



The road to recovery in CEE



Management survey about the impacts of the economic crisis:
Summary of results

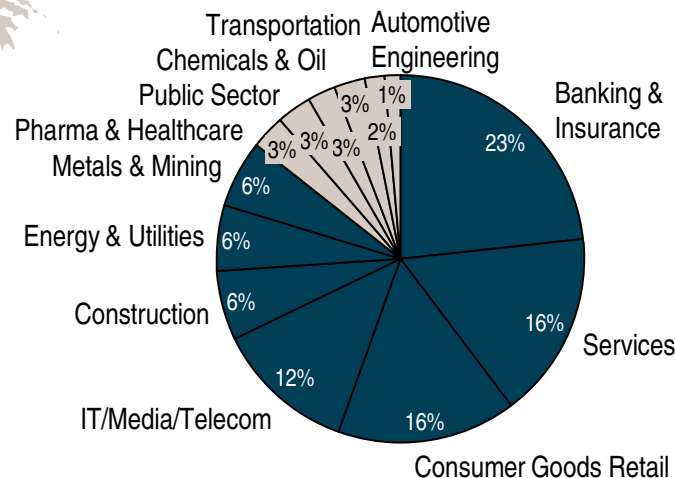
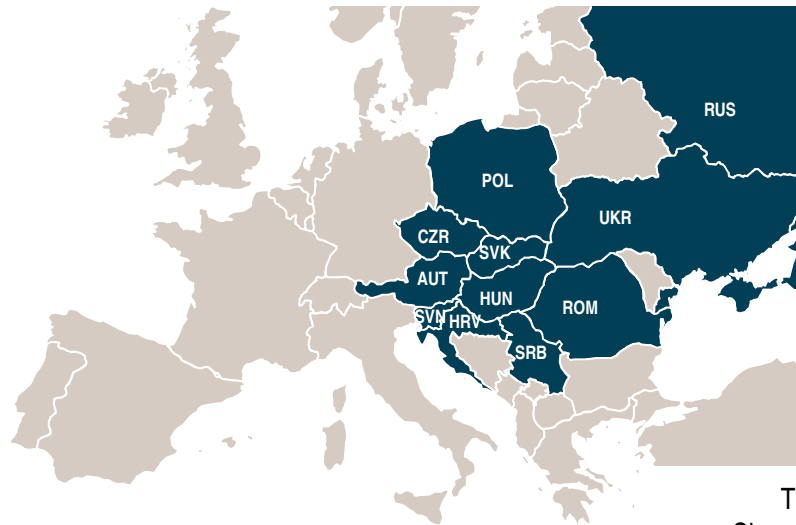
Roland Berger
Strategy Consultants

CEE, October 2009

Introductory remarks

- > In September 2009, Roland Berger Strategy Consultants conducted for the third time an online survey among 330 senior managers about the economic crisis and its consequences for Central and Eastern Europe
- > Objective of the survey was to get a snapshot of the managers' mood and to show their expectations for the business years 2009 and 2010
- > The analysis included the kind of effects companies have experienced and the kind of measures that have been taken or planned so far
- > The questionnaire also covered the importance and implementation quality of the national measures implemented to reduce the crisis effects
- > Managers were also asked about the expected recovery time of their industry and their own company
- > Results of this survey were compared with the outcome of the last study in March 2009

Eleven countries in CEE were surveyed, covering 13 industries – Significant number of responses achieved in seven sectors



COMMENTS

- > The study was conducted in eleven countries
- > Austria acts as an example for a Western European economy
- > CEE was represented by Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia
- > CIS was represented by Russia and Ukraine
- > Overall, managers from thirteen different industries participated

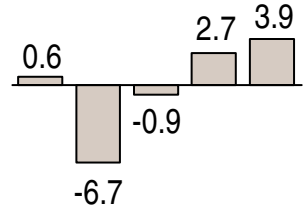
Since the last study in March 2009, macroeconomic data and forecasts for the CEE region have significantly improved

- > Until 2007, **CEE** countries enjoyed remarkable GDP growth rates and **have been the main growth region** of Europe. They were the catalyzer for the economic upturn in Western Europe as well
- > However, the region was **not immune to the crisis**. Until our last survey in **March 2009**, the **stock market** indices **declined by** up to 70%, **national currencies lost their value** vs. EUR up to 30%. Also **GDP** growth forecasts turned **negative**
- > However, in **September 2009**, the **indices** were already **in upswing**, although still not reaching their former level. Also all **national currencies** – with the exception of the Ukrainian Hryvnia – have significantly **increased their value**
- > As for **GDP** growth, 2009 was a tough year for all countries. The situation worldwide was so turbulent, that **forecasts** have been **revised** several times. Nevertheless, despite the first slightly positive figures for 2010, a real **recovery** is projected only **from 2011** in CEE

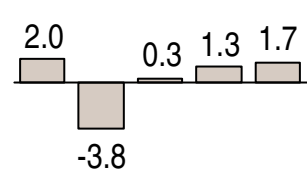
Negative GDP expectations for all CEE countries in 2009 – Rebound to previous growth levels will take several years

Real GDP forecast [% real change p.a.]

