

Donath Business & Media
Factum Invenio

CFA/OVB Forecasting Dinner Survey

Final Report
February 2012

Dear reader,

We are pleased to present to you the final report of a survey we organized on the occasion of the 10th annual Forecasting Dinner of the Czech CFA Society. The Forecasting Dinner is a prestigious event organized with substantial support from the main sponsor, OVB Allfinanz. As in previous years, we polled the opinion of key groups of respondents concerning topical issues affecting the Czech economy, and we did it again with the assistance of Donath Business & Media and Factum Invenio.

Given the widespread expectations of difficult developments in the Eurozone and of very limited domestic economic growth, we focused this time on the timely questions of appropriate corporate strategies for addressing this and the behavior of individual investors. Our respondents also commented on the possible measures on the part of the government in relation to the national budget and the competitiveness of the Czech economy.

We feel confident that the following report will serve as inspiration as you ponder the economic issues of the day.

Lukáš Brych, CFA
President
Czech CFA Society

Michal Knapp
Chairman of the Board of Directors
OVB Allfinanz, a.s.

Table of contents

About the survey	4
Key findings	5
Will the Eurozone collapse in 2012?	6
Split views on the rate of the crown to the euro	7
Minister Kalousek should raise taxes and cut spending, including social spending	8
Remedies for boosting competitiveness	10
Directions for businesses in hard times	11
How should individuals invest?	12
How much to put into each basket?	14
Do they all think the same?	15
Structure of the survey sample	17
Declaration of free distribution	18
Authors of the survey:	18
Partners of the survey	18

About the survey

The survey was conducted on the occasion of the 10th annual Forecasting Dinner 2012, which is organized regularly by the Czech CFA Society, an association of certified financial analysts. The dinner brings together renowned domestic and foreign economists and focuses its discussion on forecasting the economic development in the near future. This year's 10th annual Dinner is taking place again under the auspices of Miroslav Singer, Governor of the Czech National Bank.

The Czech CFA Society and its general partner, the financial consultancy firm OVB Allfinanz, commissioned the survey from Donath Business & Media, in cooperation with Factum Invenio, and it was conducted from January 20 to 31, 2011. The object of the survey was to map the opinions of economic and financial experts concerning key economic issues of the day, specifically with regard to appropriate corporate strategies in a period of reduced economic activity and with regard to investment recommendations for Czech households.

Invitations to take part in the survey were extended to

- Members of the Czech CFA Society;
- CFA Programme Candidates;
- Senior staff of OVB Allfinanz;
- Renowned figures of the Czech business and financial circles;
- Readers of the political/economic bulletin FS Final Word.

The questions related to:

- Expected developments of key parameters of the Czech economy and the Eurozone in 2012;
- Recommendations for the government in relation to the budget deficit and the competitiveness of the country.
- Corporate strategies in 2012;
- Investment recommendations for individuals;

Of the total of 7,682 invited individuals, 1,977 responded (a response rate of 26%). The opinions of the respondents concerning individual questions are described below.

Key findings

Respondents believe that the Eurozone will survive another year. About every second expert polled believes that the Eurozone will retain its existing size. However, more than one-third of respondents believe the weakest economies will leave the euro.

Respondents are split on the likely direction of the rate of Czech crown vs. the euro. Two-fifths of them foresee a stable crown rate, a quarter of them expect some strengthening, and a quarter expect some weakening of the crown. Nevertheless, nine out of ten respondents believe that the crown is likely to stay within a 10% fluctuation zone.

What kind of measures are suggested for the coming period?

To stay within the planned budget deficit over the next three years, the revenue side will need to see higher taxation of the upper-income groups, as well as a higher VAT. Respondents would reduce expenditures specifically on social benefits and pensions, though less corruption and a more efficient government administration could also generate savings.

Increases in competitiveness, the experts believe, are clearly dependent on support for small and medium-size businesses. In terms of research and education, they see support for applied research and training in engineering and the natural sciences as being the most cost-effective. Support for infrastructure development is also an important factor.

Corporate strategies for the coming period of reduced economic activity

Businesses should in general focus on measures in the area of sales (especially by looking for new markets, market segments, and product opportunities), including channels of distribution (i.e. strengthening and broadening them), and on optimization of their human-resources capabilities (through adjustment of existing job descriptions).

