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The CFO Programme

Looking ahead with caution

2021 Central Europe CFO Survey

Since 2010, Deloitte has conducted the Central European CFO survey, giving voice to senior financial executives from across the region. The report provides an overview of CFOs' views on critical business matters, strategic priorities and the factors they currently consider vital for success. Due to its wide geographical reach, the high number of participants across a range of industries, it provides reliable insights into how Central European companies view the economic environment and how they are reacting to it.

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Introduction

Welcome to the 13th edition of the Central Europe CFO survey, our most accurate barometer of perspectives among leading financial professionals in the region. Due to the continued uncertainty surrounding the Covid-19 Pandemic, we find it important to understand and provide you with the latest insights that could be impacting your organisations in the year ahead. This year's survey was conducted between November and December 2020 and will represent the sentiments of 590 CFOs from 17 Central European countries.

This edition expresses, once again, an overall downward trend in future outlooks when compared with previous years. While we saw a 1% increase in the CFO Confidence Index (9% in 2020 to 10% in 2021), this is still a large departure from 2018 (23%) and 2019's (16%) results. As expressed previously, we can assume that the Pandemic is continuing to frame CFOs' perspectives this year. While overall confidence continues to fall, CFOs are not entirely negative in all areas surveyed for 2021.

Throughout this report, we will provide you with the latest data regarding a variety of important topics influencing organisations today and in the coming year. In Chapter One, we will focus on diving deeper into the CFO Confidence Index where we summarize the aggregate of our three sub-indices: the Economy Confidence Index, the Business Environment Confidence Index and the Company Perspective Index. Each sub-index expands on a variety of topics from uncertainty and risk to unemployment and revenue.

This year's CFO Confidence Index remains at a similar level to what was reported in 2020 (9% in 2020 to 10% in 2021). While CFOs are not considerably more pessimistic, we still observe downward trends of optimism in almost all areas surveyed. Main concerns for CFOs continue to center around economic outlook (Confidence Index at 35% in 2020 and at 26% in 2021) and operational costs (45% expect an increase in production and delivery costs while 43% expect an increase in transportation costs). Amidst these seemingly negative perspectives, however, there is some optimism around financial prospects with 47% stating they feel more optimistic than was reported in 2020 (34%).

After discussing the overall confidence of CFOs, we take a look at the Economic Outlook, which will cover topics like GDP growth, unemployment levels and CPI. When compared with previous years, 2021 will continue to showcase negative outlooks around GDP growth. CFOs who expect no more than 1.5% of GDP growth make up 60% of total responses (only 36% felt this way in 2020). Percentages for the EU (58%) and Euro-zone (57%) are similar highlighting overall pessimism for the year ahead. This trend continues when looking at unemployment levels (68% expect an increase in 2021 compared with 36% in 2020). Of note, expectation around the increase of the Consumer Price Index (CPI) have gone down in 2021 (62%) when compared with the 83% reported in 2020.

The highest levels of concern for CFOs are the business environment of their organisations. When asked about the overall level of uncertainty facing the external financial and economic aspects of their businesses, 57% responded that they expect a high level of uncertainty for 2021 (this is up 17pp from the previous edition). This is also seen when analyzing specific sectors, as we found that this impacts a majority of industries apart from Life Sciences (23% high level of uncertainty) and the Public Sector (33%). With regard to company costs, respondents expect an increase in a majority of surveyed categories. 82% of CFOs predict an increase in costs related to provisions for bad debt (this was only 44% in 2020) while 51% expect the cost of debt will continue to rise (when compared with 42% in 2020). Reduction in demand, both foreign (50%) and domestic (40%), is noted as the top concerns for CFOs and their businesses. This is the highest (25pp) increase percentage-wise from our 2020 edition.

Leaving risk at the table will continue in 2021 with 79% of CFOs expressing hesitance in taking any additional risks. While this has been the sentiment in even pre-Pandemic years, we note a continued upward trend of CFOs becoming more risk averse. Internal financing (49%) and bank borrowing (43%) still maintain a prominent spot as sources for funding while corporate debt and equity are seen as less viable sources for CFOs' businesses.

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CFO Programme Leader
Deloitte Central Europe

And while pessimism seems to mark most of CFOs' perspectives for the coming year, we observed one area where optimism seems to be growing. When compared with six months ago (three months for Poland), 47% of CFOs are more optimistic regarding financial prospects for their companies. This is up 13pp from our previous edition. And while respondents felt more positive regarding their financial prospects, revenue outlooks took a slight dip in optimism with 53% of CFOs expecting revenues to increase in 2021 (this is down 7pp from 2020).

These are only a few of the key findings that we explore in this year's edition of our CFO Report. We firmly believe these findings are telling of how CFOs in Central Europe are looking at the year ahead. We would like to thank the 590 CFOs who represent 17 countries for participating in this year's survey. We hope you find this year's report both informative and insightful when planning your year ahead.

Methodology

About the data

590 CFOs based in 17 Central European countries: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia.

The survey was conducted between November and December 2020. When the term 'Eurozone' is used in the charts and infographics throughout this report, it is referring to those Central European countries in the survey that have adopted the Euro as their currency. Additionally, when we use the term 'EU', it refers to those Central European countries in the survey that are full members of the European Union.

Please note that due to the limited number of responses from CFOs in Albania, Kosovo, Lithuania, North Macedonia, Slovakia and the Public Sector, data concerning those areas in this report need to be interpreted with caution.

Some of the charts in the report show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response. We deem responses that are neither positive nor negative to be neutral. As a result of rounding, responses to the questions covered in this report may not aggregate to 100.

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

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

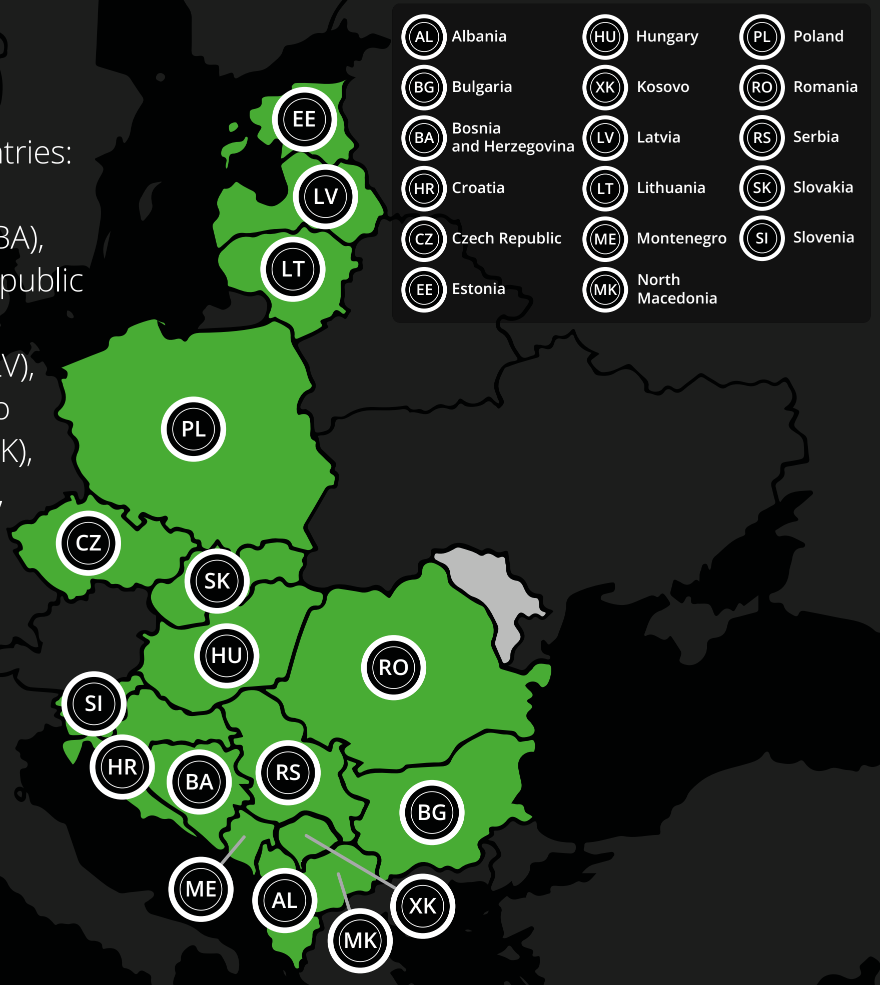
The sub-indices are a net balance of average positive and negative answers derived from selected questions. The main index is a mean of the sub-indices and assumes values between - 100 and 100: - 100 means that a given CFO provided only pessimistic answers, while 100 means only optimistic answers were given.

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

590 CFOs

based in

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



I. The CFO Confidence Index

The CFO Confidence Index has remained at a similar level to what was predicted for 2020: 10% for 2021 compared with 9% projected for 2020. In 2018, it stood at 23%, before falling 7 percentage points (pp) to 16% in 2019.

Despite the Covid-19 Pandemic, CFOs have not become considerably pessimistic about the future and prospects for 2021. This year's outcome continues to be driven - just like last year - by negative expectations about the business environment. We observed, however, a considerable increase in the index – from -27% for 2020 to -11% predicted for 2021.

In particular, CFOs anticipate further increase in the costs of running a business. 40% expect workforce costs to increase while last year this was confirmed by 90% of our respondents. This decrease can surely be attributed to a switch from an employee centric to customer centric focus due to the Covid-19 Pandemic.

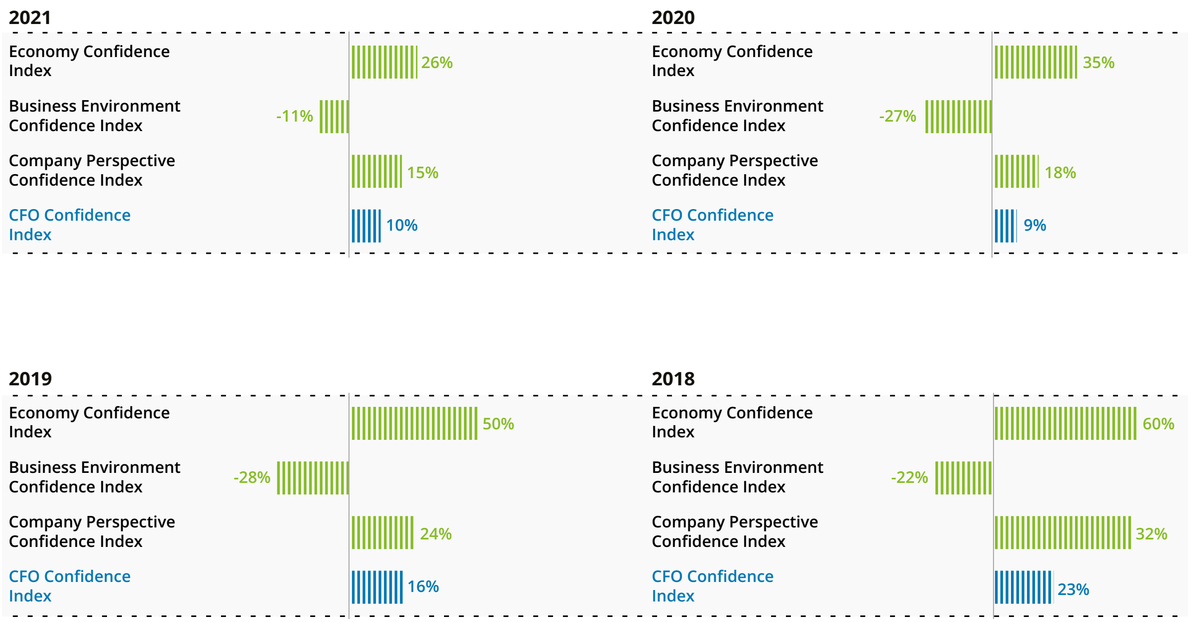
45% (compared with 80% last year) think the overall costs of production and delivery will also be higher than last year. Almost the same proportion (43%) think transportation costs will increase as well, only slightly over 20% of CFOs believe the costs of real estate and business-related services are also set to rise.

For the third successive year, the sharpest fall was in the optimism of participating CFOs about the economic outlook for the year ahead. This time it declined by 9pp, from 35% to 26%. Even higher expectations of an increase in unemployment (68%) than those recorded in 2019 and 2020 (36%) provide the biggest driver of this decline.

There is also a lot of pessimism regarding the business outlook. The Business Environment Confidence index, already negative in 2018 and 2019, improved slightly in 2020 when compared with previous years: -28% in 2019, -27% in 2020 and – 11% in 2021. This is due to an increase in the predicted costs of running a business.

The Company Perspective Confidence Index continues to indicate a slight fall in positive expectations, it fell by 3pp from 18% in 2020 to 15% in 2021. Even though 53% of CFOs believe their own company revenues will increase in the next 12 months, 23% feel less optimistic about their future revenues than they did six months ago.

CFO Confidence Index by sub-indices



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

For the third successive year, the sharpest fall was in the optimism of participating CFOs about the economic outlook for the year ahead. This time it declined by 9pp, from 35% to 26%. Even higher expectations of an increase in unemployment (68%) than those recorded in 2019 and 2020 (36%) provide the biggest driver of this decline.

II. Economic outlook

The average expected GDP growth for 2021 is 0.25%, compared to 2.0% in 2020 and 2.3% in 2019.

Almost 70% of CFOs expect an increase of unemployment.

62% of respondents expect an increase in Consumer Price Index (CPI) inflation (83% in 2020, 82% in 2019).

Slow GDP growth predictions continue

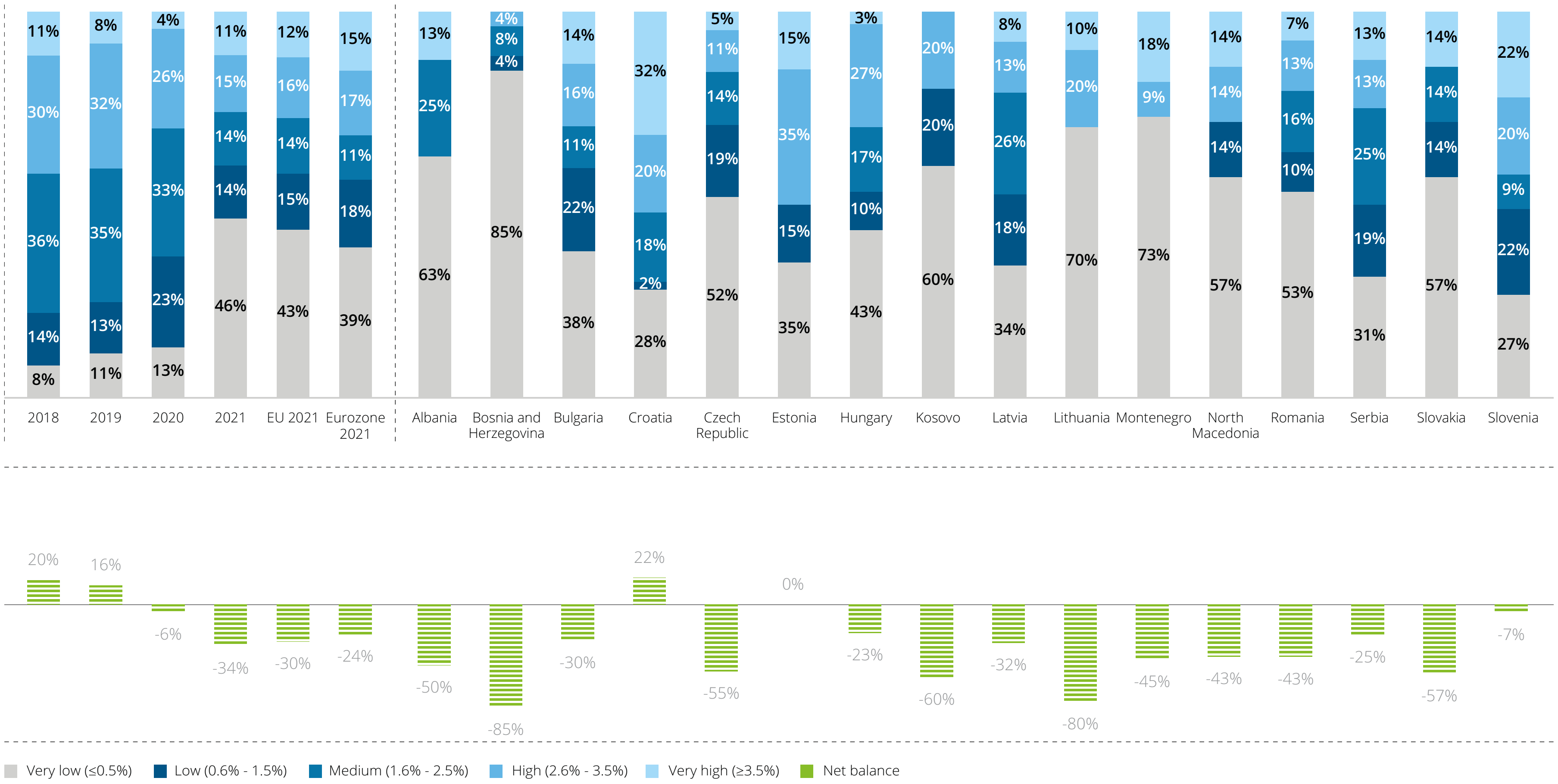
The average expected GDP growth for 2021* is only 0.25%, compared to 2.0% in 2020 and 2.3% in 2019. There has been a 4pp fall in the proportion of CFOs expecting GDP to reach more than 2.5%. In 2021, 26% expect GDP to exceed 2.5%, down from 30% in 2020. Respectively 60% of our respondents predict the GDP will be no higher than 1.5%, compared with 37% sharing the same estimation for 2020.

