, R&D investment hit its lowest expected growth rate on record.

Perhaps most worrisome, employment expectations have remained dismal. Domestic hiring is expected to rise just 1.0%* overall. This is a bit better than the survey-low 0.6%* from last quarter, but 28% of CFOs are now expecting cuts – a new survey high.

Technology reshaping finance

Economic and governmental trends are not the only factors driving the future of business; technology advances are having a strong impact as well. We asked CFOs specifically about the information technology trends they expect to most reshape their businesses moving forward, and mobility, social business, and customer data bubbled to the top. But almost all of the major trends showed a major impact on at least some businesses and industries.

The rising importance of information technology is clearly being felt by finance. Previous surveys have shown that finance is taking on more responsibility for information and related technologies, and also that about half of CFOs are not satisfied with either the quality of the information they have or with their IT systems' flexibility. The result is that, almost every quarter, CFOs mention IT initiatives as one of their top career stresses.

All of this helps explain why, when we asked CFOs this quarter about their top priorities for capability improvement, they listed IT/information management second – just after strategic planning, and just ahead of budgeting and financial planning.

CFOs' personal branding

As CFOs of large companies play broader and more visible roles, they are inevitably redefining their personal brand with their CEOs, their executive peers, and their finance staff – deliberately or not.

So what do CFOs want their brand to be? Do they define their brand by their roles, their mindset, their competency, or their impact? The answers seem to vary by constituency.

When we asked CFOs what adjectives they wanted their CEOs to use to describe them, the descriptors focused mostly on mindset (being a "strategic" and "business-savvy" thinker), but also on role (being a "leader" and a "change agent") and on traits (being "reliable," "responsible," and "loyal").

When it comes to their executive peers, their descriptors focused very heavily on mindset (being a "team player," "collaborator," and "problem solver"); but also on traits (being "reliable" and "trustworthy") and technical competency ("being "competent" and "authoritative").

As for their finance staff, desired descriptors focused heavily on the indirect, influential aspects of leadership (being an "agenda-setter" and "standard-setter"), but also on the direct, personal aspects (being a "mentor," "motivator," and "coach").

Clearly, CFOs need and want to be many things to a broad range of people. This almost certainly requires CFOs to work outside their natural comfort zones and to develop formidable skills, versatility, and maturity as they rise through their careers. This explains why top CFOs are in such short supply, and also why succession planning is so important.

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

Poland

Concerns continue



Riding a roller coaster

Polish CFOs have been on an emotional roller coaster. Upon hearing of the economic crisis in the U.S., they had to focus on undertaking scrupulous reviews of their companies' financial foundations. Several months later, when it was apparent that the global crisis was affecting different markets in different ways, most Polish CFOs could focus again on a stable growth strategy – but not for long. The crisis, which intensified in the European Union over the past two years, resulted in immense pressure on company efficiency and risk appetite, even in sectors traditionally considered immune to an economic slump.

At this point, 90% of Polish CFOs still believe that the economic situation is uncertain, and 50% say the uncertainty level is high or very high. This view seems to fall in the middle of the Central European continuum between extremely uncertain (Croatia) and relatively stable (Czech Republic, Hungary). However, Polish CFOs recorded the biggest drop in optimism in Central Europe. This is evident when compared with the previous survey or with other countries. In Poland, the percentage (50%) of CFOs who rate their financial outlook as less optimistic than six months ago is the highest. Keep in mind, however, that the economic position of Poland has been exceptionally good considering the overall situation, and that Poland was the most optimistic in the previous survey.

Top priority: increasing revenue

Within this environment, increasing revenue from current markets (80%) continues to be the foremost priority for Poland's CFOs. On the other hand, the pressure to reduce costs has gone up significantly, from little over 50% to over 70% of respondents. As a consequence, cutting costs is the second top priority. This confirms that organizations are preparing for a potential slowdown, and they fear payment gridlocks. Meanwhile, investments, which were considered as important as liquidity management and cost

Highlights from the H2 2012 Polish CFO Survey:

- In 2013, the most serious risks will include an increase in the likelihood of recession, a drop in demand (quoted by nearly 50% of respondents), and upward pressure on prices.
- Companies are responding to a possible 2013 economic slump by putting emphasis on achieving higher revenues through existing markets (around 80%) and new markets (around 50%), and cutting costs (around 70%).
- CFOs predict a slight increase in the unemployment rate for 2013.
- One in five CFOs is concerned about finance talent shortages in times of economic hardship.

reduction in the last survey, have fallen to the bottom of the ranking.