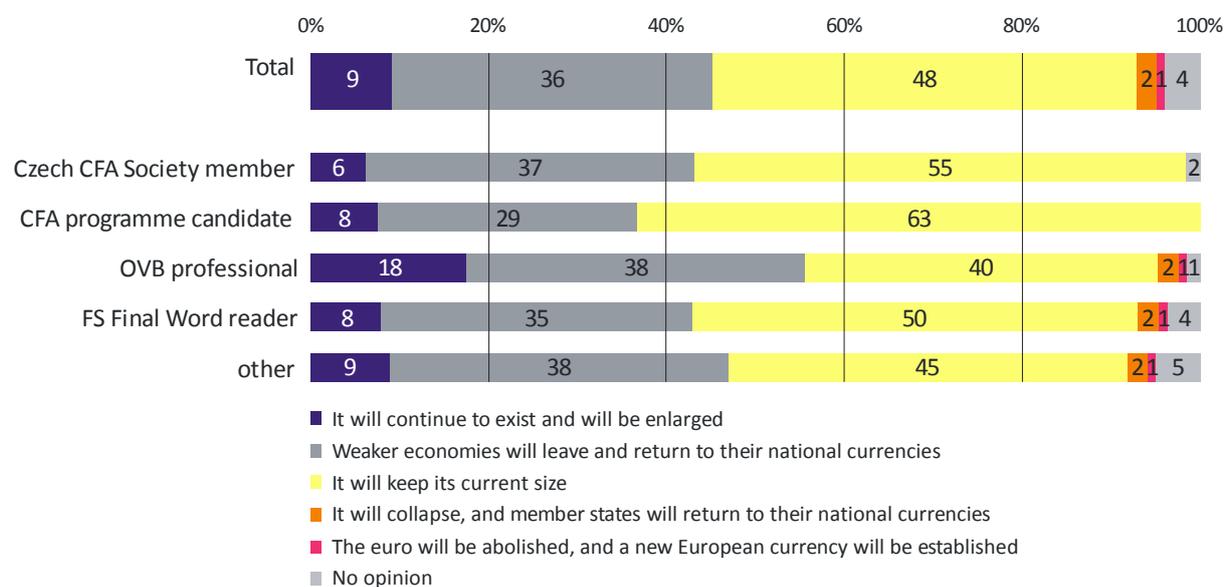
Recommendations for increasing the value of individual investments

The experts recommend **splitting a six-year investment of CZK 500,000 into three or four parts.**

A conservative investor should keep about one-fourth of the amount in a time deposit. Other important types of investment include the purchase of real estate, of bonds traded on the Czech exchange, or of units in Czech mutual funds.

An investor willing to take a degree of risk should look at stocks, preferably those with high growth potential (and zero dividend), and invest into business ventures and mutual funds in the Czech Republic.

Will the Eurozone collapse in 2012?