32% of CFOs, compared with 10% last year, expect GDP in the Eurozone to increase by more than 2.5%. For EU markets, the anticipated growth of no more than 1.5% remained at 58%, while 30% of CFOs predict it will reach the level of between 1.6% and 3.5%.

The CFOs who are the most optimistic about GDP growth in the Eurozone are from Croatia, Estonia and Slovenia.

The least optimistic are CFOs are from Bosnia and Herzegovina and the Czech Republic. In those countries, the share of CFOs expecting GDP growth that is no greater than 1.5% stands at 88% and 71% respectively. CFOs from Lithuania (90%) and Kosovo (80%) are even more pessimistic, however, due to the limited number of responses from CFOs in these countries we are interpreting these figures with caution. The most polarised opinions are those held by CFOs in Estonia and Slovenia. In Estonia, 50% expect GDP to grow

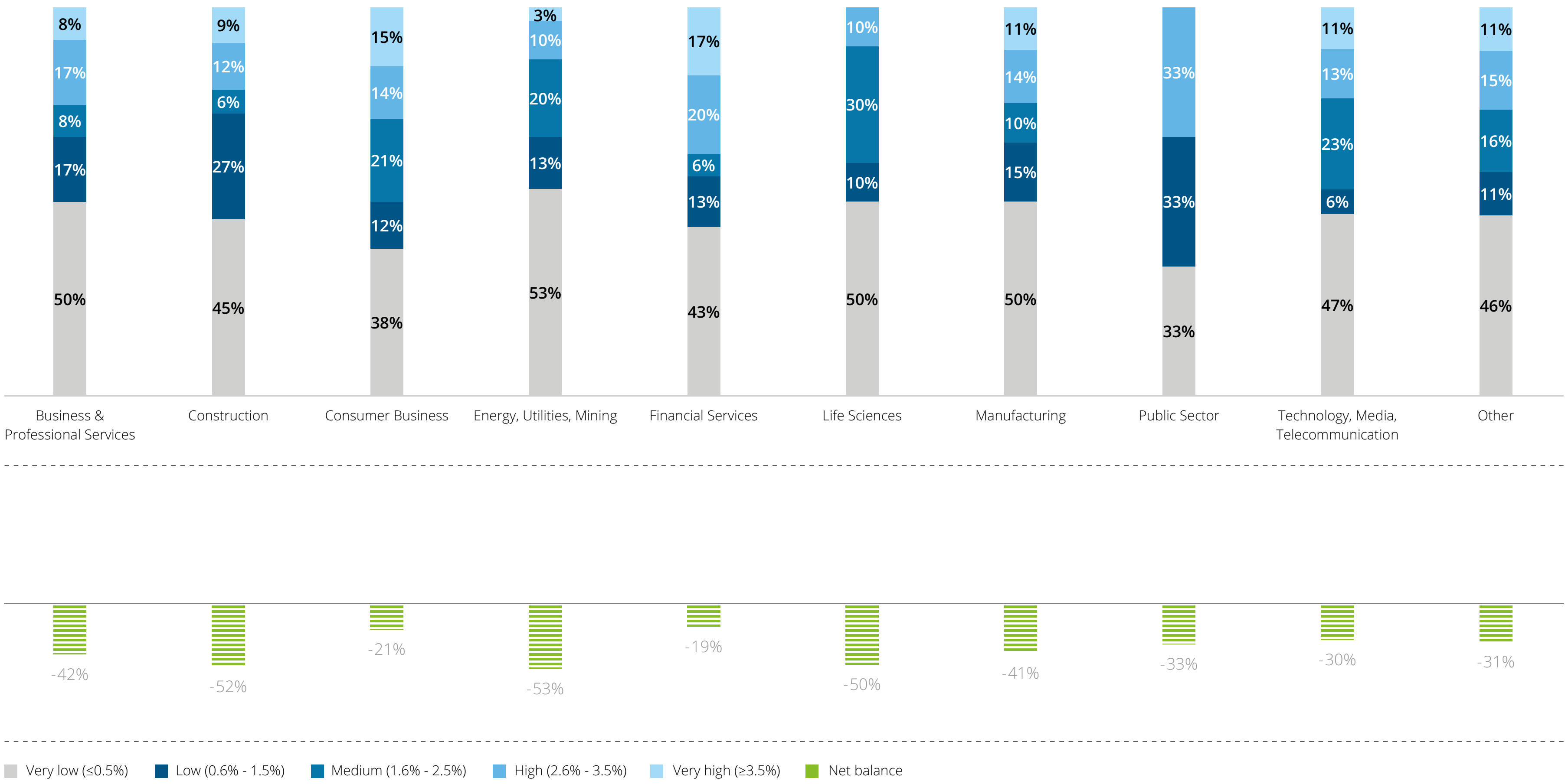
What is your expectation for the country economic GDP growth?



by at least 1.5%, another 50% predict growth of 2.6% or more. 42% of Slovene CFOs expect the same level of GDP growth, while 49% predict the growth to reach no more than 1.5%.

CFOs from the Construction, Business & Professional Services and Energy, Utilities and Mining sectors are particularly pessimistic about GDP growth in 2021. Between 67% and 73% of our respondents in these sectors do not expect growth to exceed 1.5%. CFOs from the Financial Services sector are the most optimistic, with 38% predicting that GDP will grow by at least 2.6% in 2021.

What is your expectation for the country economic GDP growth for the year 2021?



*Views of CFOs from Poland are not included in this analysis.

Unemployment on the rise

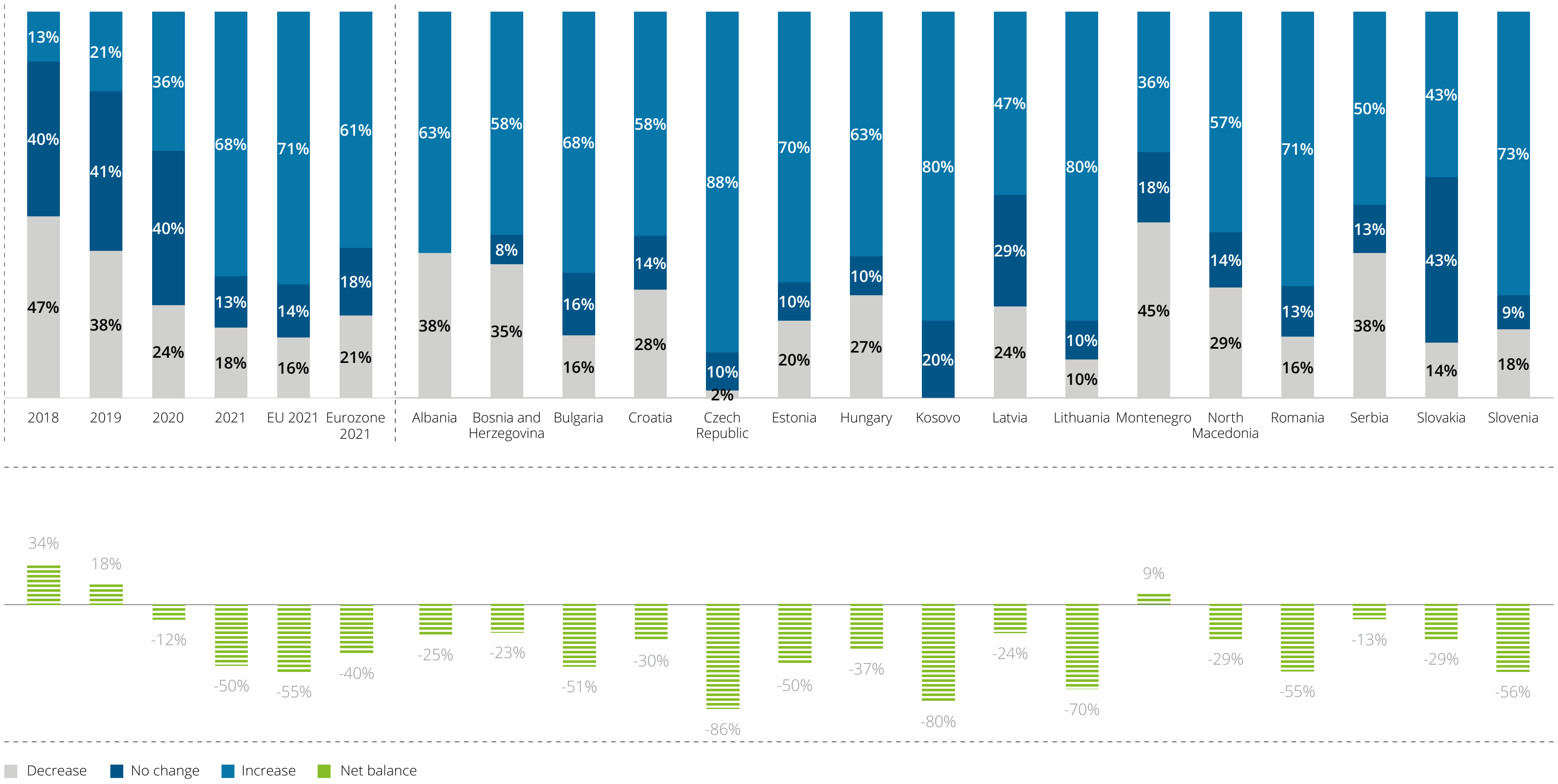
Since 2018 we have been observing a continuous increase in the proportion of CFOs expecting unemployment figures to rise. While 36% expected an increase in 2020, almost 70% expect unemployment to rise in 2021*. This obviously relates to an anticipated and already in effect impact of the Covid-19 Pandemic on the labour market.

Predictions in this area by CFOs in Eurozone and EU countries do not differ significantly, with 61% of Eurozone and 71% of EU respondents forecasting an increase in unemployment by 28%.

Like last year and in 2019, the Czech Republic is again the country where CFOs' expectations of a fall in unemployment are the lowest (2%). This is due to an already low level of Czech unemployment in recent years – at 4% in December 2020**, this is the lowest level of all countries that had respondents in this year's survey.

CFOs in Montenegro (45%), Albania (38%), Serbia (38%) and Bosnia and Herzegovina (35%) are the most optimistic respectively expecting unemployment to decrease. Similarly, this is due to the already high levels of unemployment which, in the second half of 2020, stood at 20% in Montenegro and 34% in Bosnia and Herzegovina.

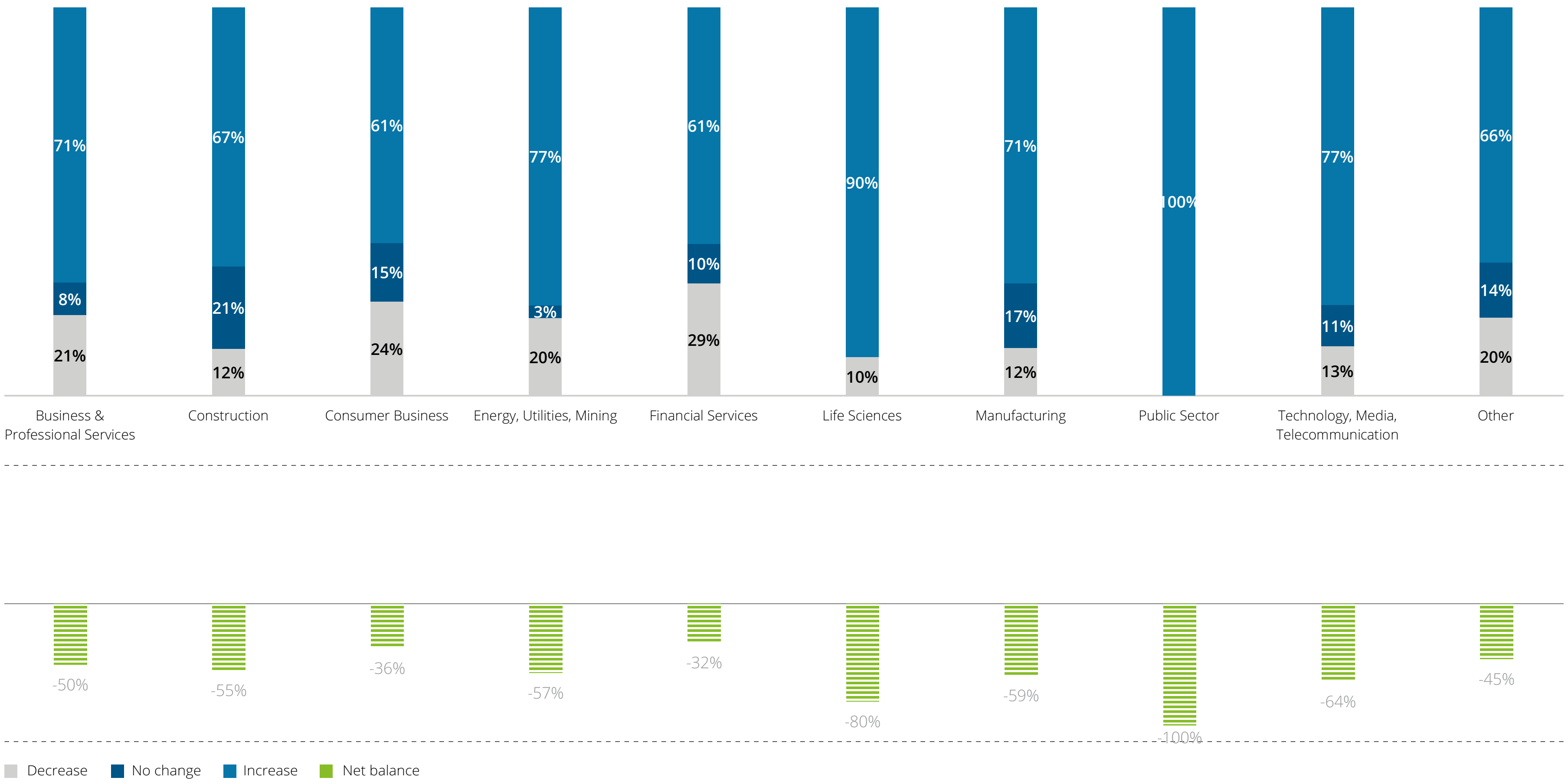
Over the next 12 months how do you expect levels of unemployment to change?



With only 18% predicting a fall in unemployment, CFOs from the Consumer Business (24%) and Financial Services (29%) sectors are the most optimistic in this area. Still, in both sectors, as much as 61% of respondents expect a further increase in the unemployment rate.

CFOs from the Public Sector (limited number of respondents requires cautious interpretations), Life Sciences, Energy, Utilities, Mining and Technology, Media, Telecommunication sectors are the most pessimistic, with respectively 100%, 90%, 77% and 77% expecting a rise in 2021.