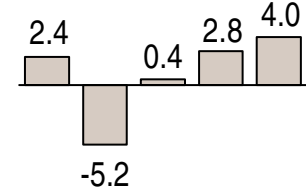
Hungary 



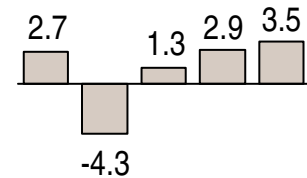
Austria 



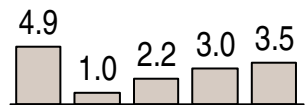
Croatia 



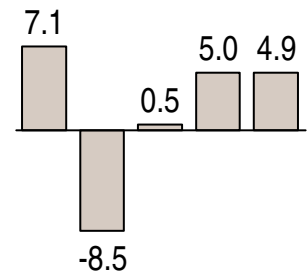
Czech Rep. 



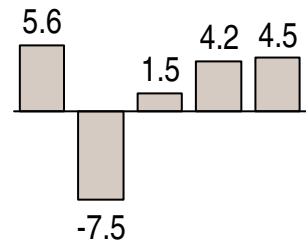
Poland 



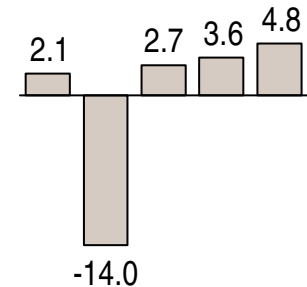
Romania 



Russia 



Ukraine 



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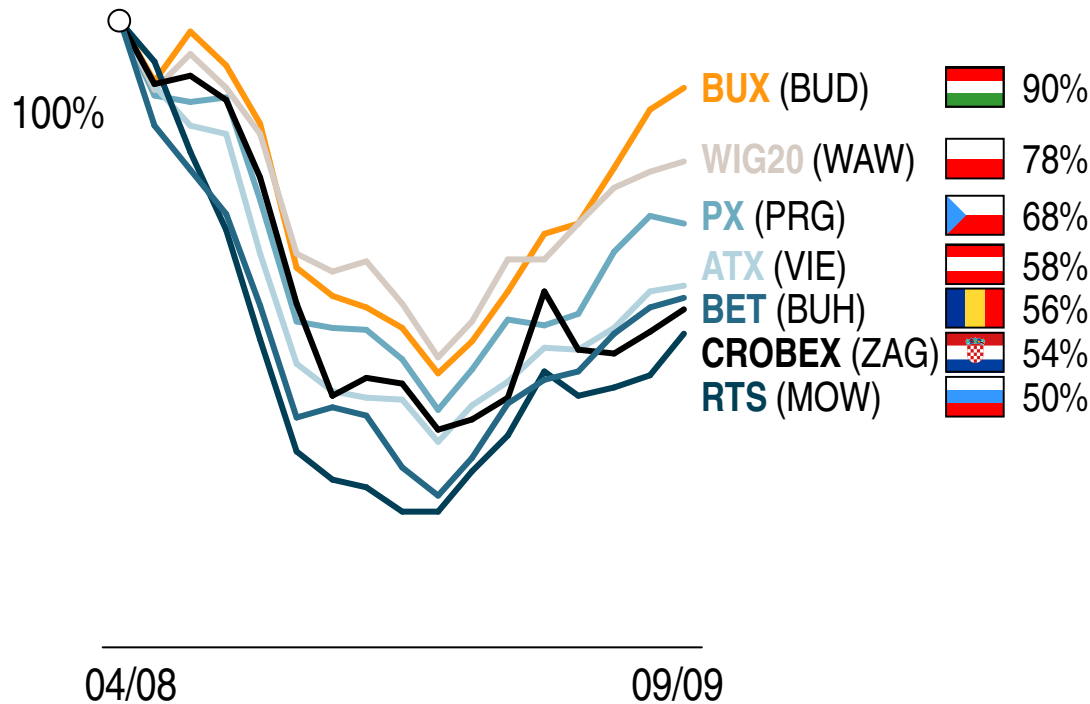
COMMENTS

- > For 2009, GDP growth is almost negligible, or even negative
- > Recovery is expected in most countries only in 2011

Most CEE stock markets have bounced back since Q1 2009 – but remain significantly lower than before the crisis