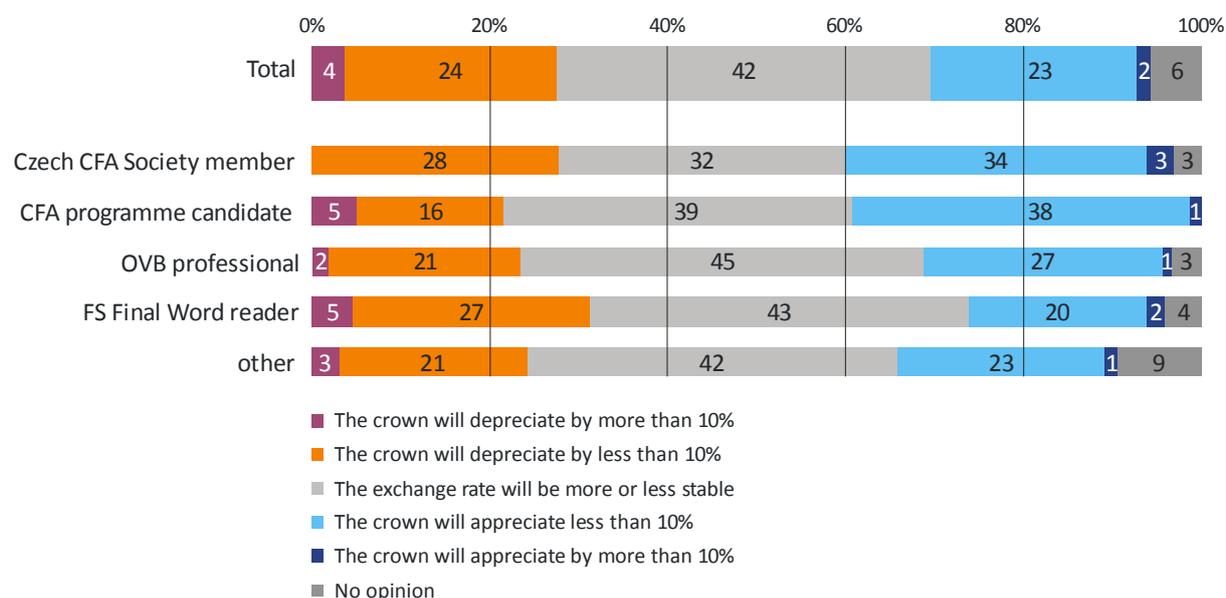


What do you think the Eurozone will look like in 2012?

Respondents believe the Eurozone will survive another year. Most of them do not expect any changes, i.e. the Eurozone will retain its existing size. About one-half of the respondents hold this view. However, more than one-third expect the departure of the weakest economies. A third, smaller group of respondents believe that the Eurozone will grow in size, and some individuals expect the Eurozone to collapse or the euro to be replaced by a new European currency.

Senior OVB staffers and respondents aged 45 and more are the most optimistic in terms of euro enlargement. CFA candidates, more than the other groups, expect the status quo to continue. Most of those holding this view are 25 to 44 years old.

Split views on the rate of the crown to the euro



What trend for the rate of the crown vs. the euro do you expect in 2012?

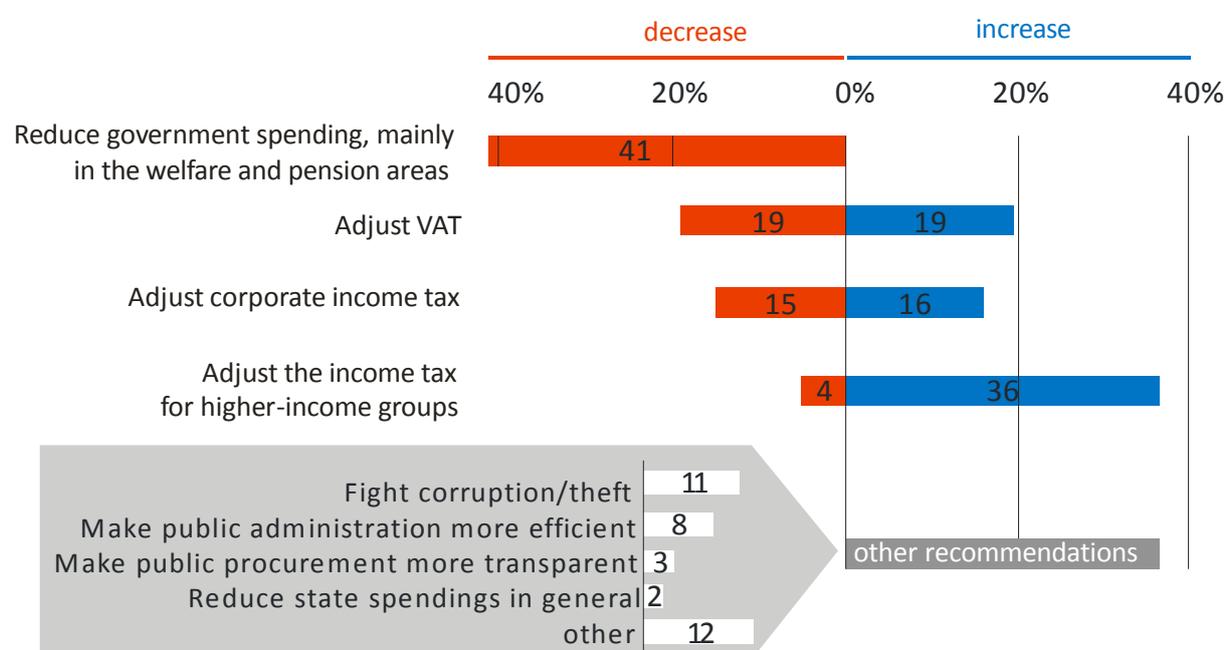
The question of the future trend in the crown-to-euro exchange rate split the respondents into three quite similar groups. The largest one expects a stable rate, followed by a slightly smaller group expecting a weaker crown. The last group of respondents expects the crown to appreciate compared to the euro. In any event, most of the respondents in the latter two groups do not expect the strengthening or weakening to be greater than 10%.