Top risk: recession

There has been a change of focus regarding what CFOs fear most. Compared with the first half of 2012, when the FX risk was the main concern for over one-fifth of the CFOs, today it concerns only 5% of respondents. The risk of recession and falling demand are considered to be the most serious concerns by CFOs (46%). Price pressures, increasing operating expenses (up from 5% to 11%), liquidity concerns (which fell from 13% to 9%), and availability of funding (around 10%) are further down on the list of CFOs' concerns.

Top obstacle: tax

When asked which regulations of Polish law they would simplify, the vast majority of CFOs (86%) selected the tax system, in particular VAT, which is considered the most serious administrative barrier by 67%. The tax system also ranked as an obstacle for business in the last survey.

Romania



Uncertainty weighs heavily

Prospects bleak

Romania's macroeconomic prospects are being strongly affected by developments in the eurozone. The overall outlook of participating CFOs is fairly bleak, rating the country's economic and financial uncertainty as predominantly high (48%) and above normal (24%).

Within this environment, the CFOs' financial expectations for their companies remain mainly unchanged from last survey. But on a broader perspective, future investments in infrastructure, increased domestic demand, and more EU funding may improve the business and macroeconomic outlook in the long term. CFO perceptions, therefore, show some slight improvement, with several companies expressing enhanced confidence: over a third of respondents are optimistic or very optimistic about the financial prospects of their companies.

Remaining risk adverse

CFOs remain largely risk averse. Most (86%) do not plan to take greater risk onto their balance sheets, indicating increased pessimism compared to the previous edition of the CFO survey. In fact, CFOs have now shifted toward a more defensive position, with 48% of CFOs aiming to reduce their leverage levels in the next 12 months, while 38% are not planning to take action on this front.

In terms of credit availability, finance is perceived as limited and most CFOs see obstacles in obtaining new credit. Romania's exposure to foreign banks, together with a rise in non-performing loans, is contributing to an alert banking environment. While most CFOs expect financing costs to increase, the percentage with this view is substantially lower than in the previous survey, released last February (66.7% versus 90%).

Remodel or play it safe?

Restructuring may be a solution for some CFOs. Two opposing categories of companies were identified: "play-it-safers" (38%), which do not see

Highlights from the H2 2012 Romanian CFO Survey:

- The CFO outlook is fairly bleak, with 48% of CFOs rating the country's economic and financial uncertainty as predominantly high.
- Most CFOs (86%) do not plan to take greater risk onto their company's balance sheet.
- Unemployment is expected to rise and 9.5% of Romanian CFOs say it will increase significantly.
- Almost 60% of CFOs expect talent shortages in the finance area, especially at middle and senior management levels.
- Some 48% of CFOs plan to reduce their leverage in the next 12 months, while 38% are not planning to take action on this front.

business remodeling or restructuring as a priority, and those who make this the top priority on their business agenda (33%, twice the percentage reported in the last survey).

Talent worries

In line with labor market expectations, 57% of the CFOs expect talent shortages in the finance area, especially at middle and senior management levels (37.5% and 25% respectively).

Other challenging issues CFOs identify include sustaining engagement or morale as the most pressing one (27.1%). Developing leaders and succession planning comes second with 16.9%, while creating career paths places third, with 13.6%. Overall, respondents depict a somewhat demotivated and limited finance workforce, currently more concerned with dealing with economic and business challenges through their day-to-day actions rather than putting things into perspective and implementing long-term strategies.

Slovak Republic

Balancing act



Mixed economic signals

There are several encouraging factors in the latest Slovakian CFO Survey that suggest Slovakia is among the top performing and most confident countries across Central Europe. But these are often counterbalanced by more negative views that show the situation remains difficult for many CFOs.

For example, while 60% of Slovak CFOs anticipate moderate growth in GDP (between 1.5% and 3.0%) over the next 12 months, more than three-quarters see financial and economic uncertainty as high. And while a majority sees the availability of credit as normal, there are some clear worries about the potential impact of tax increases and changes to the Labor Code.