Impacts of the crisis on CEE

Development of stock exchanges last 12 months

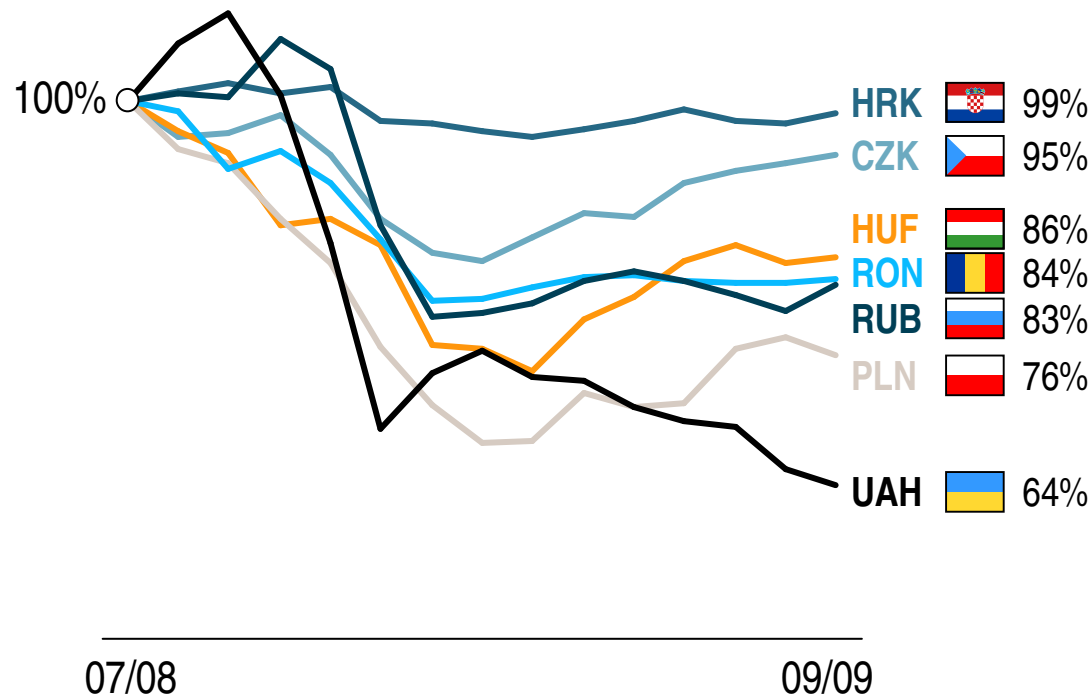


COMMENTS

- > Similar stock market development for the whole CEE/CIS region with a decline of 50% to 70% until February 2009
- > Meanwhile the indices are in upswing mood, but their recovery quality is quite different. E.g. the Russian index has only 50% of its former value, while the Hungarian BUX is soaring

Also currency devaluation as slowed, but most currencies remain under pressure

Exchange rate development vs. EUR [%]

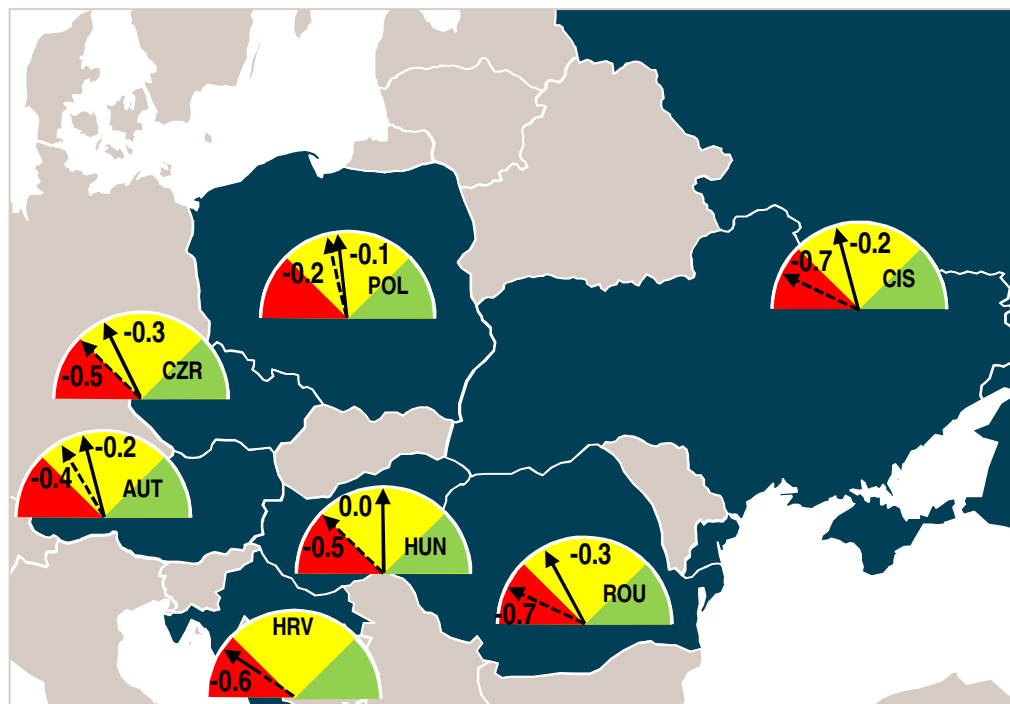


COMMENTS

- > Since summer 2008, the Croatian Kuna and the Czech crown are the only regional currencies that kept or regained their value. In the other countries, the national currencies have since not reached their former value
- > Significant risks expected esp. by retail banks (eg through FX lending)