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



**Views of CFOs from Poland are not included in this analysis.*

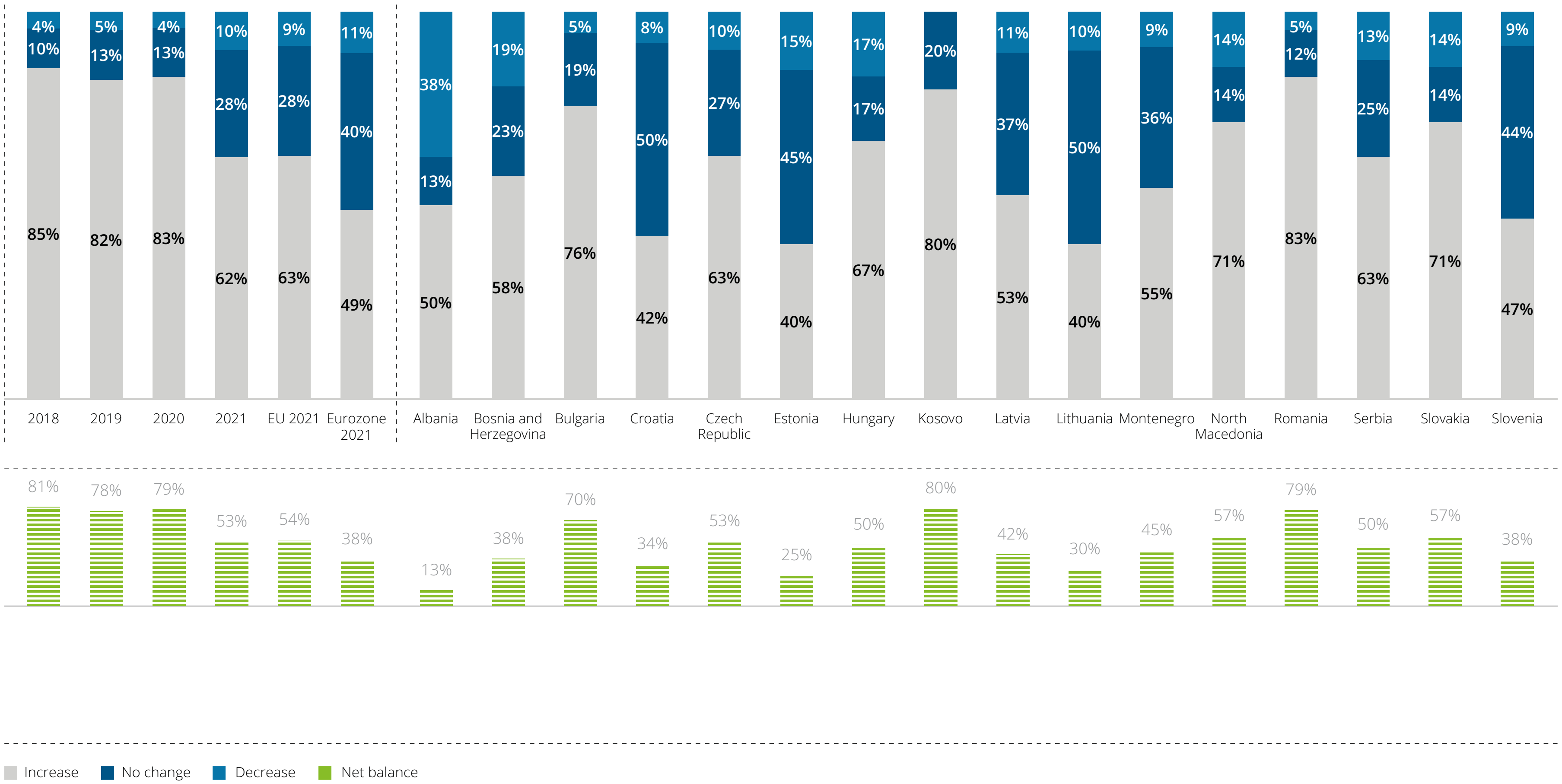
***https://tradingeconomics.com/country-list/unemployment-rate?continent=europe*

CPI inflation increase seems inevitable in 2021

As in last year's survey, the majority of CFOs – 62%* - expect an increase in Consumer Price Index (CPI) inflation (83% in 2020, 82% in 2019). 28% expect no further changes in the CPI levels. At 1.8%, their estimate for the Eurozone inflation rate is also one of the highest.

CFOs from countries whose official currency is the Euro (Latvia, Lithuania, Estonia, Montenegro, Slovakia and Slovenia) all predict that the inflation rate in their countries will be higher than in the Eurozone as a whole.

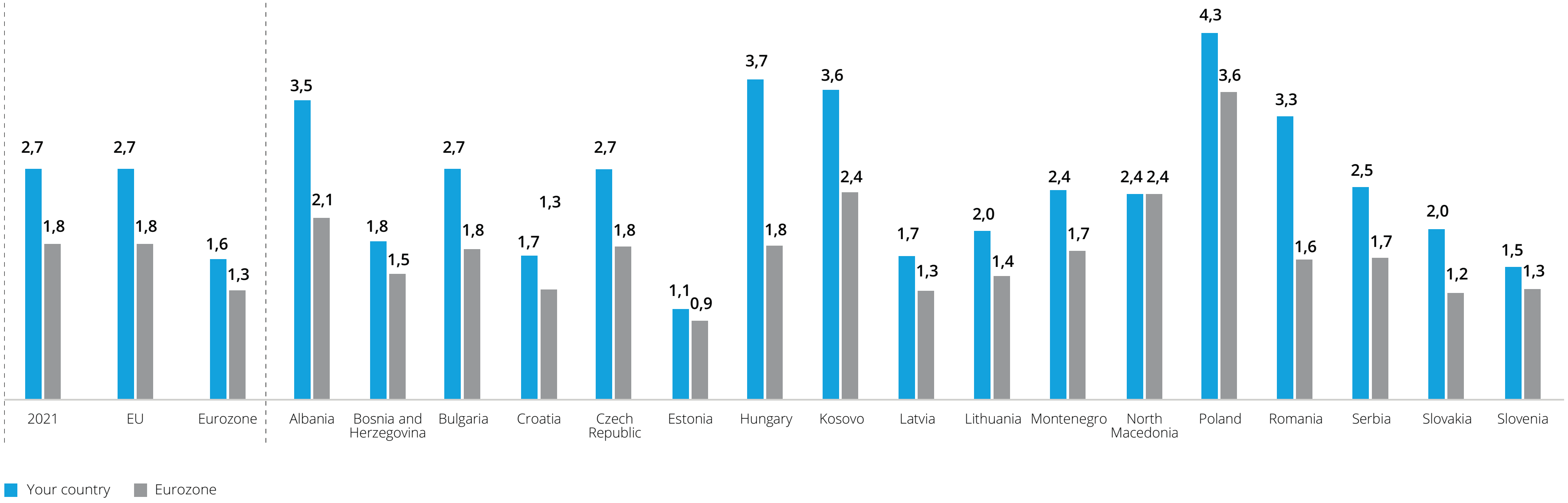
Over the next 12 months how do you expect CPI (Consumer Price Index) levels to change?



Views of CFOs from Poland are not included in this analysis.

Majority (49%) of all surveyed CFOs expect the CPI inflation rate in the Eurozone to rise, with predictions ranging from 0.9% by CFOs in Estonia to 3.6% by those in Poland. When predicting inflation rates for their own markets, three EU states – Poland (4.3%), Hungary (3.7%) and Romania (3.3%) - predict rates significantly higher than CFOs from other EU countries.

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

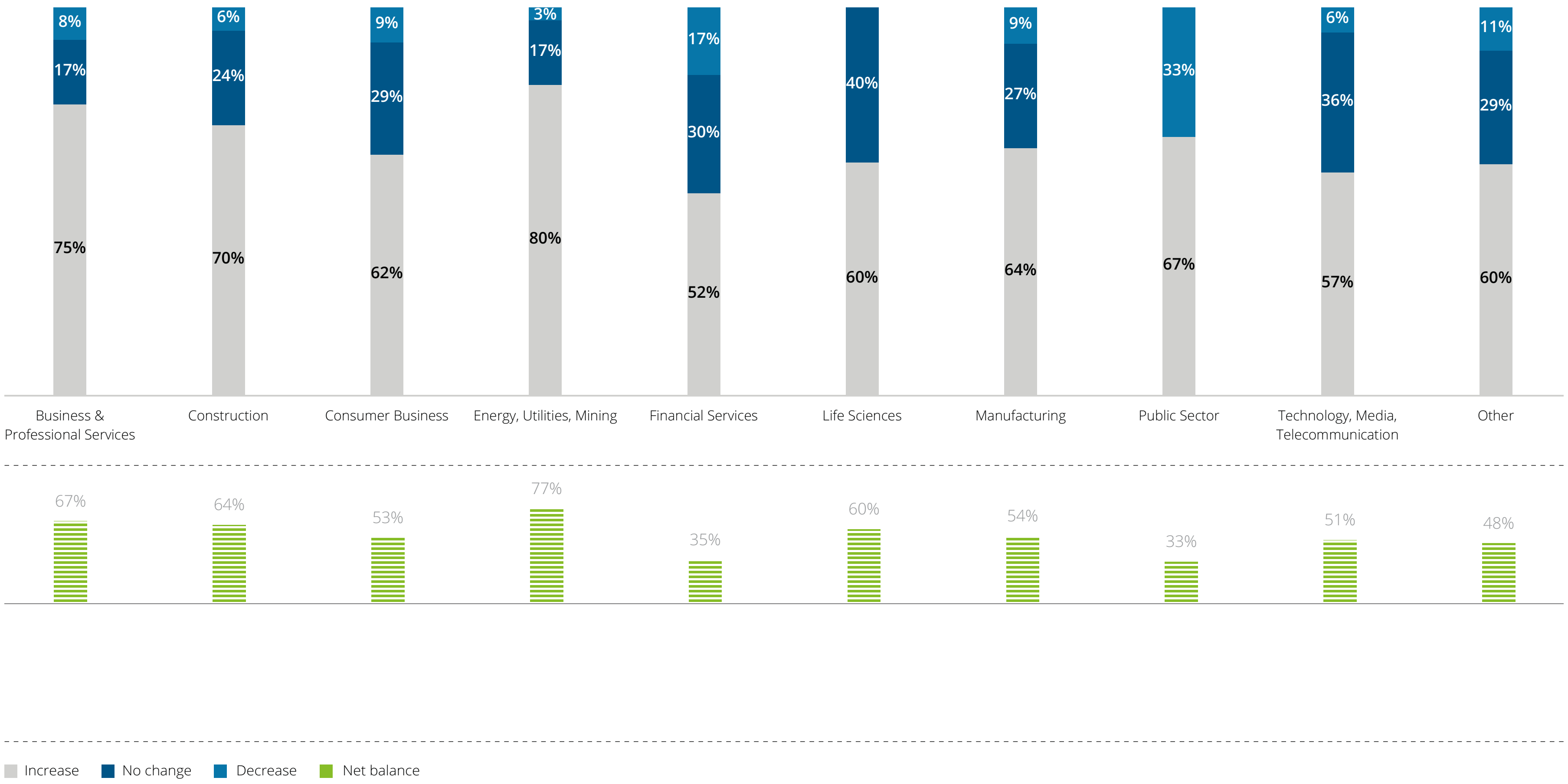


CFOs from the Energy, Utilities and Mining industry (80%) and Business & Professional Services (75%) sectors expect the CPI inflation rate to increase.

Except for the professionals from the Public Sector, CFOs from the Financial Services (17%) sector are the most optimistic when it comes to predicting a fall in CPI inflation. Still, the majority of this group (52%) anticipate a rise in CPI inflation.

CFOs from Business & Professional Services expect the highest inflation rate in their own countries and in the Eurozone. Professionals from the Manufacturing, Financial Services and Construction sectors anticipate the lowest inflation rates in the Eurozone.

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



III. Business environment outlook

57% of respondents are convinced there will be a high level of uncertainty.

82% of CFOs predict that costs related to provision for bad debts will increase.

For 52% of CFOs reduction in domestic demand is the greatest concern. It recorded the highest (25pp) increase percentagewise since 2020.

CFOs see internal financing and bank borrowing as the most attractive sources of funding for their companies.

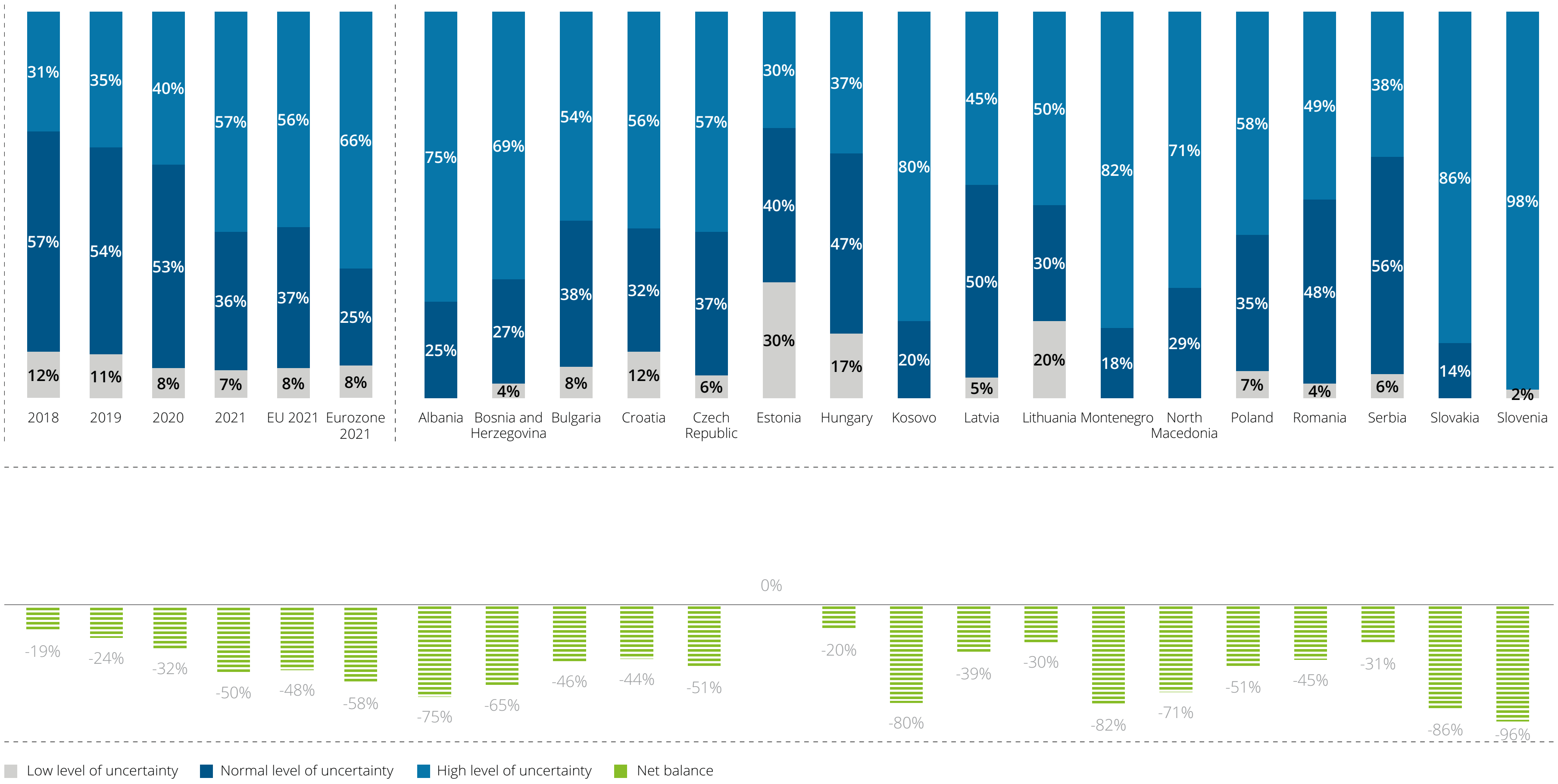
Uncertainty is the new normal

The survey recorded a considerable shift since last year in the perceived levels of uncertainty facing respondents' businesses. The share of respondents who believe there is a high level of uncertainty has increased by 17 percentage points (pp) - from 40% in 2020 to 57% in 2021. In 2018 it reached 31% and in 2019 as much as 35%.