Tentative growth trends

Those worries are reflected in companies' optimism levels. Overall, about 36% of respondents see the financial prospects of their companies as more optimistic than three months ago, while 32% believe they are worse. Approximately 32% foresee flat or negative growth and nearly 58% expect single-digit growth. Only 10% expect a double-digit increase in sales this year. Some of the negative outlook could be explained by new corporation taxes introduced by the incumbent government, including an increase to 23% in corporate income tax (up from 19%) for companies with annual gross profits of more than EUR 30m per year. This, and other special taxes on regulated companies, could adversely impact the financial prospects of Slovak companies.

Focus on current markets

Over the next 12 months, the main business focus for Slovak companies is expected to be on growing revenue from current markets (44%). This is a shift from the previous survey, when cost reduction (including both direct and indirect costs) dominated. It still should be mentioned, however,

Highlights from the H2 2012 Slovakian CFO Survey:

- The main business focus for Slovakian CFOs over the next 12 months is revenue growth in current markets.
- An increase in the unemployment level over the next 12 months is foreseen by 68% of CFOs.
- Some 44% of CFOs are concerned about the development of future finance leaders.
- For 24% of CFOs, business remodelling and/or restructuring is a high priority for the next year.

that cost reductions remain among the top positions on the CFO agenda. As usual, new investments remain at the bottom of the list of priorities of CFOs for next 12 months.

The spectrum of cost-cutting measures applied in recent years appears to have had a positive effect, and companies are starting to focus more on their top lines, which is a good sign for the economy. New investments and expansion into new markets are still not among the top priorities for CFOs, however.

Talent shortages; low morale

A third of the CFOs expect talent shortages in finance over next year. The most significantly affected segments are expected to be middle management (42%) and senior management (37%). Only 5% of CFOs feel that there will be any shortage at either the graduate or top management levels in the next year. More troubling is the 44% of CFOs who are concerned with the development of future leaders. It is also striking that 60% of respondents see the sustainability of employee engagement and morale as problematic.

Slovenia

Recession returns



Deteriorating conditions

A number of external and internal forces converged to push Slovenia back into recession in 2012. According to the Slovene Institute of Macroeconomic Analysis and Development, GDP in the second quarter fell by 3.2% on a year-by-year comparison. The largest contributors were consumption by households and government expenditure, which SIMAD expected to fall by 3.0% and 3.4% respectively. In 2013, the expected contraction by these two sectors is expected to be even greater, 3.6% for households and 6.9% for government expenditure.

Given the deteriorating economic and financial environment, it is not surprising that 52% of CFOs are less optimistic about the future, while none is very optimistic. Some state that their companies face ever greater challenges as numerous customers consistently fail to pay outstanding receivables or even go into bankruptcy. Only 15% are somewhat optimistic about the future, and these are mostly CFOs from state-owned companies and in industries that are less cyclical.

When asked how they would rate the general level of external financial and economic uncertainty facing their business, 64% of CFOs answered high or very high. A further 26% feel that uncertainty is above normal and only 11% feel it is normal. Given the conservative views of the CFOs, it is not surprising that none feel it is a good time to be exposing the company to greater risks.

Focus on liquidity

CFOs state that their business focus in the coming 12 months will be on improving liquidity, closely followed by reducing indirect costs. Most stress that it is becoming difficult to effectively manage increasing working capital requirements due to poor liquidity of customers and ageing receivables. For many companies, this translates into difficulties with servicing their own debt and paying suppliers on time.

Highlights from the H2 2012 Slovenia CFO Survey:

- Some 64% of CFOs rate the general level of external financial and economic uncertainty to be high or very high.
- More than half of CFOs are less optimistic about the future prospects of their business, while none are very optimistic.
- CFOs' business focus over the next 12 months will be on improving liquidity, closely followed by reducing indirect costs.
- More than half of CFOs believe that M&A activity will increase in the next 12 months, while 48% expect no change.

Revenue growth in new markets and new investments seem to be of the least concern to CFOs, as the availability of financing in the country is already scarce and companies are focused on funding current operations rather than pursuing new opportunities.