An improving attitude shows on the country level – Only Croatian managers remain pessimistic

Mood barometer by country [average value]



1 ... We have reached the bottom, it will get better ---> March 2009 -> Sept 2009
 0 ... Situation is unclear
 -1 ... Situation will still get worse

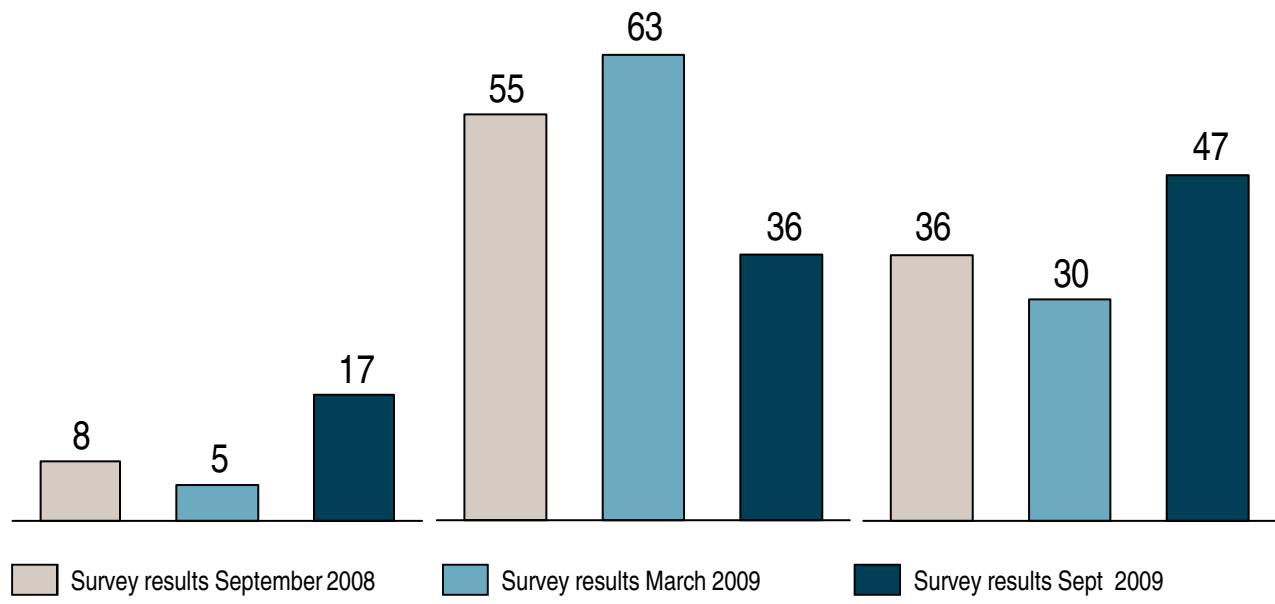
COMMENTS

- > With the exception of Croatia, the mood barometer developed positively in all analyzed countries
- > In Poland, the optimistic attitude of March was confirmed also in September
- > The positive attitude of Hungary is more likely wishful thinking, which is less reflected in macroeconomic results

Two main developments since March: Slight increase in optimists, but significantly more uncertainty

What is your general assessment of the current economic situation in Europe? [in % of answer frequency¹⁾]

We have reached the bottom/it will get better **Situation will still get worse** **Situation is still unclear**