The share of those anticipating a low level of uncertainty fell by only 1pp, from 8% in 2020 to 7% in 2021. There is a clear tendency towards more pessimistic expectations. The net balance index - the difference between the shares of respondents expecting low and high levels of uncertainty - fell from -19% in 2018 to -24% in 2019, reaching -32% in 2020 and -50% in 2021. This negative tendency is also visible for the EU (-21% in 2019, -30% in 2020 and - 48% in 2021) and the Eurozone (-24% in 2019, -30% in 2020 and -58% in 2021).

There is a negative net balance in all countries except for Estonia (0%). 98% of the Slovene respondents expect a high level of uncertainty in 2021. The least pessimistic (anticipating a normal level of uncertainty in the current year) are CFOs from Serbia (56%), Latvia (50%), Romania (48%) and Hungary (47%). Almost one third (30%) of the Estonian respondents predict a low level of external financial and economic uncertainty facing their businesses.

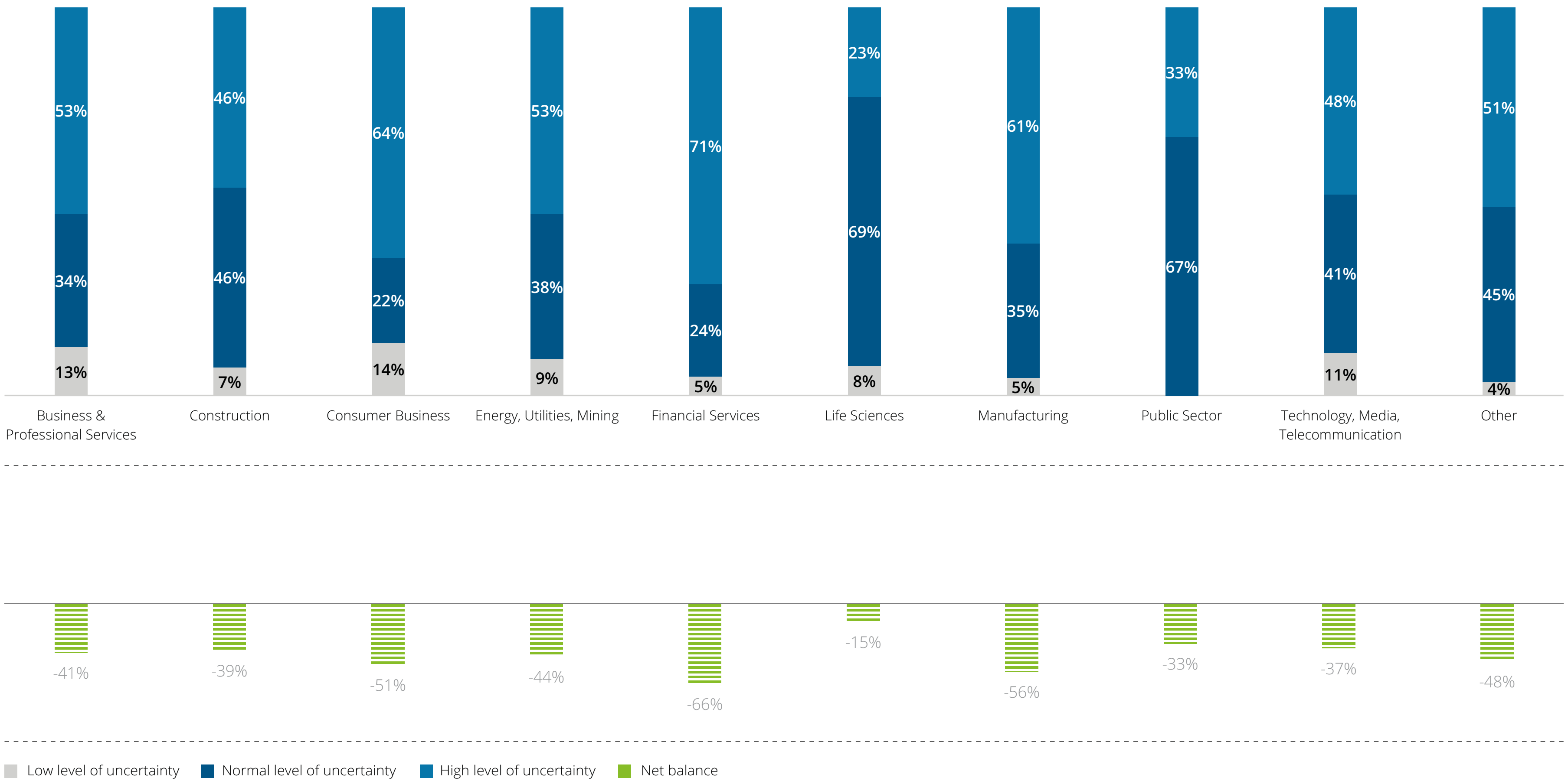
How would you rate the overall level of external financial and economic uncertainty facing your business?



In addition to Slovenia, Slovakia and Lithuania – Bulgaria, the Czech Republic and Croatia recorded the largest growth in the proportion of CFOs anticipating high uncertainty, from 27% in 2020 to 54% in 2021 in Bulgaria; from 31% to 57% in the Czech Republic and from 31% to 56% in Croatia.

CFOs' perspectives on the likely levels of external financial uncertainty in 2021 differ from industry to industry. All sectors recorded a negative net balance with Financial Services (-66%) anticipating the most pessimistic scenario. 71% of CFOs from this industry expect a high level of uncertainty in 2021. Respondents from Consumer Business and Manufacturing also expressed a highly negative outlook with respectively 64% and 61% of them predicting a high amount of uncertainty. Just like last year, those from the Life Sciences industry appear to be more optimistic than their counterparts in other industries, with 23% (compared with 27% in 2020) expecting uncertainty levels to be high and 69% (compared with 60% in 2020) predicting normal levels.

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



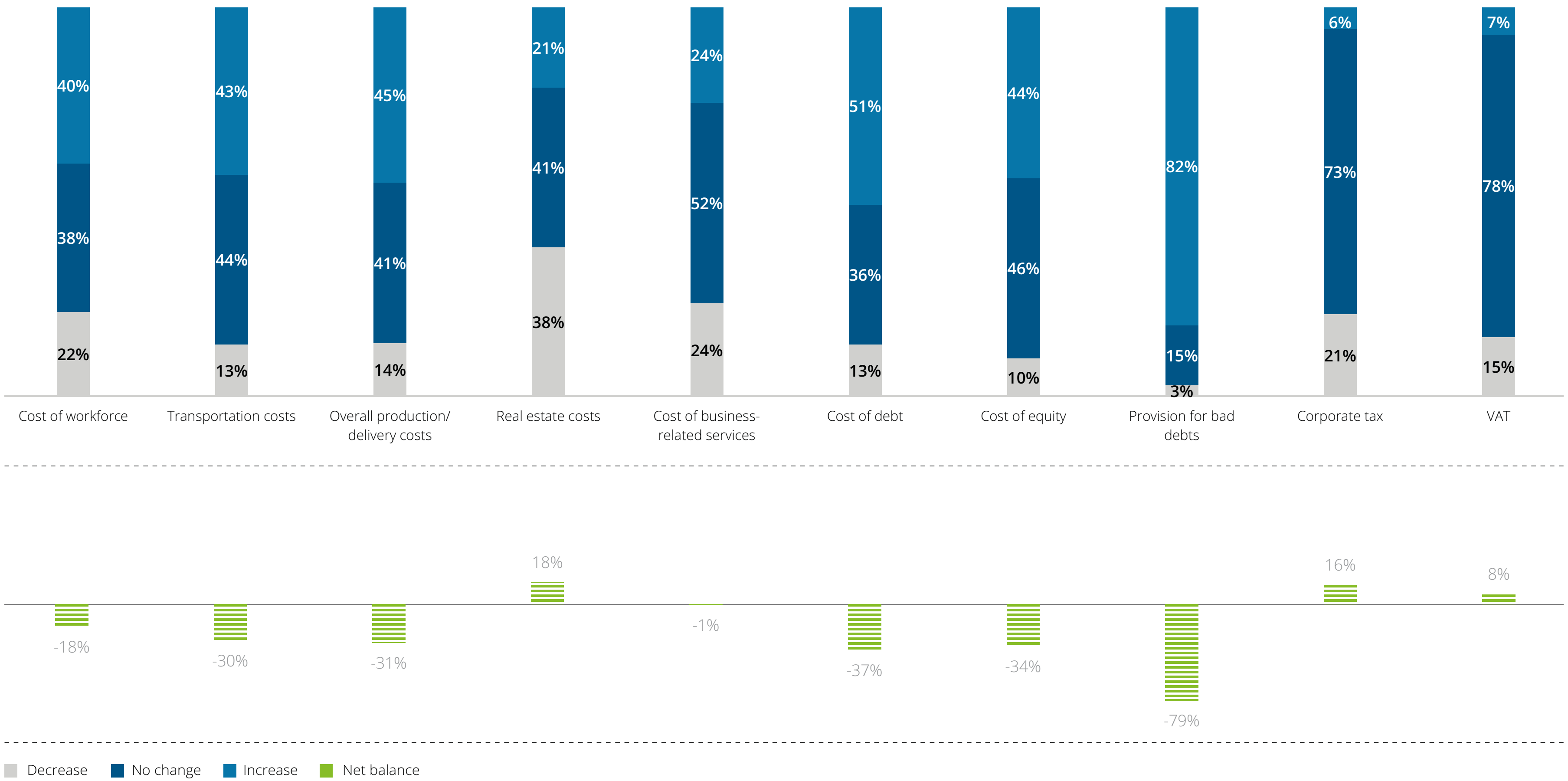
Costs for businesses will continue to rise

In 2021, CFOs participating in the survey expect a further increase of costs in a majority of categories (meaning a negative net balance). As much as 82% of CFOs predict that costs related to provision for bad debts will increase in 2021 (compared with 44% in 2020). 51% of respondents anticipate that the cost of debt will continue to rise, compared with 42% last year. In 2020, the overwhelming majority of respondents (91%) expected an increase in workforce costs, while predictions are considerably lower for this year, as only 40% of CFOs expect these costs to be higher. Estimations for real estate costs, when compared with predictions for 2020 are another area that recorded the highest decrease. Only 21% of CFOs expect real estate costs to increase in 2021 (64% in 2020) and almost 40% predict they will be reduced.

While 45% of respondents expect the overall production/delivery costs to increase, almost the same percentage (41%) predict no changes in this area. The majority of respondents (52%) anticipate costs of business-related services in 2021 will remain unchanged. 24% expect it will rise, compared with 64% who shared the same view last year.

Predictions for increase in cost of equity changed only slightly when compared with last year's estimates. 44% of CFOs expect costs to increase (40% in 2020) and 46% predict it will not change. Great majority of respondents anticipate no changes in corporate taxes (73%) and VAT (78%), while 6% and 7% expect an increase in 2021.

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



Cost categories that involve manpower are believed to be the greatest risk of cost increases in 2021. This was also the case in the previous edition of the survey, however, the proportion of those who expect an increase in these categories of cost in 2021 are considerably lower than last year.

CFOs expect increases across most cost categories in 2021 (negative net balance). Financial Services CFOs expect costs related to provision for bad debts to increase more than other industries that were surveyed. Except for professionals representing the Public Sector, more CFOs from Business & Professional Services, anticipate increases in the cost of equity when compared with their counterparts in other industries. A greater percentage of CFOs from the Manufacturing industry expect increased costs of debt when compared with other industries surveyed. Additionally, when looking at the overall cost of production, more respondents from the Life Sciences sector anticipate a rise in costs than their colleagues in other sectors.

As in 2019 and in 2020, VAT and corporate tax are seen as the most stable cost categories, with most respondents expecting no change.

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

		Business & Professional Services	Construction & Real Estate	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Public Sector	Technology, Media, Telecommunication	Other
VAT	No change	71%	88%	70%	90%	86%	90%	83%	67%	70%	68%
	Net Balance	21%	12%	15%	3%	6%	10%	1%	33%	13%	10%
Corporate tax	No change	79%	85%	79%	70%	75%	90%	76%	67%	62%	64%
	Net Balance	13%	15%	12%	17%	13%	10%	11%	33%	26%	22%
Provision for bad debts	No change	17%	21%	15%	23%	4%	20%	16%	33%	17%	16%
	Net Balance	-75%	-61%	-76%	-77%	-96%	-80%	-83%	-67%	-70%	-76%
Cost of equity	No change	38%	42%	44%	47%	33%	70%	49%	33%	47%	54%
	Net Balance	-46%	-33%	-29%	-33%	-41%	-10%	-41%	-67%	-36%	-22%
Cost of debt	No change	33%	42%	36%	27%	38%	70%	33%	67%	28%	39%
	Net Balance	-50%	-39%	-36%	-40%	-22%	-10%	-54%	-33%	-21%	-32%
Cost of business-related services	No change	29%	61%	59%	47%	52%	70%	51%	67%	36%	56%
	Net Balance	4%	-3%	2%	7%	10%	10%	-9%	-33%	-13%	6%
Real estate costs	No change	38%	55%	39%	30%	41%	40%	43%	33%	36%	41%
	Net Balance	21%	-3%	24%	37%	28%	0%	1%	0%	30%	26%
Overall production	No change	33%	39%	48%	30%	41%	50%	41%	0%	40%	44%
	Net Balance	-25%	-30%	-27%	-30%	-13%	-50%	-42%	-100%	-43%	-25%
Transportation costs	No change	25%	58%	42%	57%	52%	60%	35%	0%	45%	46%
	Net Balance	-33%	-12%	-33%	-37%	-10%	-40%	-41%	-100%	-38%	-21%
Cost of workforce	No change	38%	33%	50%	53%	36%	60%	31%	33%	40%	35%
	Net Balance	13%	-18%	-17%	-33%	14%	0%	-49%	-67%	-30%	2%

Surveying the risk landscape in 2021

Reduction in demand – domestic (52%) and foreign (40%) are perceived as significant threats to businesses across the CE region in 2021. Reduction in domestic demand is not only the greatest concern for CFOs, but it also recorded the highest (25pp) increase percentage-wise since 2020. Economic outlook/growth is also a high level concern for 42% of respondents.

Shortage of qualified workers over the next 12 months is a source of anxiety for one third of respondents, showing a 16pp fall from last year. More than 20% of CFOs pointed to increasing regulations as an additional factor that is likely to pose a significant risk in 2021. Approximately one in five CFOs surveyed indicated that currency fluctuations and geopolitical risks are also of concern for their businesses. Interestingly, the least risk-laden issues according to our respondents are a shortage of capital and cyber risk.

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

	2021	2020	Change
Reduction in demand (domestic)	52%	27%	25%
Reduction in demand (foreign)	40%	26%	14%
Shortage of skilled professionals	33%	49%	-16%
Increasing regulations	22%	15%	7%
Shortage of capital	13%	6%	7%
Geopolitical risks	18%	10%	8%
Cyber Risk	10%	3%	7%
Economic outlook/growth	42%	NA	NA
Currency fluctuations	19%	NA	NA
IBOR Reform	0%	NA	NA
Other	8%	2%	6%

A cross-industry comparison shows similarities between how CFOs perceive the main challenges they will face over the year to come: concerns about reduced domestic demand and economic outlook/growth come first, followed by a shortage of skilled professionals and increasing regulations.

CFOs from the Consumer Business (79%) and Construction (64%) sectors identified a reduction in domestic demand as a significant threat to their businesses. For the Manufacturing sector, a reduction in foreign demand (72%) and a shortage of skilled professionals (46%) are the top concerns for 2021. Increasing regulations are high on the agenda for CFOs from the Financial Services sector, while geopolitical risks and currency fluctuations are central concerns for CFOs in the Life Sciences sector.