Not concerned about talent

When asked if they believe that there is a shortage of talent in the finance area in Slovenia, an overwhelming 89% of CFOs stated a definite "no." Some go on to say that there is an overabundance of finance professionals in Slovenia who should be re-educated into sales personnel, as this is the area where Slovenian companies have a shortage.

When asked what they see as the greatest personnel challenges facing their firm, CFOs mainly highlight sustaining morale and reducing employee headcount and costs.

Spain

Falling behind expectations



No signs of recovery

Almost all respondents (97%) to the H2 2012 Spanish CFO Survey call the economic situation in Spain poor or very poor, and 73% say that the Spanish economy will be in recession in the next 12 months. Worse are their expectations regarding global economic recovery, with 47% believing that stagnation will continue over the next 12 months.

Moreover, this situation is unlikely to change in the short term, since virtually all CFOs (98%) believe that there will not be an improvement in the economic indicators before the second half of 2013 and, of these, nearly one third (29%) do not expect it before the first half of 2015.

In addition, more than half of respondents (52%) believe that the plans of the European Financial Stability Facility and the European Stability Mechanism to finance the public debt of Eurozone countries in trouble have had little effect safeguarding the stability of the euro.

More government reforms needed

In this edition, the number of respondents who considered the measurements taken by the Government to respond to the current situation to be effective has fallen by half. The measurement that is considered more effective in the short- or medium-term is the payment to public administration providers (62% considered their effectiveness as high or very high), followed by the reduction of public expenditures and the reform of the financial system.

Asked about the impact of the new tax burden introduced in last months on their companies, 86% of CFOs believe it will impact negatively. About 66% of respondents consider the creation of the "bad bank" as an effective measurement to reactivate the Spanish economy.

Rescue to Spanish banks

The vast majority of CFOs still considers funding very expensive (94%) and difficult to secure (99%). For the first time, though, debt issuance as a

Highlights from the H2 2012 Spanish CFO Survey (April-September 2012):

- Almost three-fourths of CFOs believe Spain will undergo a phase of economic recession in the next 12 months and almost half believe that the world economy will be in stagnation.
- Some 43% of Spanish CFOs perceive negatively the future of the Economic and Monetary Union (EMU) in the short term.
- More than half of CFOs believe that the loss of investment grade rating would hurt obtain funding for their companies.
- A full 98% of CFOs do not anticipate improvement of economic indicators before the second half of 2013; 29% do not expect this improvement before the first half of 2015.
- More than 70% of respondents felt that the Spanish government should formally request financial assistance to the EMU.

funding source is considered more attractive by a larger number of CFOs (20%). Still, more than half of respondents (65%) do not consider any of the three main sources of funding (debt issuance, equity issuance, or bank debt) attractive.

Continued risk aversion

Risk aversion on the part of CFOs continues. Some 84% of respondents say this is not a good time to take risks on their balance sheets. In addition, more than half believe that counterparty risk increased in the last year; and liquidity risk has also increased for 43% of CFOs.

Most CFOs (81%) view the decline and/or instability of operations, followed by financial debt management (75%), as the most critical issues that affect working capital management. And in response to the current economic environment, more than 90% of the companies are considering reducing corporate costs and overhead, reducing operating and commercial costs, and optimizing organizational structure and size.

South Africa

Eyes on the goal



Pedestrian growth

The fifth South African CFO Survey took place against the backdrop of a pedestrian economy. Real GDP in South Africa increased by 2.7% quarter-on-quarter, seasonally adjusted and annualized in the first quarter of 2012, followed by 3.2% in the second quarter. While positive, this level of performance is insufficient to absorb the huge number of unemployed South Africans, officially estimated at 4.5 million with a further 2.3 million discouraged workers.

Against this backdrop, CFOs surveyed demonstrated a positive outlook for interest rates and a mild depreciation in the local currency, which would be supportive of economic growth. Funding for new credit has become slightly more available while the cost of funding has fallen notably, with interest rates at 30-year lows. Companies are focused on developing their existing business first, and thereafter expanding into new markets, new businesses, or new products. But they are being hampered by a lack of suitably-skilled staff and a stuttering global economy. Inadequate staffing and poor demand in key markets pose the greatest risks to strategic success.