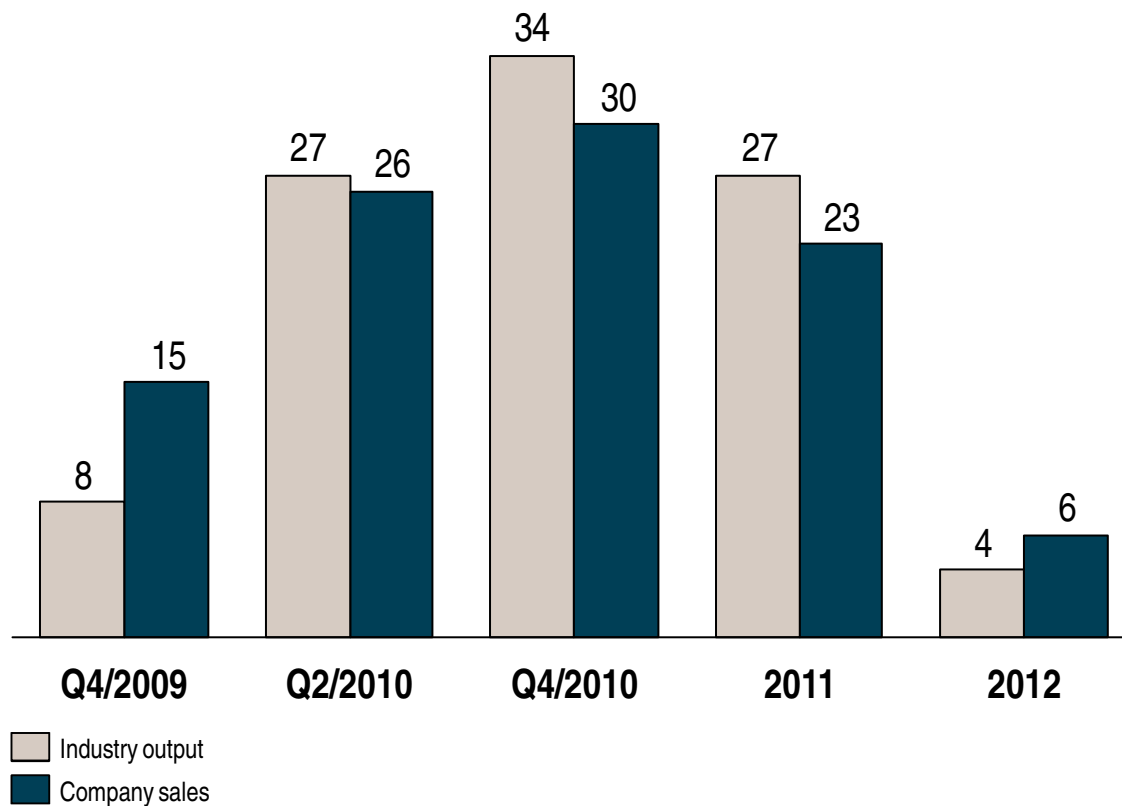
1) "No answers" not included

COMMENTS

- > Optimistic expectations tripled (17%) in comparison with the survey results in March 2009
- > Around 50% of the managers are neutral according to the motto "wait and see"

Most managers expect a recovery at the end of 2010 or later

Expected recovery time [in % of answer frequency]