Readers of the Final Word are the most pessimistic respondents in this respect and tend to expect the crown to grow weaker, rather than stronger. As the age of the respondents increases, they tend to expect a stable or weaker rate, whilst the younger age groups are the most optimistic, anticipating the rate of the crown vs. the euro to grow stronger.

Minister Kalousek should raise taxes and cut spending, including social spending

What measures would you recommend to the finance minister and the Czech government for staying within the planned budget deficit for 2012-2014?

Respondents had the chance to choose from among several proposed budget measures on both the revenue and the spending side. They could also propose a recommendation of their own, and two-fifths of them did so. The measures suggested as part of the survey include tax-rate adjustments (VAT, corporate income tax, personal income tax for high-income groups) and cuts in government spending (especially in social benefits and pensions). Additional measures proposed by respondents include measures aimed at countering corruption and improving the efficiency of the public administration. Higher taxation on upper-income groups was the most frequent recommendation on the revenue side. Reduced government spending, especially in the area of social benefits and pensions, was the most frequent recommendation on the spending side.

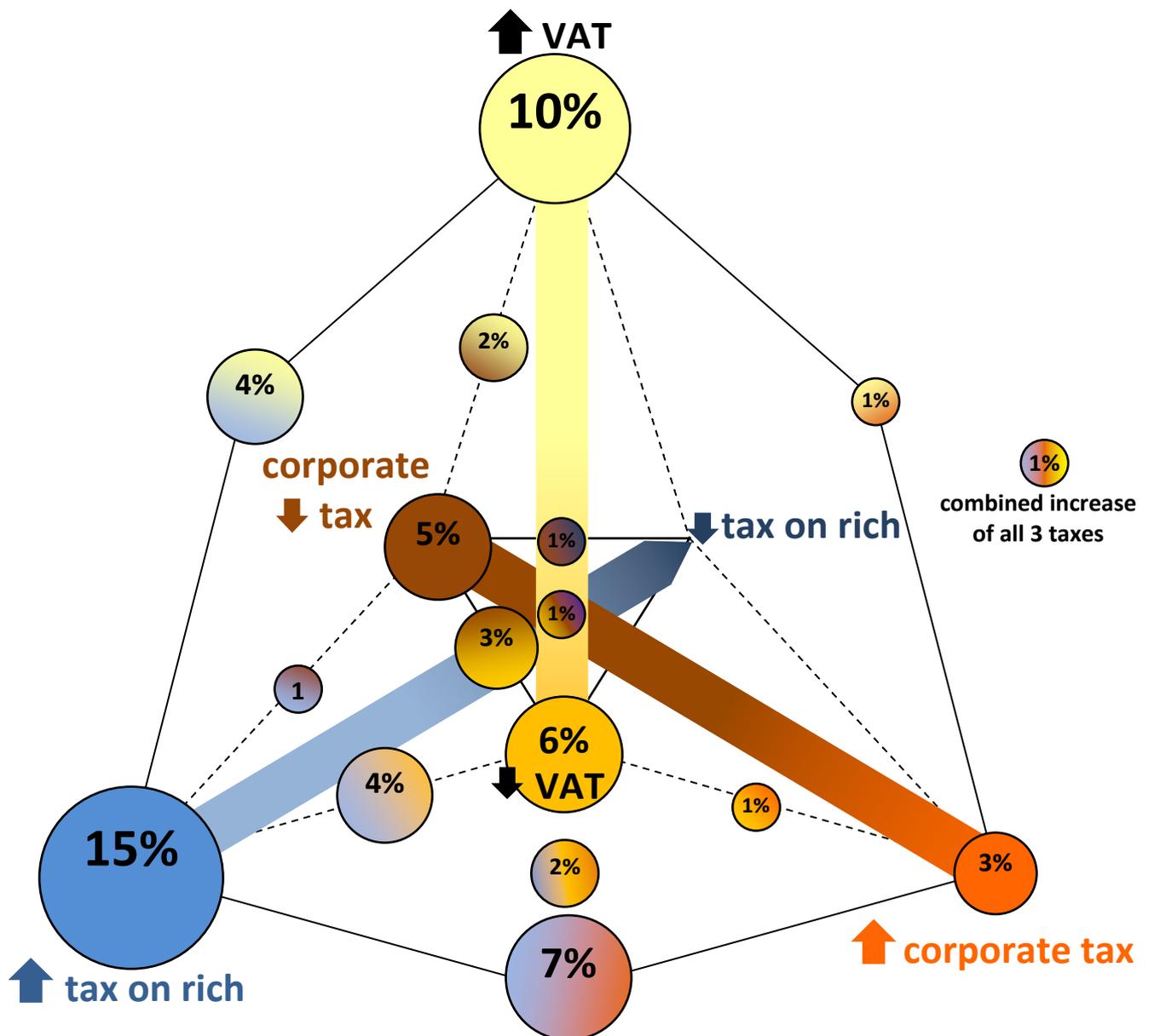


Combined measures proposed

Given that three-fifths of respondents recommended more than one measure, it is worthwhile looking at the combinations proposed. Twenty-eight percent of respondents did not include taxes at all in their proposed solutions and focused only on reducing government spending and other measures.