Recent performance slipped

Fewer CFOs were enthusiastic about their company performance, however, relative to the last survey position. In H2 2012, 51% of companies had seen an improvement in performance over the previous six-month period compared to 60% of CFOs in H1. However, a dramatic shift was evidenced in the companies which had seen a decline in performance in the prior half-year: from 14% of CFOs in H1 this rate rose to 26% in H2. Over a quarter of the CFOs surveyed had experienced weaker company performance.

Primed for expansion

In spite of the somewhat gloomy economic environment, businesses are clearly looking toward a better future, and they have plans in place to

Highlights from the H2 2012 South African CFO Survey:

- Some 26% of South African CFOs report a deterioration in company performance since the last survey (H1 14%).
- More than half of CFOs surveyed are now focusing on revenue growth from emerging markets and Africa.
- Almost 30% of CFOs listed investment in new capacity as their top cash flow priority.
- South African CFOs view the skills shortage as their greatest risk factor (57%), followed by the fragile state of the global economy (55%).
- More than half (53%) of CFOs expect a slight decrease in the South African currency; 24% believe the rand will remain unchanged in the near- to medium-term.

invest in capacity and operations in order to benefit from a turnaround when it comes.

Almost 30% of CFOs surveyed listed investment in new capacity as their top cash flow priority. A further 40% placed this as either their second or third priority. In addition, the second most important priority for cash flow is the investment in current operations, with 74% of CFOs placing this in their top three of their cash flow priorities.

A modest 27% of CFOs indicated that they are investing in new markets. However, for those companies taking this route, the region of choice is, overwhelmingly, the rest of sub-Saharan Africa, with 67% noting this as their preferred area for expansion. Presumably investing closer to home brings fewer risks and uncertainties, while also promoting simpler logistics.

Looking for talent

Finding and retaining talent is one of the top issues facing CFOs. Skills are scarce in the financial field, and CFOs are adopting a multi-pronged strategy to deal with the challenge posed.

The main thrust of the approach to talent retention, with more than half the companies adopting the following strategies:

- Succession planning at key levels;
- Formal training programs to enable staff at lower levels to progress up the corporate ladder;
- A formal talent strategy and plan to address staff needs; and
- Regular reviews of salaries, benefits, and the working environment.

Topping the CFO agenda

Although performance optimization remains at the top of the CFO's agenda, its significance has dropped off sharply, with only 19% of CFOs citing it as their first choice, compared to 34% at the start of the year.

Growth has maintained its position as the second

preference and strategy its third position, which is consistent with growth and investment objectives reported. Other items that are needed to support growth, such as funding and capital as well as planning and forecasting, are receiving greater attention as companies head into 2013.

Not enough time

The nature of the work is changing for the finance function. However, CFOs appear to be undertaking low value administrative tasks in addition to their regular CFO duties. This could be a result of previous cost-cutting exercises and less focus being placed on key talent strategies, which have caused a lack of skilled resources being available to support the CFO.

From wishing to devote 37% of their time in 2011 to driving strategy and "big picture" planning for the company, CFOs lowered their aspirations in the first half of 2012 to 35%, and by the second half this desire had slipped further to 33%. At the same time, the actual time devoted to those pursuits has steadily risen, albeit at a slow pace, from 22% in the middle of 2011 to the current 24%.

Switzerland



Same direction or new horizons?

Mixed economic outlook

The past year has offered quite a few challenges for Swiss CFOs – such as the strong Swiss franc, the euro debt crisis, and slowing growth in emerging markets. During the second half of the year, however, things have calmed down somewhat, which means that 2013 is starting on a much more positive note than 2012.

At this year-end, only about a quarter of CFOs expect a recession in Switzerland within the next two years. A year ago, the figure was 65%. The improvement in the macroeconomic environment (at least temporarily) and robust domestic demand are important drivers of this change in sentiment.

Still, even though the majority of Swiss CFOs do not expect a recession, the economic outlook remains cautious. However, with a net balance of -4% it is only minimally negative. In addition, while CFOs assess the Swiss economic outlook cautiously, they are far from pessimistic. This impression is also supported by the large number of CFOs (41%) who view the current outlook as neutral.