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

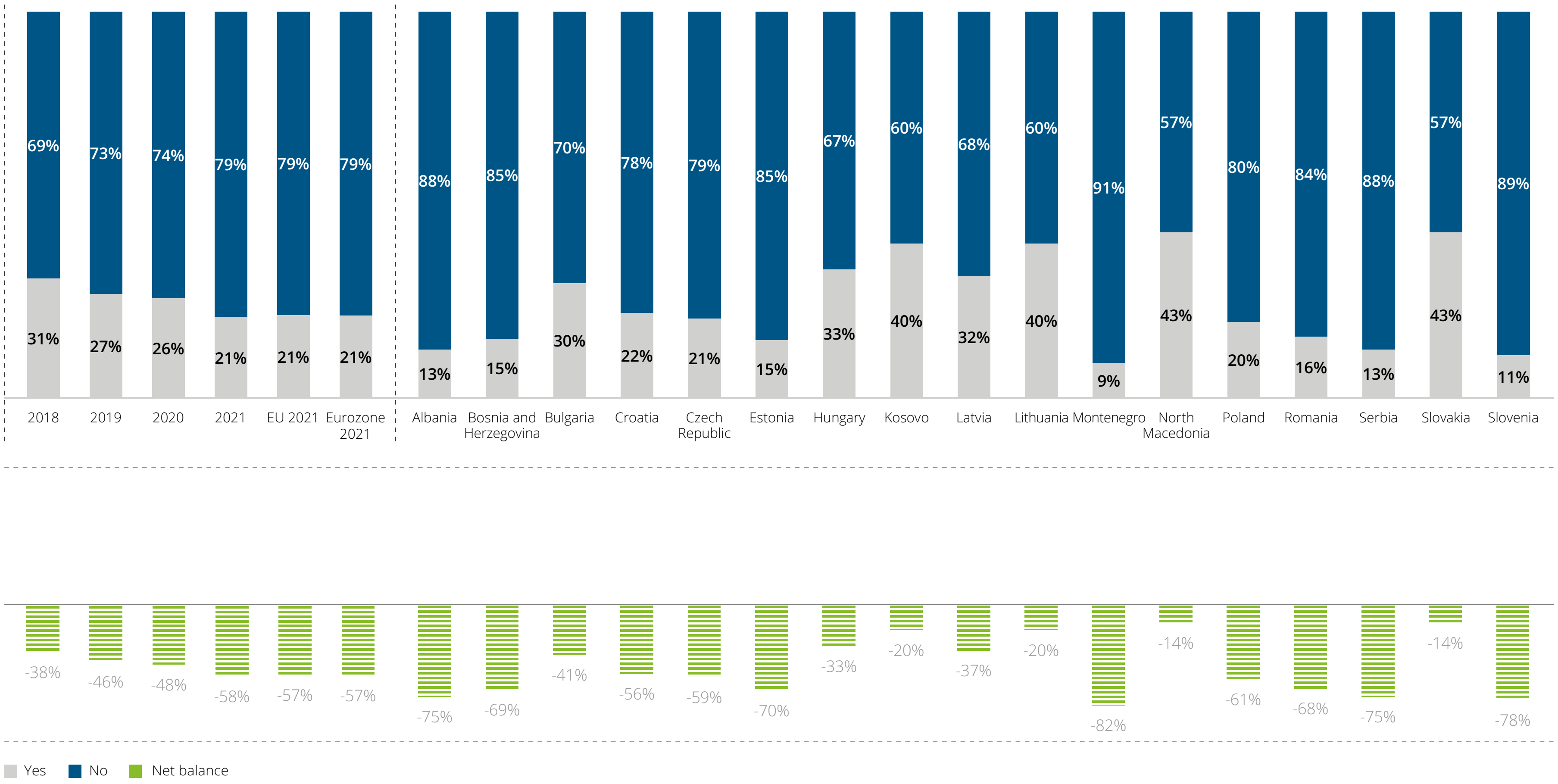
	Business & Professional Services	Construction	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Public Sector	Technology, Media, Telecommunication	Other
Reduction in demand (domestic)	58%	64%	79%	60%	54%	20%	28%	67%	57%	56%
Reduction in demand (foreign)	25%	27%	27%	20%	20%	0%	72%	33%	17%	44%
Shortage of skilled professionals	33%	33%	30%	37%	20%	40%	46%	67%	32%	24%
Increasing regulations	25%	9%	12%	37%	42%	40%	16%	33%	23%	20%
Shortage of capital	8%	18%	17%	20%	14%	10%	13%	0%	17%	8%
Geopolitical risks	25%	9%	11%	13%	17%	40%	19%	33%	13%	23%
Cyber Risk	4%	6%	8%	13%	16%	10%	4%	0%	28%	8%
Economic outlook/growth	42%	67%	38%	53%	55%	30%	36%	0%	45%	34%
Currency fluctuations	21%	15%	20%	20%	10%	30%	19%	0%	15%	29%
IBOR Reform	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%
Other	4%	6%	9%	7%	1%	20%	7%	0%	11%	11%

Another year of leaving risk behind?

As in previous years, the majority of CFOs do not think the year ahead will be a good time for companies to take on more risk; this was the view of 79% of respondents (up by 5pp from last year). CFOs from the Eurozone and EU countries are equally risk-averse.

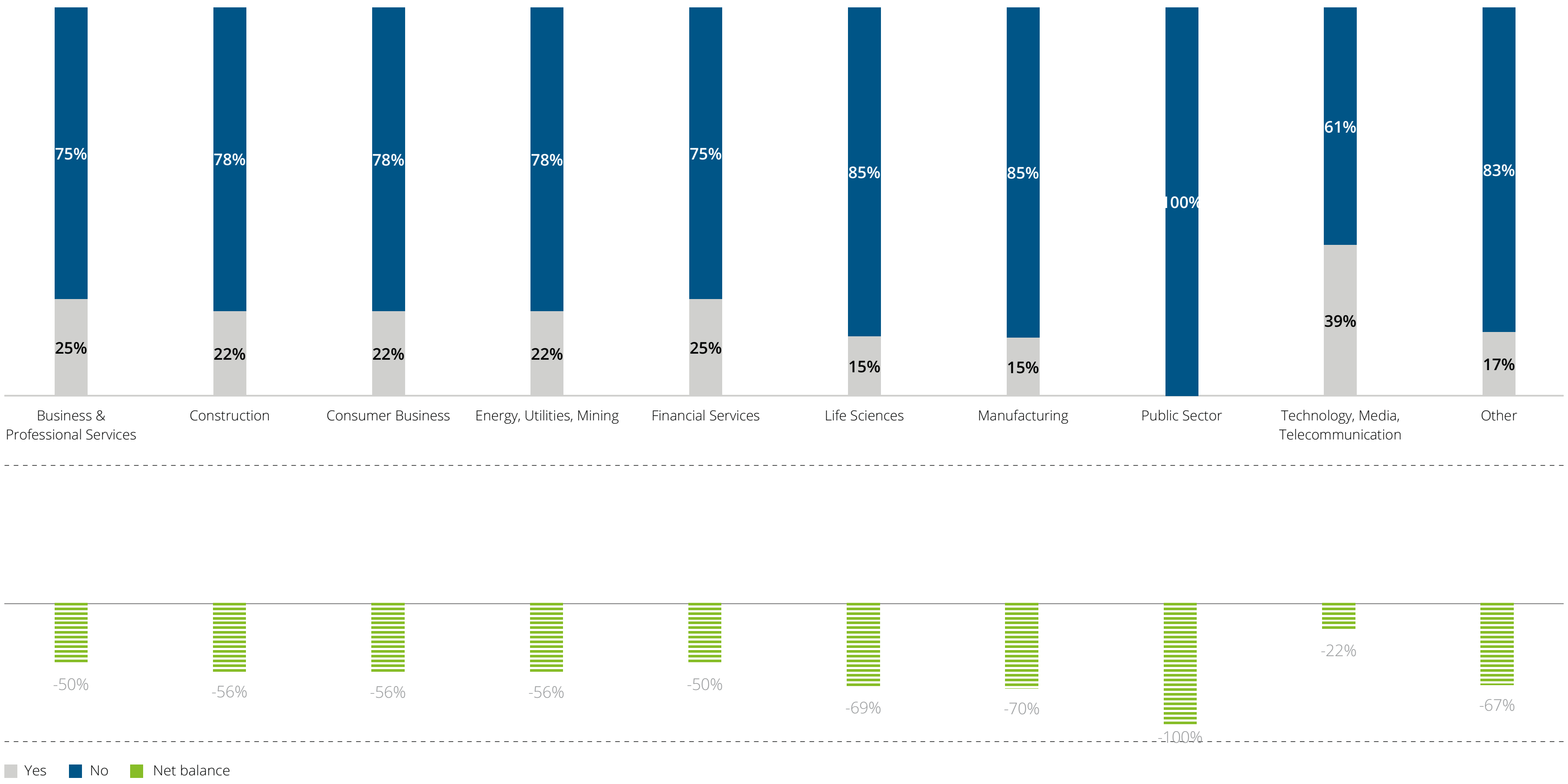
CFOS from Montenegro, Slovenia, Serbia, Albania, Bosnia and Herzegovina, Estonia and Romania were our most risk-averse respondents. While leaving risk behind was the sentiment for most surveyed countries, both Croatia (+9pp) and Serbia (+18pp) anticipate that conditions are right for risk.

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



There is a firm consensus across all industries that conditions in 2021 will not be favourable for taking more risk when it comes to financial decisions. The proportion of those holding this opinion range from 100% in Public Sector and 85% in Manufacturing and Life Sciences to 61% in Technology, Media and Telecommunications. The most positive respondents (in addition to the TMT sector) were those from Financial Services and Business & Professional Services, with 25% in both industries seeing this as a good time to take on more risk.

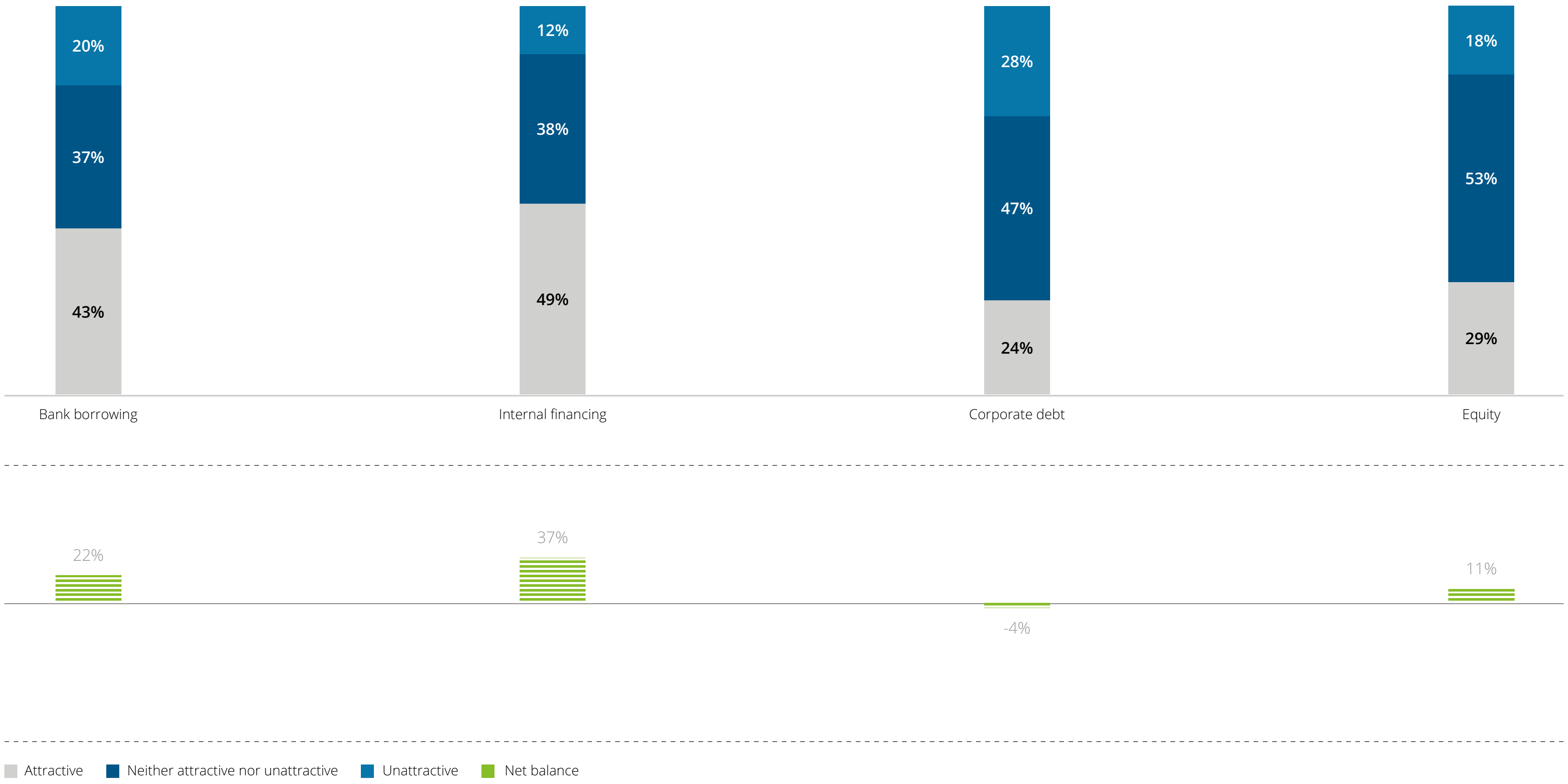
Is this a good time to be taking greater risk onto your company's balance sheets?



How CFOs are financing their businesses amidst uncertainty

Similar to 2020, CFOs see internal financing and bank borrowing as the most attractive sources of funding for their companies in 2021. These options were selected respectively by 49% and 43% of respondents. Corporate debt and equity are seen as moderately attractive – less than 30% of CFOs (29% for equity and 24% for corporate debt) call them 'attractive', while approximately half of respondents see them as neither attractive nor unattractive.

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



CFOs in Slovenia (56%), Poland (56%) and Hungary (53%) rated bank borrowing as attractive sources of funding. While Slovakia, Poland, Serbia and Albania rated bank borrowing favourably, they varied with regards to equity as a source of funding. Albania ranked equity at 63%, while Poland's number is nearly half Albania's at 27%. The largest difference was found in Serbia and Slovakia, where equity sits at 0% indicating this is not considered a viable source for funding in 2021.

Internal financing is the most attractive source of funding (or rated very closely to bank borrowing) for CFOs from all countries except for Slovakia, Bosnia and Herzegovina and Albania.

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

Share of respondents rating following sources as attractive	Bank borrowing	Corporate debt	Equity	Internal financing
Albania	50%	38%	63%	38%
Bosnia and Herzegovina	50%	15%	15%	38%
Bulgaria	35%	14%	27%	43%
Croatia	40%	22%	14%	58%
Czech Republic	43%	25%	27%	44%
Estonia	40%	5%	20%	45%
Hungary	53%	33%	20%	53%
Kosovo	0%	0%	20%	40%
Latvia	39%	21%	45%	58%
Lithuania	40%	10%	40%	80%
Montenegro	18%	36%	27%	45%
North Macedonia	29%	14%	57%	57%
Poland	56%	21%	27%	54%
Romania	35%	32%	45%	44%
Serbia	44%	13%	0%	50%
Slovakia	29%	43%	0%	14%
Slovenia	56%	33%	24%	60%

Bank borrowing is the most attractive source of funding for CFOs from the Energy, Utilities, Mining sector (with a net balance of 47%). CFOs that do not view this source of funding as attractive represent the Public Sector (-100%), Life Sciences (-31%) and Technology, Media, Telecommunication (7%).

CFOs in most industries see internal financing as an attractive source of capital. Energy, Utilities, Mining and Business & Professional Services CFOs award it a net balance of 44%. Internal financing for other industries, Construction (with a net balance of 17%) and Life Sciences (15%) sectors specifically, do not have the same sentiments as their colleagues. Construction CFOs, instead, rate financing through bank borrowing as the most attractive option, with a net balance of 34%, while Life Sciences CFOs prefer corporate debt with a net balance of 31%.

Corporate debt appeals least to CFOs from the Public Sector (-33%) and Technology, Media, Telecommunication (-28%). With regards to equity as a viable source for funding, respondents from the Construction sector (with a net balance of 22%) responded more favourably than their colleagues (excluding the Public Sector) in Life Sciences (-15%).