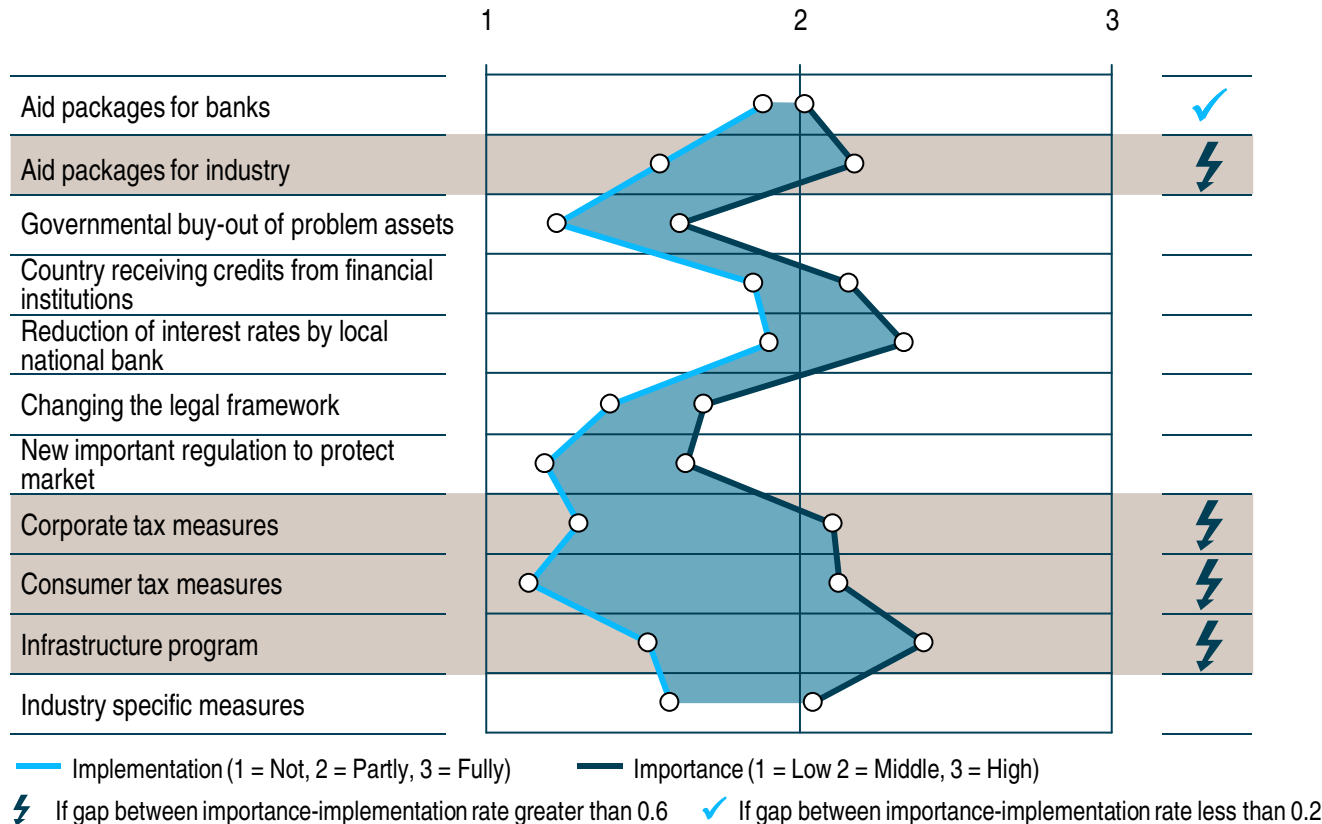


COMMENTS

- > No real difference between the growth projections regardless the level of countries, industries or companies
- > It seems to be a consensus on the timeline of the recovery with the peak at the end of 2010
- > Two thirds of managers therefore expect the crisis to last for another 12 months or longer

Still poor implementation of governmental actions: tax measures, infrastructure, industry programs are often criticized

What kind of measures have been implemented in your country to fight the crisis? How important are they? [Average value]











COMMENTS

- > Implementation rate is still behind the suggested importance by the CEE-managers. Exception are aid packages for banks, where no further action is needed
- > The greatest dissatisfaction is again because of the discrepancy of importance and implementation of corporate and consumer tax measures as well as industry aids and infrastructure programs

Managers especially in Croatia and Ukraine remain unsatisfied with the measures taken by the government

What kind of measures have been implemented by the government to fight the crisis? How important are they?

							CIS		
Aid packages for banks	✓	✓		✓	✓		⚡	✓	⚡
Aid packages for industry	⚡		⚡	✓	✓	⚡	⚡		⚡
Governmental buy-out of problem assets				✓	✓			⚡	⚡
Country receiving credits from financial institutions		✓			✓			✓	
Reduction of interest rates by local national bank			⚡	✓	✓				⚡
Changing the legal framework			✓		✓				
New important regulation to protect market		✓	⚡						⚡
Corporate tax measures	⚡	⚡	⚡		⚡	⚡	⚡	⚡	⚡
Consumer tax measures	⚡	⚡	⚡	⚡	⚡	⚡	⚡	⚡	⚡
Infrastructure program			⚡	⚡	⚡	⚡	⚡	⚡	
Industry specific measures			⚡				⚡		⚡

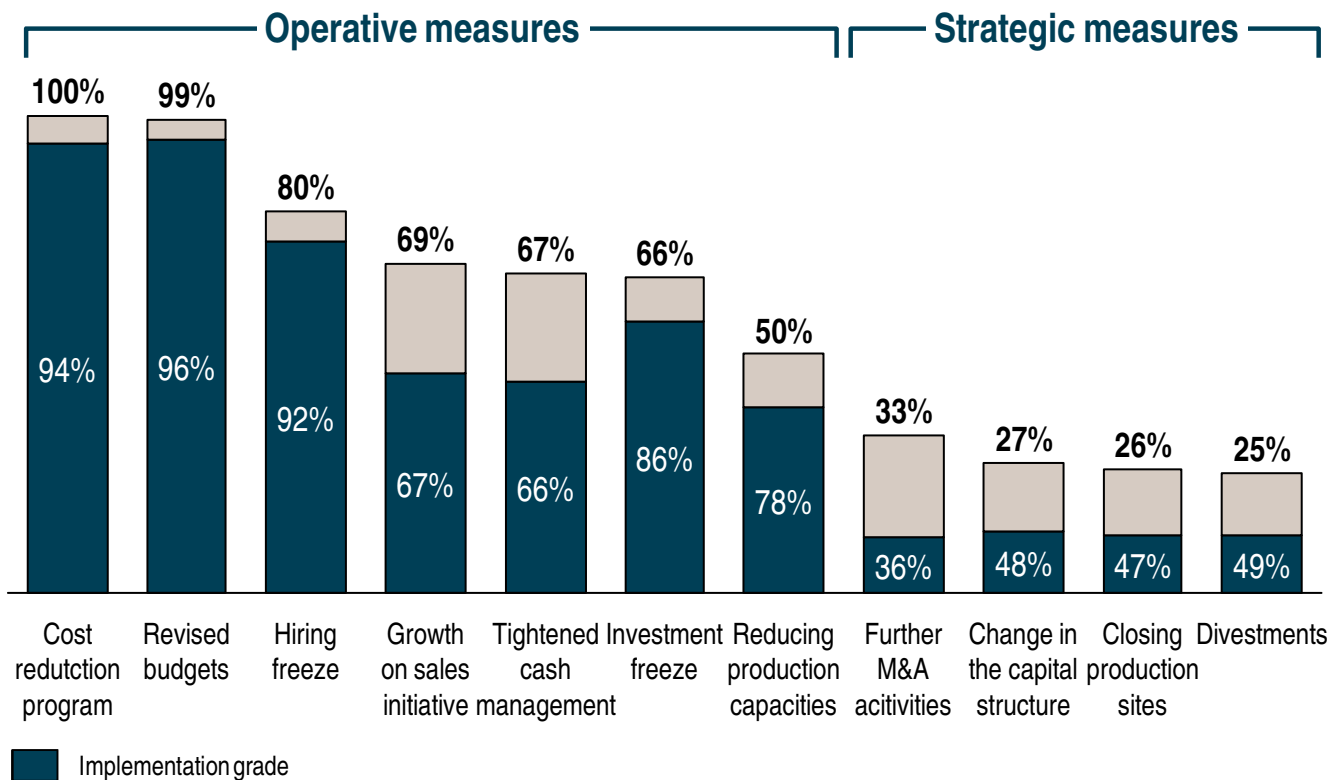
⚡ If gap between importance-implementation rate greater than 0.6 ✓ If gap between importance-implementation rate less than 0.2