Corporate outlooks recover

The CFOs' expectations regarding the financial prospects of their own company are also cautious; however, for the last two quarters the trend has been positive. Compared to last year, expectations have improved significantly, and CFOs are no longer extremely pessimistic.

One reason for the improved outlook are their expectations for revenues and operating margins. Revenue expectations have been consistently positive since the beginning of 2012, albeit only marginally. At the same time, expectations regarding operating margins have recovered dramatically from the extremely negative levels during the third and fourth quarter of 2011.

Highlights from the Q4 2012 Swiss CFO Survey:

- Almost three quarters (73%) of CFOs do not expect a recession in Switzerland in the next two years.
- Swiss companies are looking internationally. Some 73% of CFOs are expecting to make an investment decision in at least one foreign market in the next 12 months.
- The pressure on operating margins have eased a bit: half of CFOs expect operating margins to fall within the next 12 months.
- CFOs expect a stable Swiss franc: some 78% expect an exchange rate of 1.20 or higher within the next 12 months.
- Cost control remains a focus. Some 80% of CFOs say that cost reduction is their top corporate priority.
- Some 64% of Swiss CFOs view credit costs as low, while 49% believe that credit is readily available.

However, CFOs remain cautious and plan to keep their expenditures under control. In fact, 80% of CFOs state that cost reduction is their most important corporate strategy. And this impacts discretionary spending, for example, with a large majority of CFOs expecting a reduction over the next 12 months. When it comes to recruiting, companies also remain cautious. The sentiment is slightly less negative regarding capital expenditure. Despite a slight drop from the previous quarter, the current level is far from the high negative value reported in the fourth quarter of 2011.

Attractive credit conditions

On balance, credit conditions continue to be considered very positive. CFOs' perception of credit availability has improved continually since the first quarter of 2012. Now 49% state that credit is readily available, and only 19% consider credit to be hard to get.

Although the view regarding the cost of credit has deteriorated slightly, a high net balance of 64% still considers the cost of credit to be cheap.

The fact that credit conditions are perceived as favorable is mirrored by an increase in the future demand for credit. Moreover, 38% of CFOs said that they expect an increase in their company's demand for credit in the next 12 months.

Risk environment has changed

The CFOs' evaluation of risk has seen a significant shift compared to the previous quarter. External risk factors such as weaker foreign demand, the strength of the Swiss franc, and stress in the financial system remain dominant, but less so than in the previous quarter. Measures introduced by the European Central Bank have provided some relief, albeit perhaps temporarily, to the euro crisis, while worries about weaker domestic demand have increased significantly.

The respite in the euro crisis and the introduction of negative interest rates on some foreign investor deposits have reduced the upward pressure on the Swiss franc. This is also reflected in a noticeable shift in exchange rate expectations. Some 78% of CFOs expect an exchange rate of EUR/CHF 1.20 or higher in 12 months, compared with only 58% six months ago.

However, a temporary respite in the euro crisis is not the same as a sustainable solution. Even though the exit of individual members or a breakup of the eurozone itself seems rather unlikely at present, it is advisable to develop contingency plans. The level of preparedness of Swiss companies for such extreme scenarios has improved compared to six months ago. Almost half (49%) of CFOs said that their company had at least made some preparations (39% six months ago).

The world is our market

Foreign markets represent an opportunity and a challenge at the same time. As for future investment plans, however, CFOs still consider Switzerland to be the most important country for investments in the next 12 months, followed by Germany and other countries in western Europe. While eastern European countries perform well and

are generally seen as an opportunity, sentiment towards southern Europe is mixed. Only 4% of CFOs want to exit the region, and 19% want to reduce their investments. The most popular non-European destinations are the US, China, and Brazil.

United Kingdom

The search for opportunity



Better, but cautious

CFOs enter 2013 in a more optimistic mood than they entered 2012. The dominant concern for corporates a year ago was that the single currency could break up. Such fears have receded. Better news from the euro area and an end to the UK double-dip recession have boosted spirits, with CFO optimism up sharply from the lows seen at the end of 2011. In fact, this quarter, 20% of corporate CFOs are more optimistic about their own company prospects compared with 16% last quarter, and 18% are less optimistic. Some 63% report no change.