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

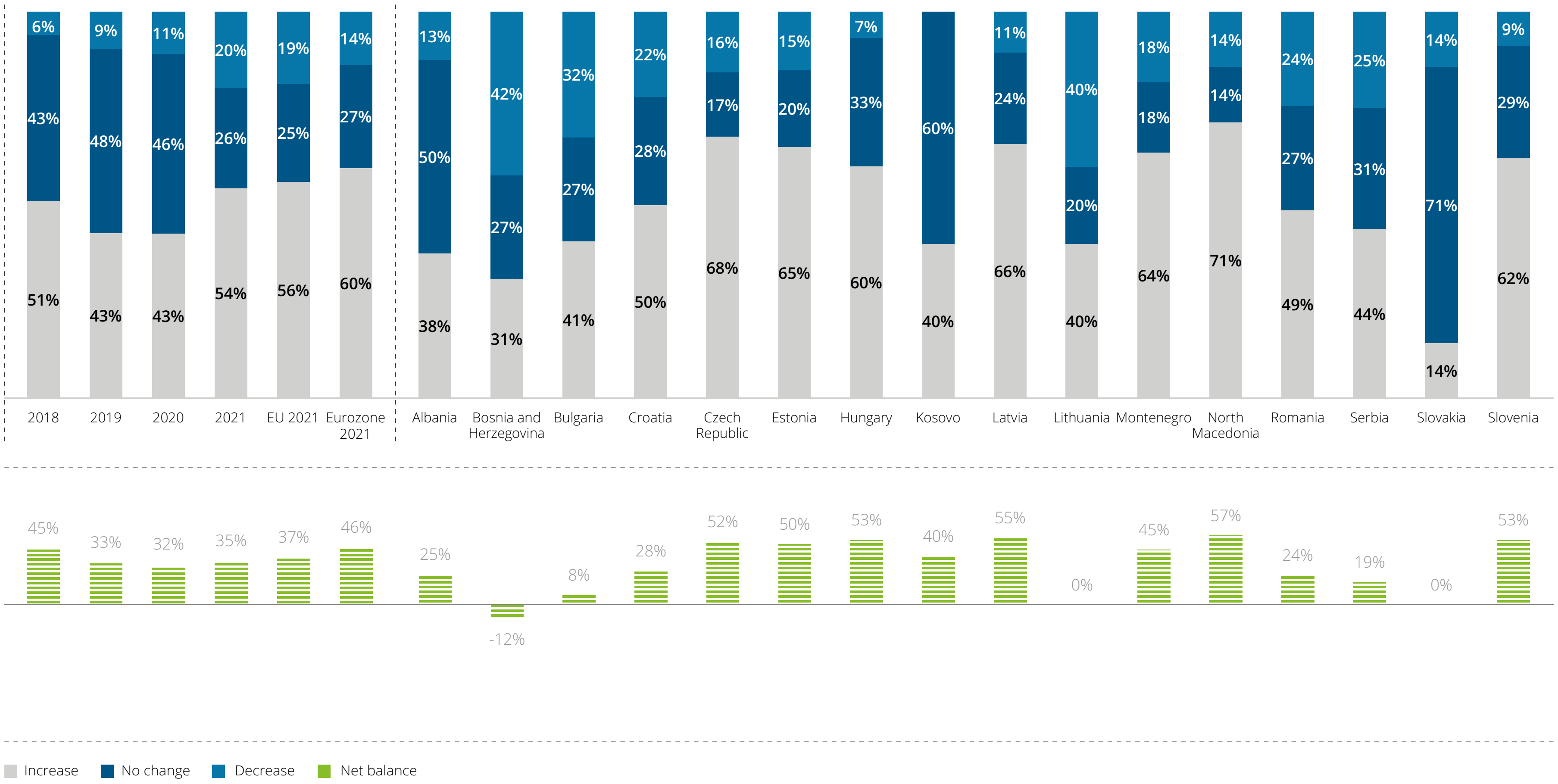
		Business & Professional Services	Construction	Consumer Business	Energy, Utilities, Mining	Financial Services	Life Sciences	Manufacturing	Public Sector	Technology, Media, Telecommunication	Other
Bank borrowing	Net balance	25%	34%	21%	47%	29%	-31%	19%	-100%	7%	28%
	Neither attractive nor unattractive	25%	27%	36%	28%	39%	23%	43%	0%	41%	39%
Internal financing	Net balance	44%	17%	32%	44%	39%	15%	39%	-33%	41%	41%
	Neither attractive nor unattractive	13%	44%	33%	50%	41%	54%	40%	67%	33%	40%
Corporate debt	Net balance	-13%	17%	-3%	16%	6%	31%	-5%	-33%	-28%	-15%
	Neither attractive nor unattractive	38%	49%	51%	47%	46%	38%	44%	0%	61%	49%
Equity	Net balance	-3%	22%	10%	9%	19%	-15%	12%	-67%	13%	12%
	Neither attractive nor unattractive	53%	59%	47%	66%	44%	54%	56%	33%	54%	57%

2021 a potentially good year for M&A

Across the Central European region*, a majority of CFOs (54%), anticipate the level of M&A transactions to increase in 2021 more so than in 2020. One in four of respondents indicate they do not anticipate any change in M&A transactions in 2021.

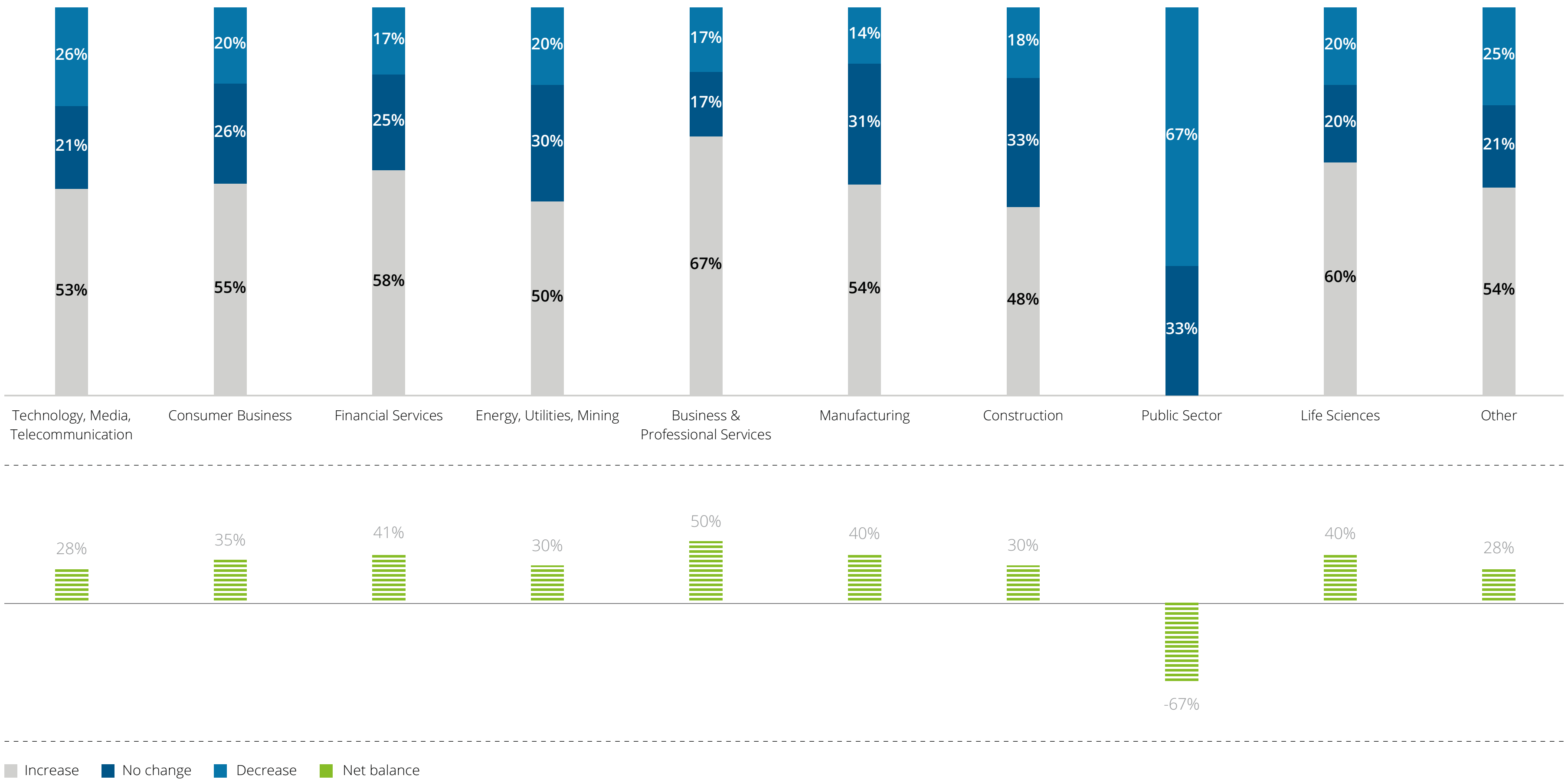
CFOs from North Macedonia (71%), Czech Republic (68%), Latvia (66%) and Estonia (65%), are most optimistic with regards to M&A transaction levels increasing in 2021. The net balance (difference between those who expect M&A levels to increase and those who think it will decrease) is the lowest in countries like Bosnia and Herzegovina (-12%), Lithuania (0%), Slovakia (0%) and Bulgaria (8%).

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



More than half of respondents from all sectors, except for the Public Sector and the Construction industry (48%), expect an increase in levels of M&A transactions in 2021, with Business & Professional Services CFOs (67%) holding the most optimistic opinions.

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



**Views of CFOs from Poland are not included in this analysis.*

IV. Company growth outlook

Almost half (47%) of CFOs are optimistic about financial prospects, while only 23% express pessimism.

The proportion of CFOs anticipating revenues to increase in 2021 (53%) was 7pp lower than in 2020.

35% of CFOs expect operating margins to increase, almost the same proportion predict it will stay at the same level.

Most CFOs expect the number of employees in their companies to remain unchanged (44%) or to increase (28%).

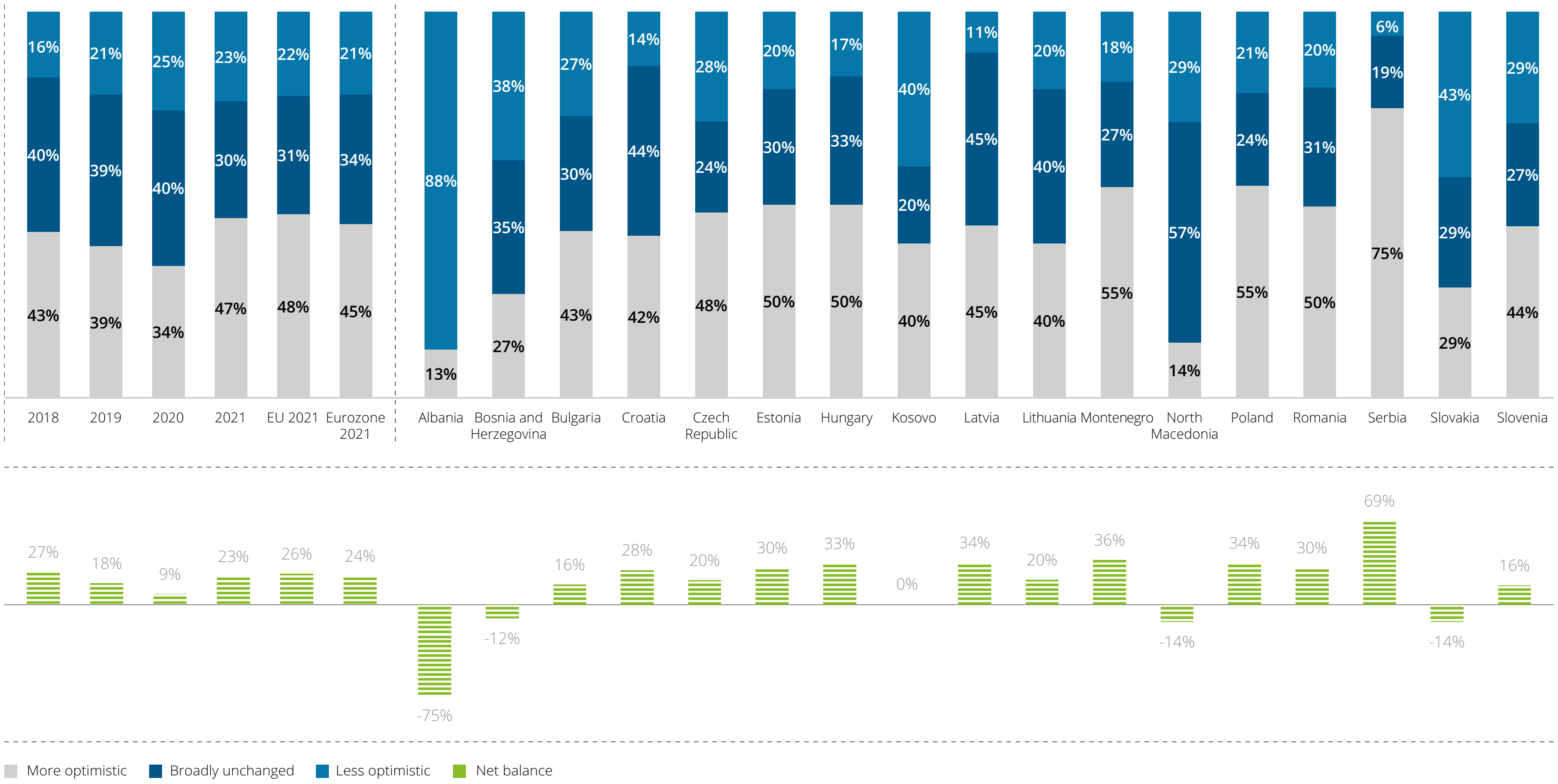
Financial prospects look positive for 2021

When we compare CFOs' perspectives of their companies' financial prospects with their attitudes from six months ago (three months for Poland), it is clear that CFOs are more optimistic than they were last year. We asked CFOs about their sentiments in November and December 2020 (in September in Poland). For 2021, almost half of CFOs are optimistic (47%) while only 23% express pessimism regarding financial prospects. When looking at the net balance of answers, we observed a 14pp growth, from 9% to 23%.

This upwards trend is also evident when we look at EU countries and the Eurozone. In 2019, 38% of CFOs in the Eurozone told us they were optimistic regarding financial prospects for their companies. In 2020, this optimism fell to 28%, and then bounced back to 45% in 2021. There is a similar pattern of optimism among EU countries: in 2019, 35% were optimistic; in 2020, 33% and in 2021 this jumped up to 48%.

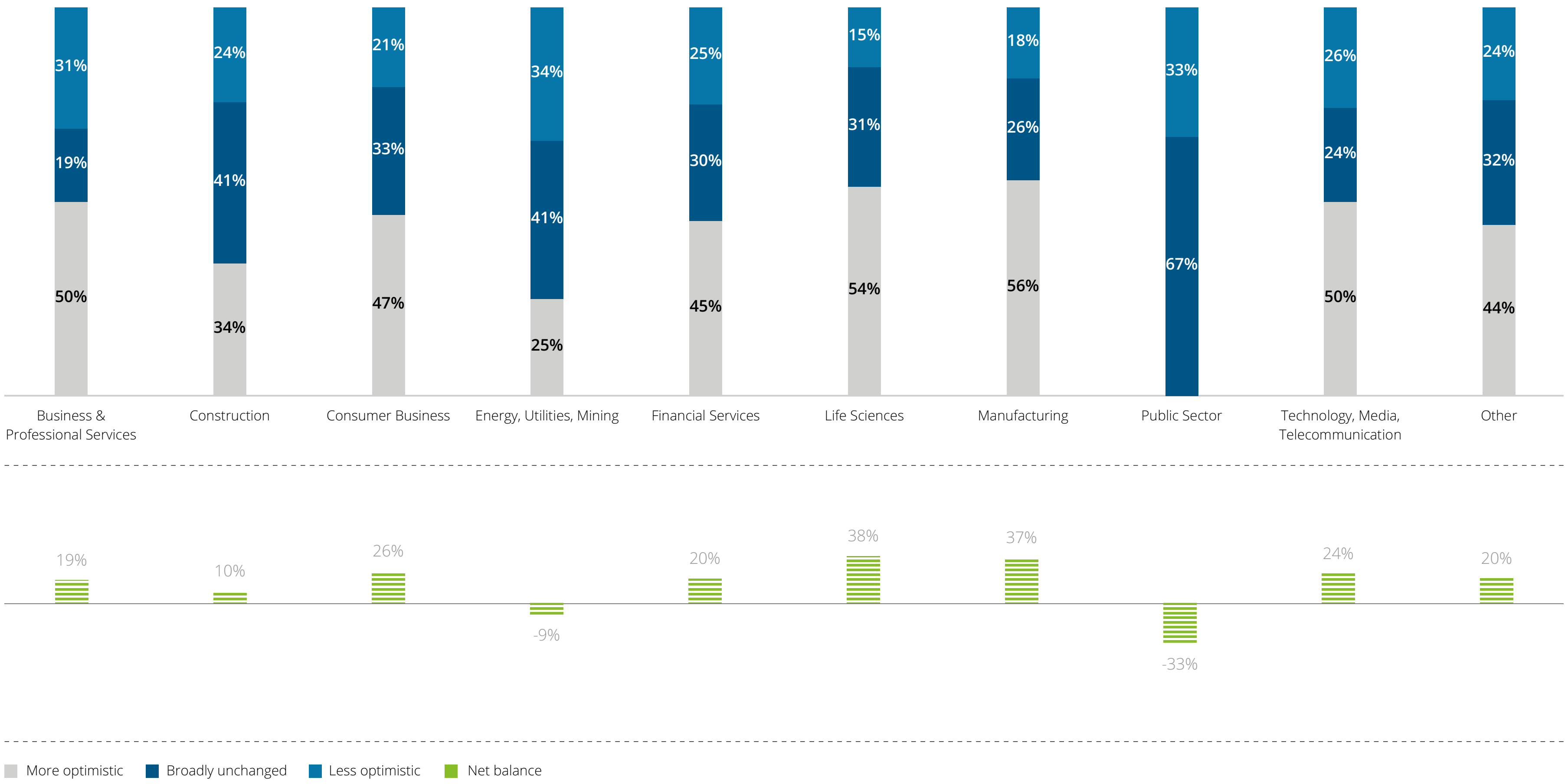
There are considerable differences between countries, however, in a majority of countries surveyed – 13 out of 17 – no more than 40% of CFOs express optimism around financial prospects in 2021. 75% of CFOs in Serbia, 55% in Poland, Montenegro and 50% in Estonia, Hungary and Romania expect financial prospects to get better for their companies. This optimism, however, is only shared by 13% of CFOs in Albania and 14% in North Macedonia.