COMMENTS

- > Breaking down the results to national level, some countries are even satisfied with the measures
- > Nevertheless, Croatian and CIS managers still complain on aid packages for industry, high interest rates and industry specific measures

Main focus on operative measures, implementation of strategic measures remains low

Popularity of actions to react to the crisis
[multiple answers possible, in% of answer frequency]











COMMENTS

- > Popularity of Growth and sales initiatives increased by 10%-points, but other measures have almost identical popularity than in March
- > Quick hits are mostly done, but strategic measures are still neglected
- > Overall, the implementation rate has developed positively

Companies in all countries are making progress on operative measures – But strategic actions remain weak across the region

Popularity of measures by country (multiple answer possible)
[in % of answer frequency]

							CIS	
	Hungary	Austria	Croatia	Czech Rep.	Poland	Romania	CIS	
Operative measures	Cost reduction program	100%	100%	94%	93%	100%	100%	
	Revised budgets	95%	81%	100%	100%	100%	100%	
	Hiring freeze	73%	73%	88%	75%	91%	80%	
	Growth or sales initiative	64%	70%	72%	64%	61%	69%	65%
	Tightened cash management	55%	76%	75%	54%	65%	60%	75%
	Investment freeze	64%	62%	88%	71%	61%	51%	60%
	Reducing production capacities	41%	59%	44%	50%	43%	49%	50%
Strategic measures	Further M&A activities	23%	38%	38%	43%	22%	29%	35%
	Changes in the capital structure	14%	24%	28%	25%	30%	20%	45%
	Closing production sites	27%	19%	38%	36%	17%	24%	20%
	Divestments	23%	22%	31%	39%	26%	18%	10%

 Top three most used measure  Three least used measure

COMMENTS

- > Cost reduction program, revised budgets and hiring freeze are the top three most used measure in the countries analyzed
- > Strategic measures are avoided in all analyzed country regardless the nationality

Key findings of the study by industry

- > Increased customer bankruptcies are still one of the major sector specific problems in the **Banking & Insurance** industry. Interestingly, price pressure is experienced again as less important
- > The **Construction** sector is careful, but more optimistic than six months ago. Accordingly, 50% of the companies expect a recovery already in June next year. Financing difficulties remain, however
- > Declining sales is doubtless the most important issue on the management agenda in the **Retail** sector. However, 70% of the companies hope now already on some growth. The companies reacted to the crises with operative measures so far, but strategic issues have not yet been raised
- > The mood in the **Energy & Utilities** industry is now neutral: "let's wait and see". Even hiring was stopped only at 50% of the companies
- > The **IT/Media/Telecom** industry belongs to the most pessimistic sectors. Accordingly, a real recovery from the crisis is expected later than in other industries. Over 50% of the companies continue their investments
- > Due to increasing demand and better prices for commodities there is more optimism in the **Metals & Mining** sector now. High share of lower sourcing costs seems to be a sector specific effect of the crisis
- > At spring, the **Service sector** was the only industry with some hope. This positive attitude was strengthened until September even further

In CEE, real estate and automotive industries are the most commonly affected sectors by the crisis