Despite these signs of confidence, CFOs continue to worry that growth will be in short supply this year. Weak growth prospects for the euro area and the UK rate as the greatest worries for CFOs in 2013. Perceptions of financial and economic uncertainty remain high. The central concern for CFOs today is the economy, just as it was at the start of the last four years. Moreover, some 93% of CFOs rate the level of financial and economic uncertainty facing their businesses as above normal, high, or very high.

Credit available and cheap

CFOs seem less worried about company-specific issues such as margins, cash flow, and credit availability. Indeed, large companies enter 2013 with healthy balance sheets and benefiting from benign financing conditions. In the fourth quarter of 2012, CFOs reported a sharp decline in credit costs and now rate credit as being cheaper than at any time in the last five years. The economic outlook remains murky, but the cost and availability of debt finance, at least for the large businesses in our sample, have improved significantly in the last four years.

Highlights from the Q4 2012 UK CFO Survey:

- The dominant concern of UK CFOs as they enter 2013 is the weakness of growth in the euro area and the UK (34%).
- The most widely cited area of opportunity cited by CFOs for 2013 is to “build long-term presence and capacity ahead of the competition.”
- On average, CFOs assign a 22% probability to one or more countries leaving the single currency in the next 12 months.
- The decline in the cost of credit was the largest on record, and CFOs now rate credit as being cheaper than at any time in the last five years.
- Despite increased optimism, 93% of CFOs rate the level of financial and economic uncertainty as being above normal, high, or very high.

Still focused on costs

The picture that emerges is of businesses that are constrained by low growth and uncertainty rather than access to capital. CFOs' balance sheet strategies have become increasingly defensive not for want of capital, but for scarcity of opportunity. Large companies enter 2013 with a stronger focus on cutting costs and bolstering cash flow than at any time in the last two years. In fact, 50% of CFOs rated reducing costs as a strong priority for the next 12 months, up from 42% in Q4 2011, and 49% pointed to increasing cash flow, up from 37% in Q4 2011.

Looking for strategic growth

Yet, CFOs have not closed the door to growth. About half of CFOs think that troubled times create opportunities to take market share and expand capacity, or to implement overdue change within the business. Expectations for corporate revenues and margins have improved since the end of 2011. And big businesses are also more positive about undertaking capital expenditure than they were a year ago. The difference now is that such opportunities are more selective. CFOs cannot rely on steady growth to lift revenues. They have to work harder for, and carefully judge the risks of, expansion.

Assessing UK government policy

The Q4 special question asked CFOs about the appropriateness of UK government policy for business. Monetary policy, which includes interest rates, inflation, and the availability of credit, is seen by 81% of CFOs as being most appropriate. By and large, major companies think the Bank of England has gotten monetary policy right. CFOs are also positive about UK labor market policies. The areas of greatest concern relate to micro, rather than macroeconomic policy – regulation, infrastructure, energy policy, and immigration. For CFOs, it is the micro side of the economy, rather than monetary policy, that needs attention.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty Deloitte Member Firm CFO surveys, covering 38 countries, are conducted by Deloitte member firms 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
Australia	Stephen Gustafson Partner +61 (0) 2 9322 7325 sgustafson@deloitte.com.au	Quarterly	Conducted between December 7, 2012 and January 14, 2013; 73 CFOs participated, representing businesses with a combined market value of approximately AUD \$274 billion or 20% of the Australian-quoted equity market.
Austria	Mag. Gerhard Marterbauer Partner +43 1 537 00 4600 gmarterbauer@deloitte.at	Quarterly	Conducted in January 2013; 131 CFOs and financial executives participated, representing a broad range of industries. Of the participating companies, 22% have revenues in excess of €1 billion, and 43% have revenues greater than €100 million.
Belgium	Thierry Van Schoubroeck Partner + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between November 27, 2012 and December 14, 2012; 46 CFOs completed the survey. The participating CFOs are active in variety of industries, 38% of the participating companies have a turnover of over €1 billion, 35% of between €100 million and €1 billion, and 27% of less than €100 million.
Bulgaria	Vasko Raichev Partner, CFO Program Leader vraichev@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
Central Europe	Gavin Flook Regional Managing Partner + 32 2 749 56 04 gflook@deloitte.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
Croatia	Juraj Moravek Partner, Audit +385 (1) 2351 905 jmoravek@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
Czech Republic	Martin Tesar Partner in charge, Audit + 420 246 042 525 mtesar@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.