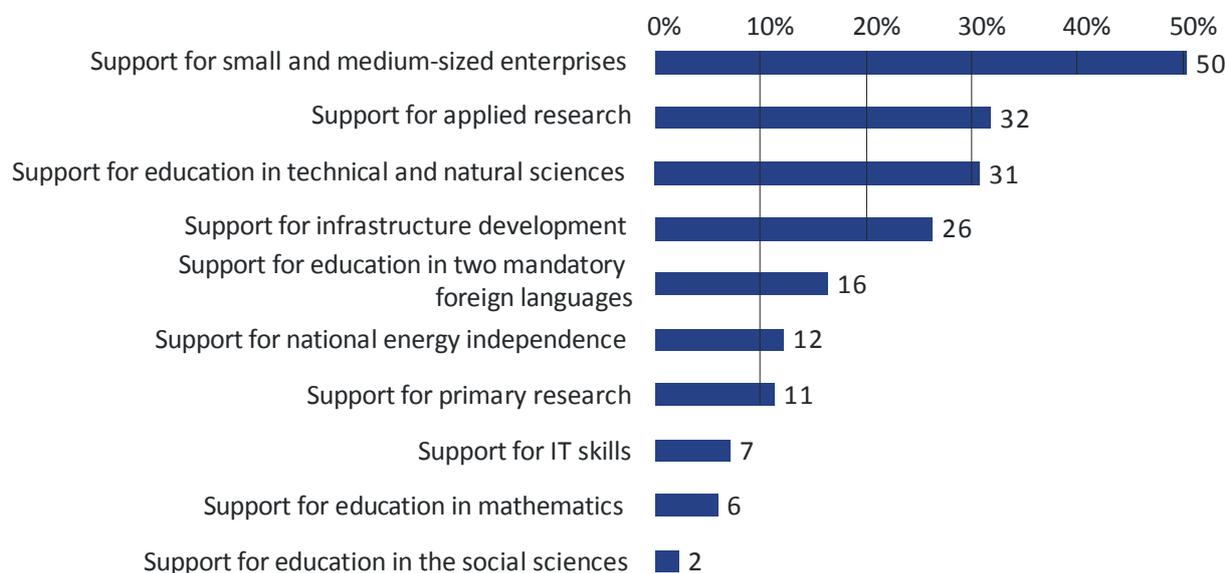
The other 72% suggest changes in tax rates. Fifteen percent of respondents would only raise the taxation on the rich, while 10% would only raise VAT. The next most-frequent combination (7%) suggested raising the taxation on both the rich and on corporations. Six percent would only reduce VAT. At the same time, 4% would raise both VAT and taxation on the rich. More than half of the experts advocating changes in taxation also recommended reducing government spending or other measures.

Proposed changes in tax rates



Remedies for boosting competitiveness

Which two policies would best promote the long-term competitiveness of the Czech Republic?



* respondents were able to check up to 2 options

Increases in competitiveness, as the survey suggests, are clearly driven by support for small and medium-sized businesses. In terms of research and education, respondents see support for applied research and training in technology and the natural sciences as being the most effective policy. Support for infrastructure development is another important factor.

Respondents younger than 34 believe more often than others that support for small and medium-size business is the most effective way to improve competitiveness. Respondents in the 25-44 age group advocate support for applied research more often than other respondents do. Respondents of higher ages tend to emphasize the importance of supporting training in technology and natural sciences.