Top three crisis affected sectors by country



 HUN	<p>Electronics: Plant closure and layoffs of 11,000 employees so far because of industrial downturn intensified by the crisis</p> <p>Automotive: 9,000 people lost their jobs already in the industry due to less demand for cars or bankruptcy of parent companies</p> <p>Construction: Postponed projects, bankruptcies cause crisis</p>
 RUS	<p>Retail: 17% of GDP, slowing growth rates, shift down to the middle class and discount segment, lack of cash and credit crunch</p> <p>Mining: 9% of GDP, reducing of the energy (especially petroleum) production due to the price default</p> <p>Metallurgy: Falling demand in the major consuming industries: automotive, machinery etc.</p>
 POL	<p>Automotive: Temporary stops in production plants, new car sales plummeting, first bankruptcies</p> <p>Construction: Total collapse of the construction market; developers are going bust</p> <p>Consumer electronics: Significant drops in sales, limitations to micro-consumer-loans</p>
 UKR	<p>Steel: Main industry of the economy (40% of export), layoff of 30% of employees announced</p> <p>Construction: 70-80% of projects currently frozen due to financing problems</p> <p>Automotive: Ukrainian producers cut production by 40-60%, price of imported cars doubled due to currency devaluation</p>
 CZR	<p>Automotive: Temporary closing of production sites for most OEM and many suppliers</p> <p>Food processing/retail: Financial results sinking, banks downgrading rating of key operators, credit crunch intensifying at a time when the equity base of these companies is low</p> <p>Real estate: Development funds distressed or close to bankruptcy, large portfolio acquisitions by the more solid players</p>
 AUT	<p>Automotive: Sector makes 5% of the GDP, significant fall in demand</p> <p>Banking: Losses of subsidiaries in CEE, liquidity problems</p> <p>Engineering: Significant fall in demand</p>
 ROM	<p>Real estate: Transactions have dropped by 50%, cease of investment plans</p> <p>Automotive: Decreasing incoming orders, production halted, renewal of contracts cancelled</p> <p>Metallurgy: Reduced production or plan to close down resulting in 3,000 layoffs</p>
 HRV	<p>Tourism: Main sector in Croatia with approx. 20 % of GDP</p> <p>Wood processing: Traditional sector with low value added</p> <p>Food processing: Strong sector with internationalization potential</p>

The positive attitude in Hungary is more likely wishful thinking and is less reflected in macroeconomic forecasts

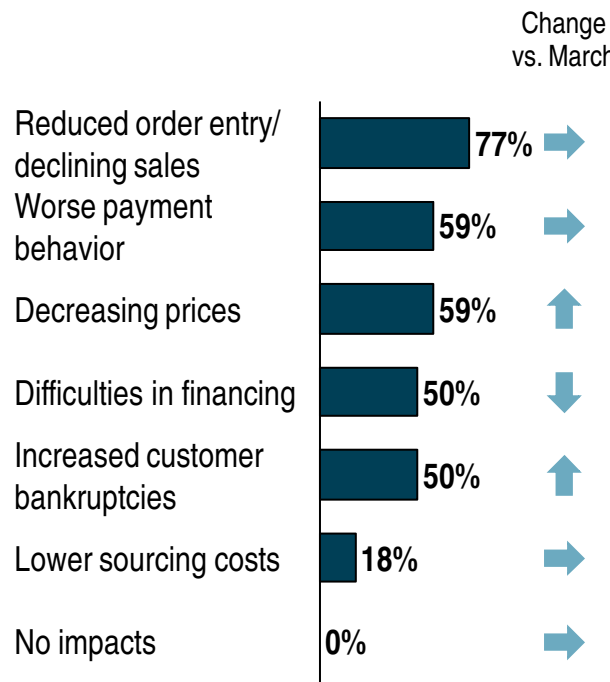


Hungary

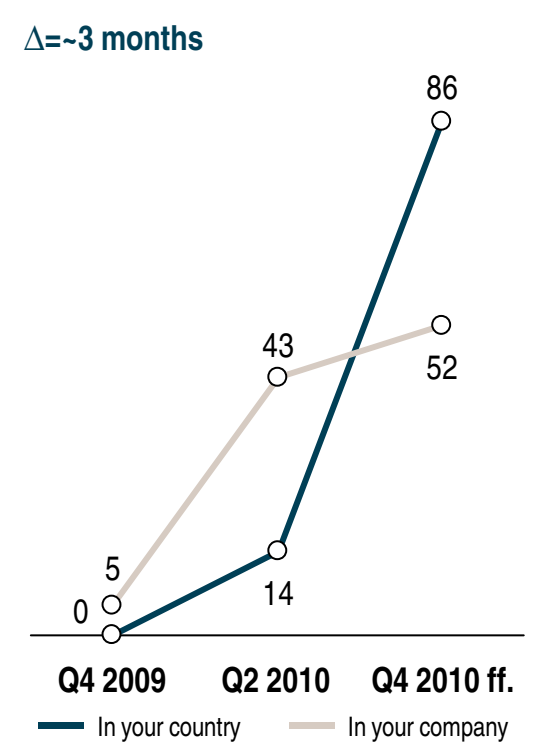
KEY FINDINGS

- > The mood barometer showed a positive note in Hungary, which is more likely wishful thinking and less reflected in macroeconomic data and forecasts
- > 50% of the Hungarian managers expect a recovery of their own company already until June 2010, far before the recovery of the GDP
- > Financing difficulties seem to be less important than half year ago

Which are the most significant effects you have already felt in 2009?¹⁾



When do you expect a recovery from the current crisis?²⁾



1) Multiple answers possible 2) In % of answer frequency
 ↓ If change ≤ -5 → If change $-5 < x < 5$ ↑ If change ≥ 5

Our local management and consultant team are eager to hear you opinion and to share their further knowledge with you

If you...

...are interested in industry-specific results

...wish to discuss other issues related to the crisis

...want to share your opinion or comments

...contact us



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