Member Firm	Contacts	Frequency	Survey Scope and Population
Hungary	Timothy Mahon Partner, Enterprise Risk Services + 36 1 428 6832 tmahon@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; 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	Triannual	Conducted between December 2012 and January 2013 2012, this survey included participation from approximately 136 respondents, 46% of whom represented Indian companies, 40% from companies headquartered outside India, and 13% headquartered in India. Annual turnover of the participating companies are as follows: < Rs 500 Cr (47%), Rs 500-1,000 Cr (10%), Rs 1,001-2,500 Cr (22%), > Rs 2,501 Cr (21%).
Ireland	Shane Mohan Partner +353 1 417 2543 smohan@deloitte.ie	Quarterly	Conducted in December 2012; CFOs of listed companies, large private companies, and Irish subsidiaries of overseas multinational companies participated.
Middle East <i>(UAE, Kuwait, Qatar, Jordan, Egypt, Saudi Arabia, Syria, Sudan, Bahrain, Lebanon Yemen, Oman, Libya)</i>	James Babb Partner Deloitte & Touche M.E. +0097143768808 jbabb@deloitte.com	Biannual	Conducted in the fourth quarter of 2012, this survey included participation from 102 respondents, both listed and non-listed companies in the Middle East. Annual turnover of the participating companies are as follows: > \$1 billion (20%), \$500 million - \$999 million (14%), \$100 million - \$499 million (30%), < \$100 million (37%).
Netherlands	Jan de Rooij Partner +31 (0) 6 5336 6208 JandeRooij@deloitte.nl	Quarterly	Conducted between December 18, 2012 and January 17, 2012; 33 CFOs representing a net turnover per company of approximately €2.2 billion, completed the survey. The responding companies can be categorized as follows: less than €100 million (3%), €100–499 million (39%), €500–999 million (18%), €1–4.9 billion (27%), more than €5 billion (12%).
North America <i>(U.S., Canada, Mexico)</i>	Greg Dickinson N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 12, 2012 and November 28, 2012; 86 CFOs participated from across the United States, Canada, and Mexico. Three fourths of respondents represent CFOs from public companies, and 77% are from companies with more than USD \$1B in annual revenue.
Poland	Krzysztof Pniewski Partner, Financial Solutions Leader +48 (22) 511 06 09 kpniewski@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
Romania	Pieter Wessel Partner, Deloitte Tax +40 (21) 2075 242 pwessel@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
Slovak Republic	Zuzana Letkova Partner, Audit +421 (2) 582 49 213 zletkova@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.

Member Firm	Contacts	Frequency	Survey Scope and Population
Slovenia	Yuri Sidorovich Partner, Audit ysidorovich@deloittece.com	Biannual	All Central European CFO surveys were conducted in October 2012; 362 participants; all were CFOs in a broad range of industries.
South Africa	Rodger George Director, Consulting +27 11 209 6419 rogeorge@deloitte.co.za Grant Krog Partner, Audit +27 11 806 5939 gkrog@deloitte.co.za	Biannual	Conducted in H2 2012; CFOs and FDs representing a sample of 502 South Africa's top organizations nationally, spanning listed and unlisted entities in the private sector as well as major state-owned enterprises. More than 33% of respondents represent CFOs from companies with turnover of less than R1 billion and 13% in excess of R20 billion.
Spain	Jesús Navarro Partner +34 91 514 50 00 jenavarro@deloitte.es	Biannual	Conducted in October 2012; 146 CFOs participated; 20% from companies or groups listed in the Spanish market and/or companies or groups listed in international markets. Of the participating companies, 50% have revenues in excess of €100 million, and 40% have more than 500 employees.
Switzerland	Dr. Michael Grampp Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between November 26, 2012 and December 17, 2012; 101 CFOs participated, with 30% representing listed companies and the remaining 70% representing large private companies.
United Kingdom	Ian Stewart Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between November 25, 2012 and December 11, 2012; 112 CFOs participated, including the CFOs of 36 FTSE 100 and 38 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 £672 billion, or approximately 35% of the UK quoted equity market.

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