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



CFOs from the Manufacturing and Life Sciences have the highest percentage of positive expectations for financial prospects in 2021, with respectively 56% and 54% feeling more optimistic than six months prior. The same opinion is shared by half of CFOs representing Business & Professional Services and Technology, Media, Telecommunication. The most negative expectations are among CFOs from Energy, Utilities, Mining industry, Public Sector and Business & Professional Services, where one in three of CFOs expect the financial prospects for their companies are less optimistic. CFOs from the Life Sciences and Manufacturing sectors recorded the biggest increase in optimism (up from a net balance of 0% in 2020 to 38% in 2021 in Life Sciences and from -15% in 2020 to 37% in 2021 in Manufacturing). Apart from those in the Construction and Energy, Utilities, Mining industries and the Public sectors, CFOs' expectations for their financial prospects in 2021 were more optimistic than in 2020.

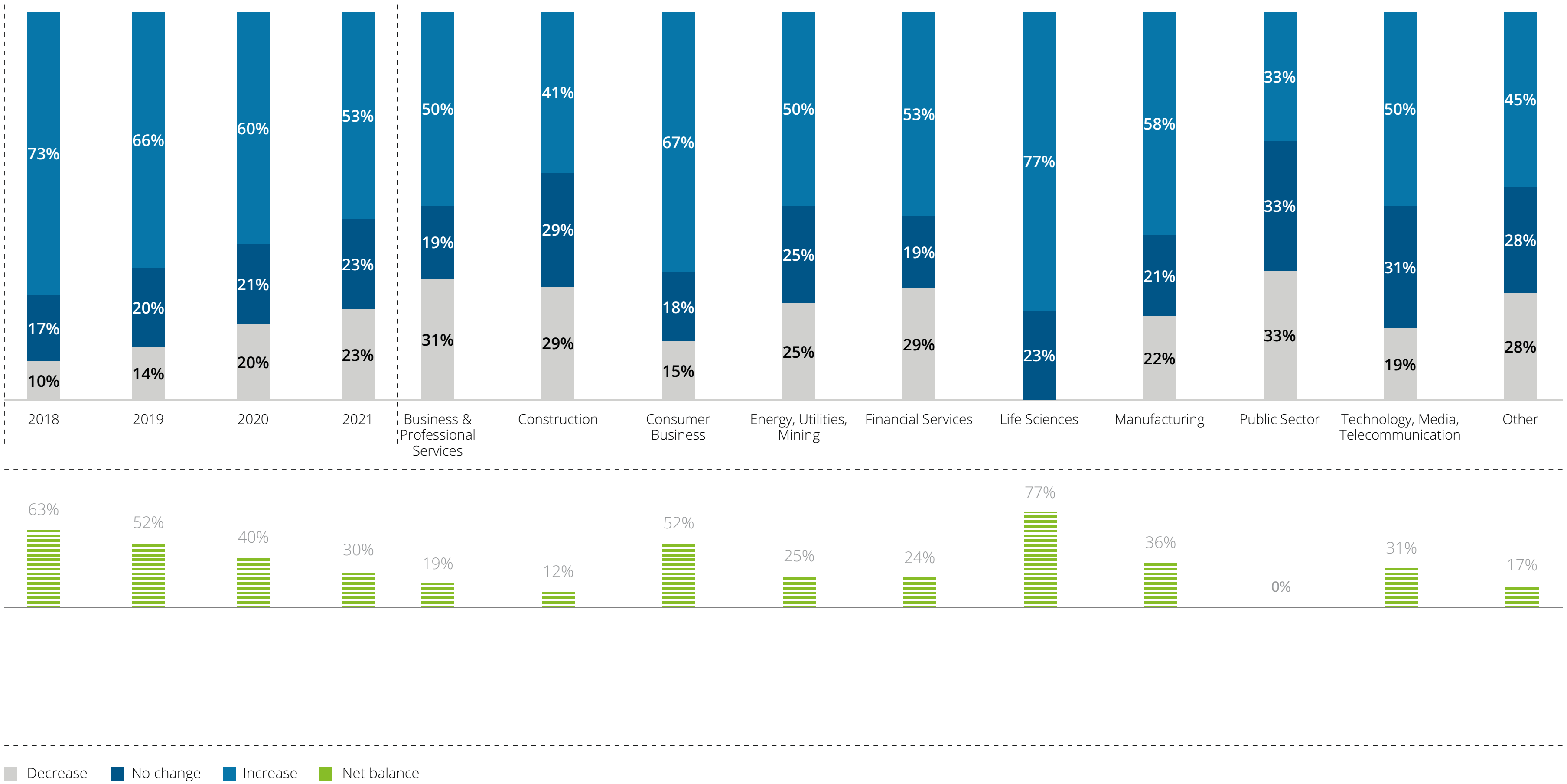
Compared with six months ago, how do you feel about the financial prospects for your company?



Expected revenues will continue to trend downward

The proportion of CFOs anticipating revenues to increase in 2021 (53%) was 7pp lower than in 2020. There is also a downwards trend in most of the industries we surveyed (except for Life Sciences and Manufacturing) with the Technology, Media, Telecommunication sector experiencing the biggest fall in net balance (from 69% in 2020 to 31% in 2021). CFOs from the Consumer Business and Life Sciences sectors are the most optimistic, with 67% and 77% respectively expecting their revenues to increase.

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



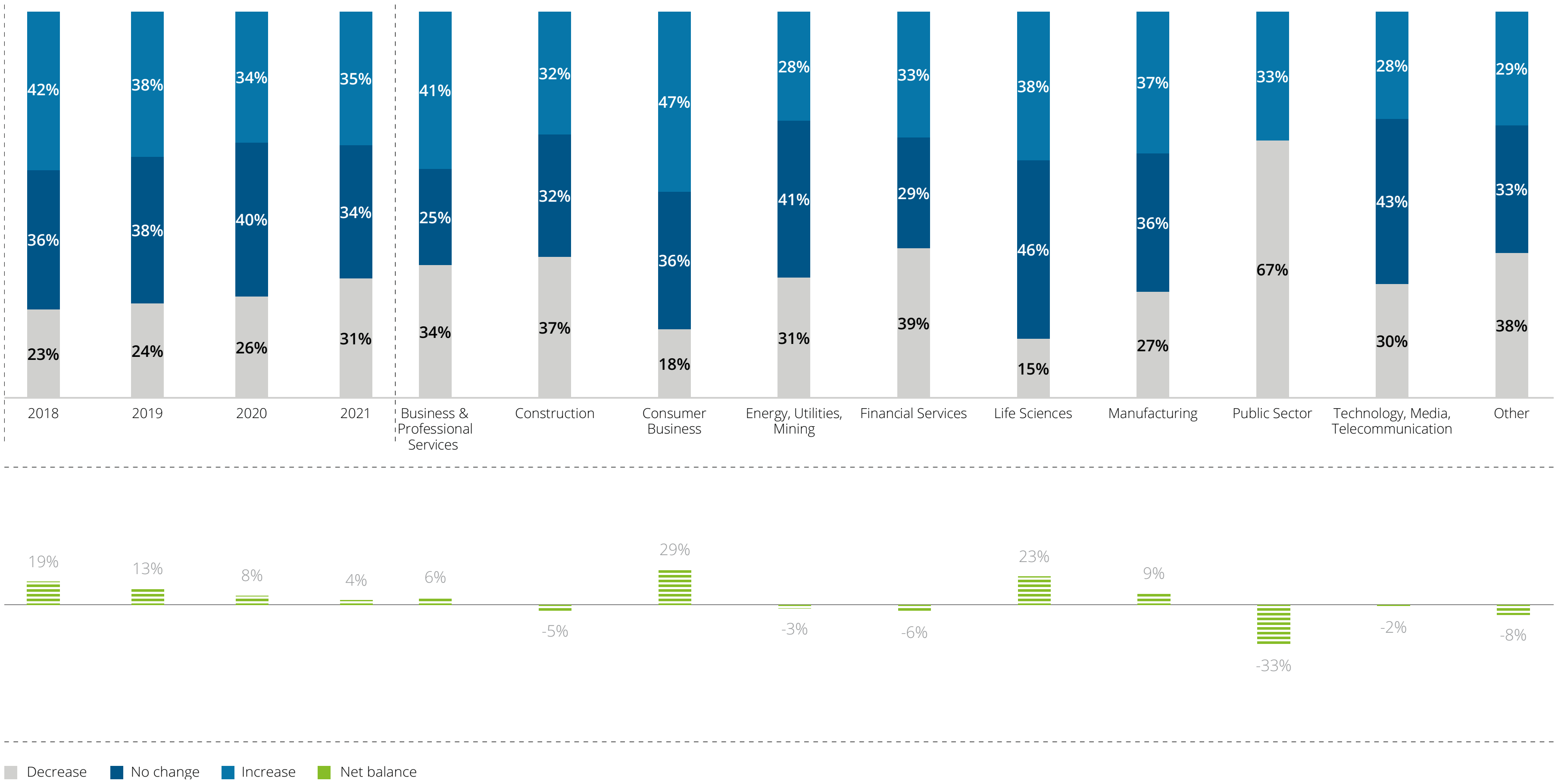
Expected operating margins remain mixed across CE

There is an even division between predictions for operating margins that businesses will achieve over the next 12 months. 35% of CFOs expect operating margins to increase, almost the same proportion predict it will stay at the same level and 31% anticipate it will decrease. Optimistic expectations remain at a similar level to 2019 where 38% of CFOs expected it would increase. In 2020, we saw this dip slightly to 35% of CFOs expressing optimism where it has stayed at 35% in 2021.

Pessimistic attitudes dominate views regarding how operating margins will change in 2021. The Financial Services and Construction sectors (in addition to the Public Sector) are the least optimistic, with net balances ranging from -6% to -5%. Four sectors with positive net balance indexes that show a more optimistic perspective are: Business & Professional Services (6%), Consumer Business (29%), Life Sciences (23%) and Manufacturing (9%).

The biggest falls in net balance over the last year were experienced by the Technology, Media, Telecommunication sector (-70pp). Construction (-44pp) and Energy, Utilities, Mining sectors (-46pp) have also been on a downward trajectory since last year.

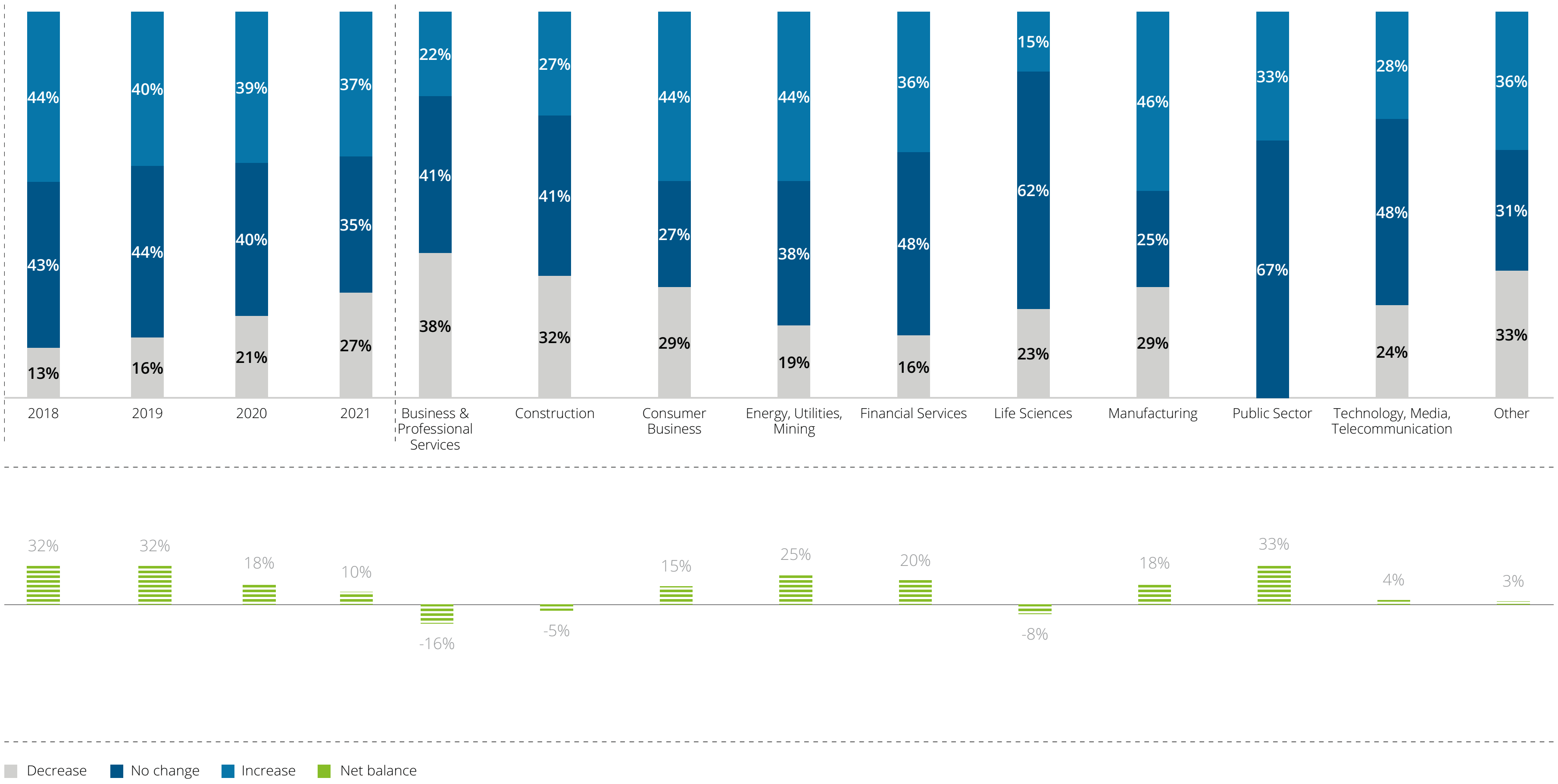
In your view, how are operating margins for your company likely to change over the next 12 months?



Little change for CAPEX outlook

The percentage of CFOs expecting their companies to increase their capital spending in 2020 has only slightly changed since last year (37% in 2021 and 39% in 2020). It is almost the same as the proportion of respondents who expect no change in CAPEX (35%). The share of negative views, however, grew from 21% in 2020 to 27% in 2021. CFOs from the Manufacturing industry (with 46% expecting CAPEX to increase), the Consumer Business and Energy, Utilities, Mining (44% expect a rise) hold the most optimistic attitudes. Last year those from the Manufacturing industry were the most negative, with 40% expecting a fall in their companies' CAPEX during 2020. This year Business & Professional Services and Life Sciences CFOs share the most negative views. Manufacturing CFOs delivered the biggest increase in net balance (+26pp), while other industries all recorded a negative net balance.

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

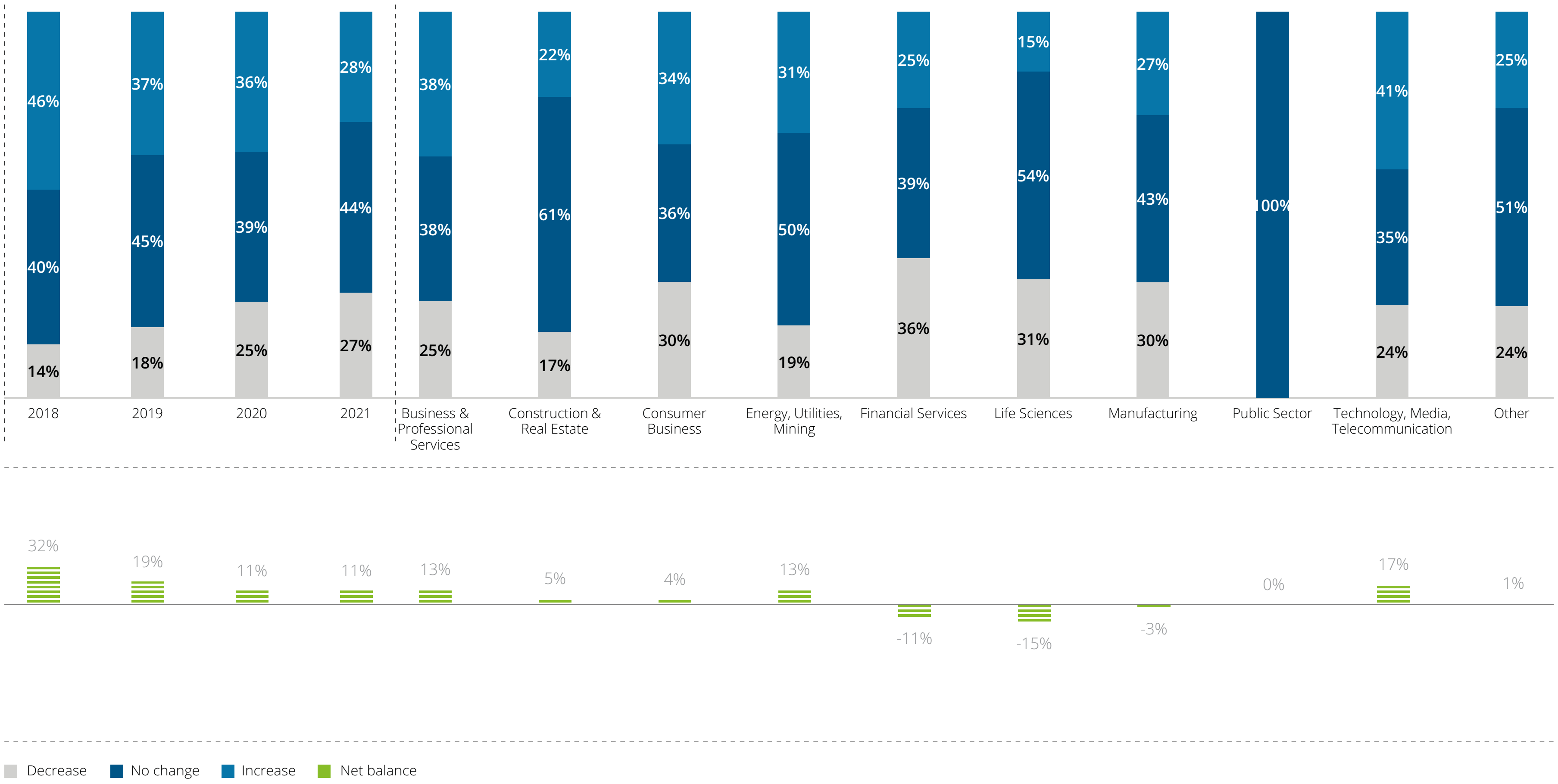


Views on employment lean toward the positive

Most CFOs expect the number of employees in their companies to remain unchanged (44%) or to increase (28%) during 2021. Together with the CFOs from the Public Sector, those from the Technology, Media, Telecommunication industry (41%) and the Business & Professional Services (38%) are the most optimistic about hiring new people in 2021.

CFOs from the Financial Services sector are the most pessimistic, with 36% expecting their organisations to reduce employee numbers over the next year.

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

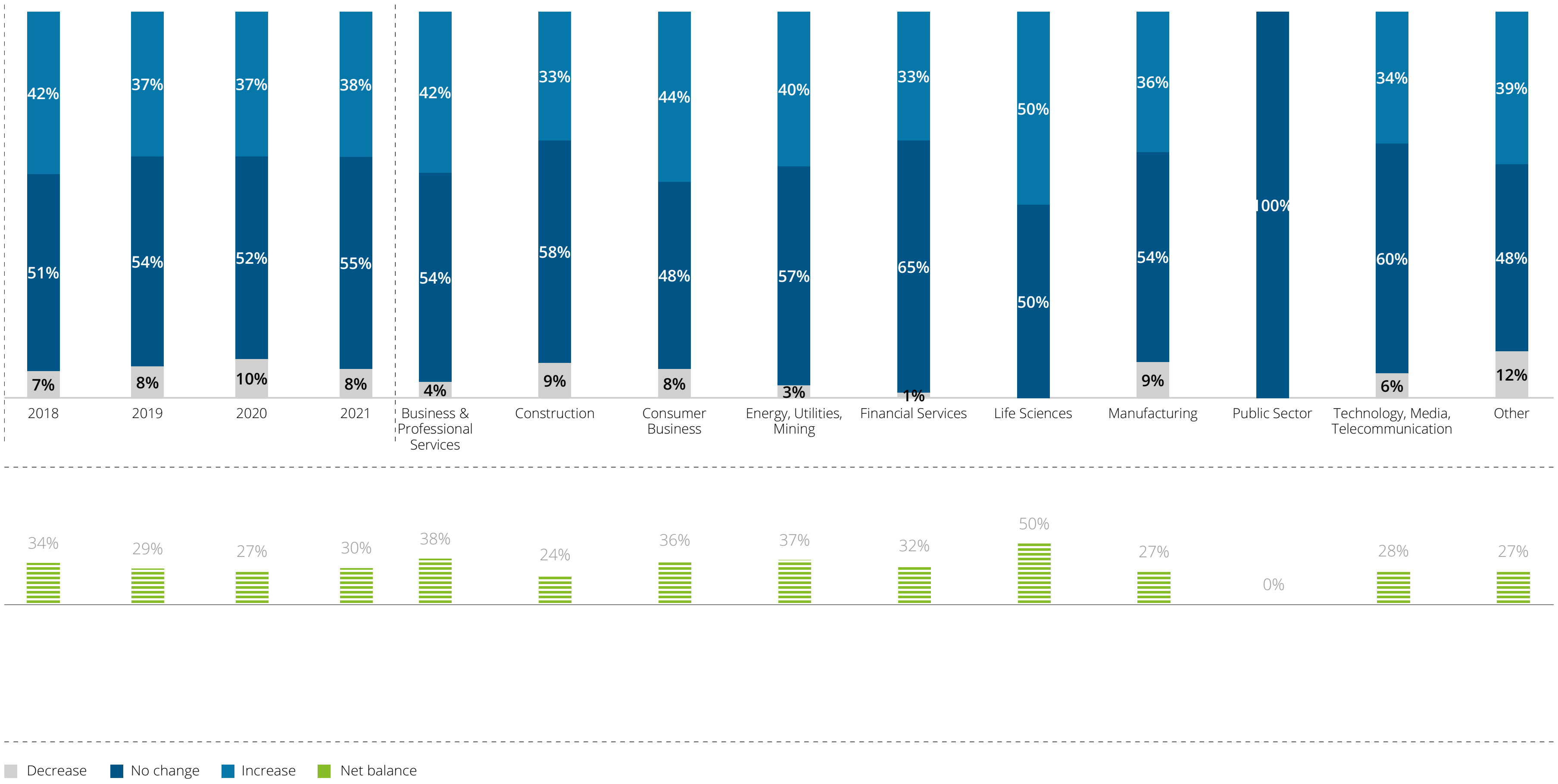


Debt servicing looks stable in 2021

CFOs' views on their companies' ability to service debt over the next three years remains largely unchanged, with 93% expecting it either to increase or remain the same.

CFOs from the Life Sciences and Consumer Business sectors are the most optimistic, with 50% and 44% respectively expecting their organisations to improve their debt servicing abilities.

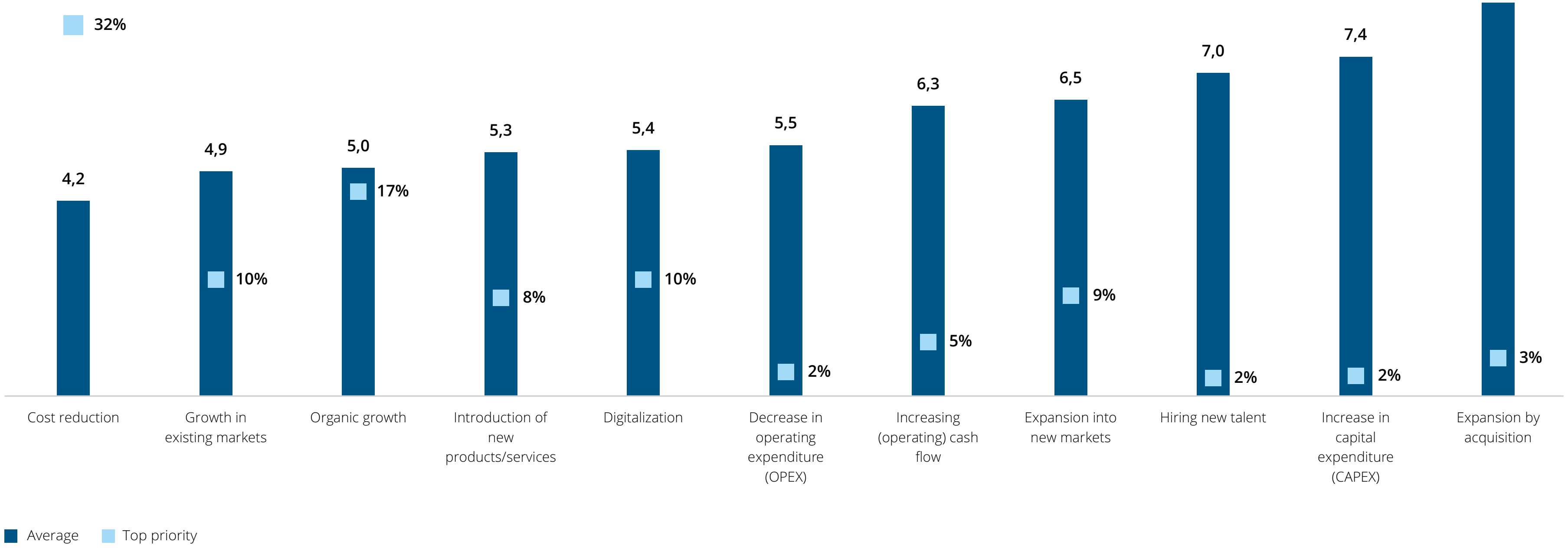
Over the next three years, you expect your ability to service your debt to:



Strategic priorities for CFOs

There are significant variations in the levels of importance that CFOs attribute to different strategies, ranging (on a 1-10 scale) from 4.2 for cost reduction to 8.6 for expansion through acquisition. Cost reduction is set to be a priority for businesses in 2021, with 32% of CFOs putting it at the top of their agendas. Organic growth is the second important consideration for our respondents in 2021.

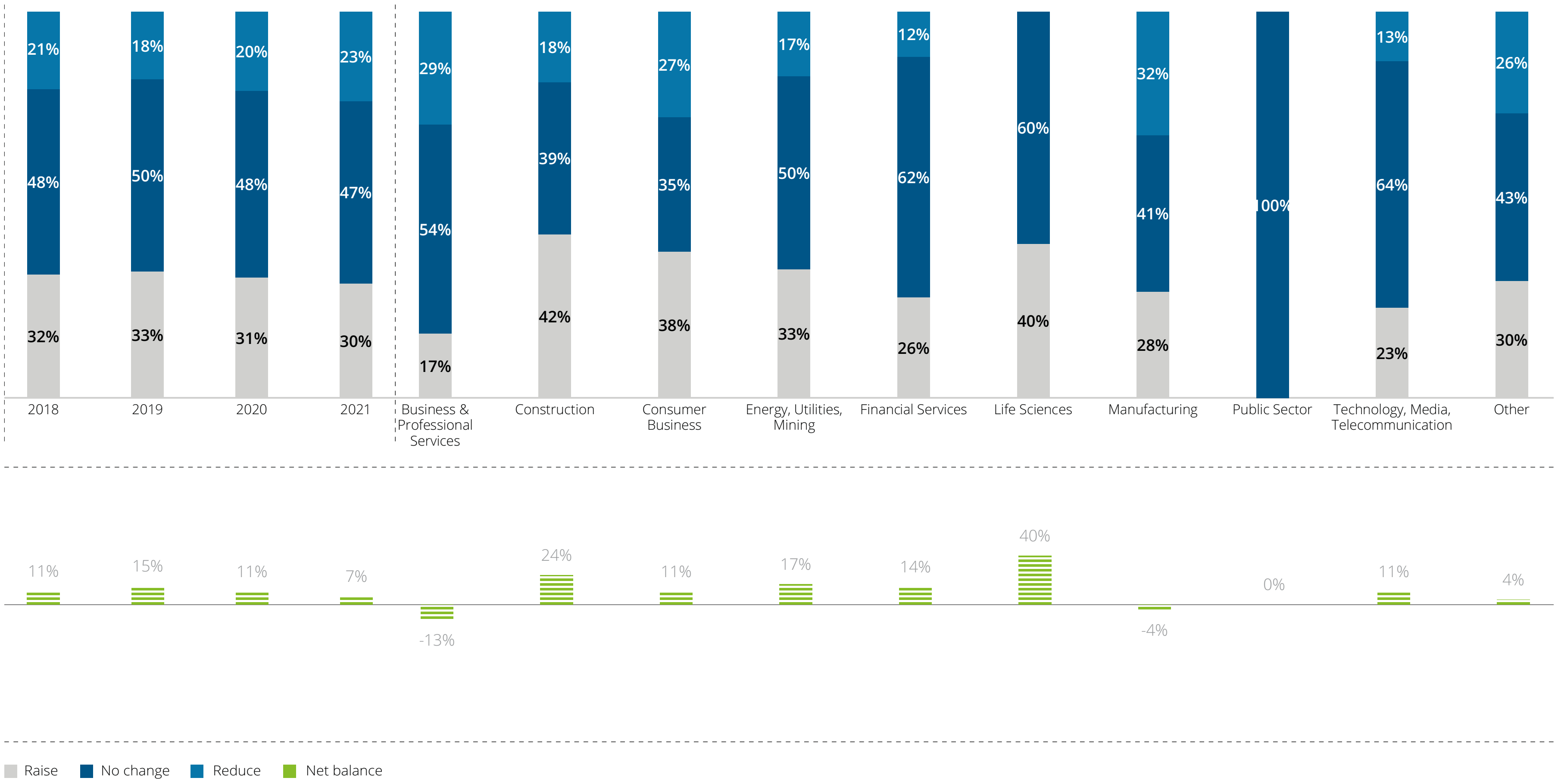
Please state to what degree the following strategies are likely to be a priority for your business over the next 12 months?
Scale 1-10, where 1=least important, 10=most important.



Gearing levels steady in 2021

The next 12 months are unlikely to bring significant changes to companies' gearing levels: 47% of CFOs expect no change in this area. This attitude is most widespread among Technology, Media, Telecommunication CFOs, 64% of whom anticipate having the same gearing level in 2021.

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



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