Directions for businesses in hard times

The respondents were asked to recommend a maximum of four appropriate strategies in the areas of sales, marketing, human resources and finance for each of the following three types of businesses:

- A manufacturing company in mechanical engineering (more than 100 employees);
- A non-manufacturing firm in the telecommunications sector (more than 100 employees);
- A non-manufacturing firm in the service sector (up to 25 employees).

The respondents believe that the businesses should in general focus on measures in sales (especially by looking at new markets, segments, and products), including channels of distribution, and on optimization of their human-resources capabilities (through adjustment of existing job descriptions).

The strategies proposed differ somewhat by the type of business. Orientation toward new markets and other client segments is clearly recommended for large manufacturing businesses. Unlike the manufacturing firms, the non-manufacturing ones should not underestimate the idea of focusing on existing customers and on various sales promotions and price discounts. Larger firms in the telecommunications industry should be less afraid than other businesses to lay off part of their labor force.

Legend	Sales	Human resources	Engineering manufacturing firm (over 100 emp.)	Non-manufacturing telecommunications firm (over 100 emp.)	Non-manufacturing service company (up to 25 emp.)
	Marketing	Financial measures			
	Focus on new markets/new client segments		63	49	50
	Focus on new products		47	49	46
	Create new channels of distribution and strengthen existing ones		45	36	41
	Change job description of current employees, reallocate, optimize.		37	33	37
	Focus on current clients		24	38	40
	More-aggressive advertising, new channels of communications		18	26	30
	Use discounts and special offers		7		17
	Consolidate bank debt into one bank to reduce interest payments		16	12	17
	Dismiss some employees		12	22	9
	Maintain the current labour force, reduce the work hours for all		16	11	13
	Work with more banks in order to achieve better terms		17	12	11
	Repay existing loans and reduce debt levels		12	12	12
	Delay the payment terms		9	6	9
	Sell receivables (factoring)		9	8	7
	Increase the capital stock or reserves		8	8	5
	Use hedging instruments			7	3
	Agree with banks on higher credit lines		4	3	3

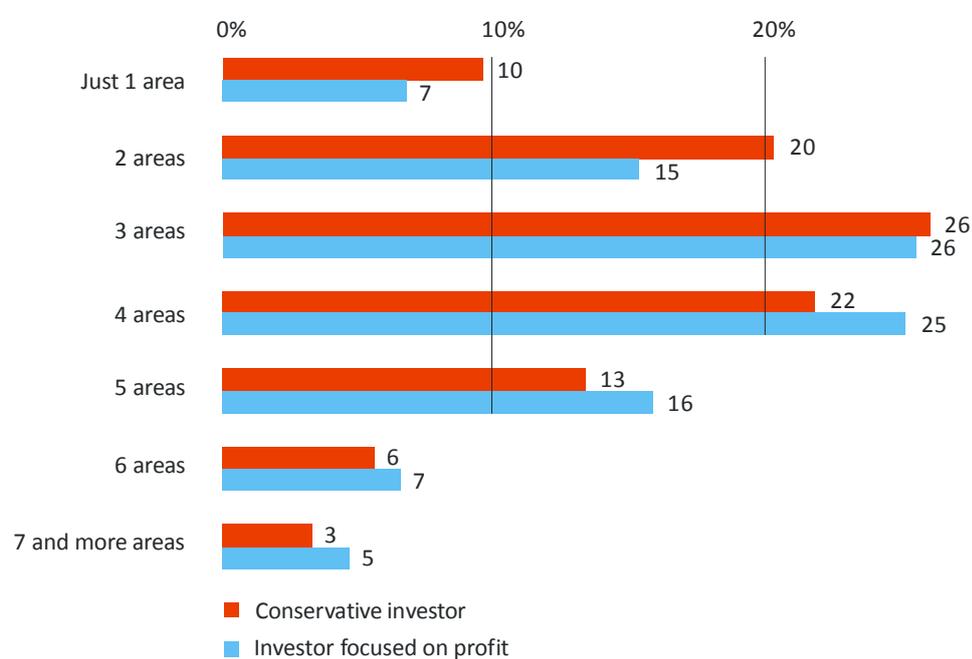
How should individuals invest?

Respondents were asked to choose options for a six-year investment of CZK 500,000 for the following two types of investor:

- a conservative investor
- an investor focused on profit

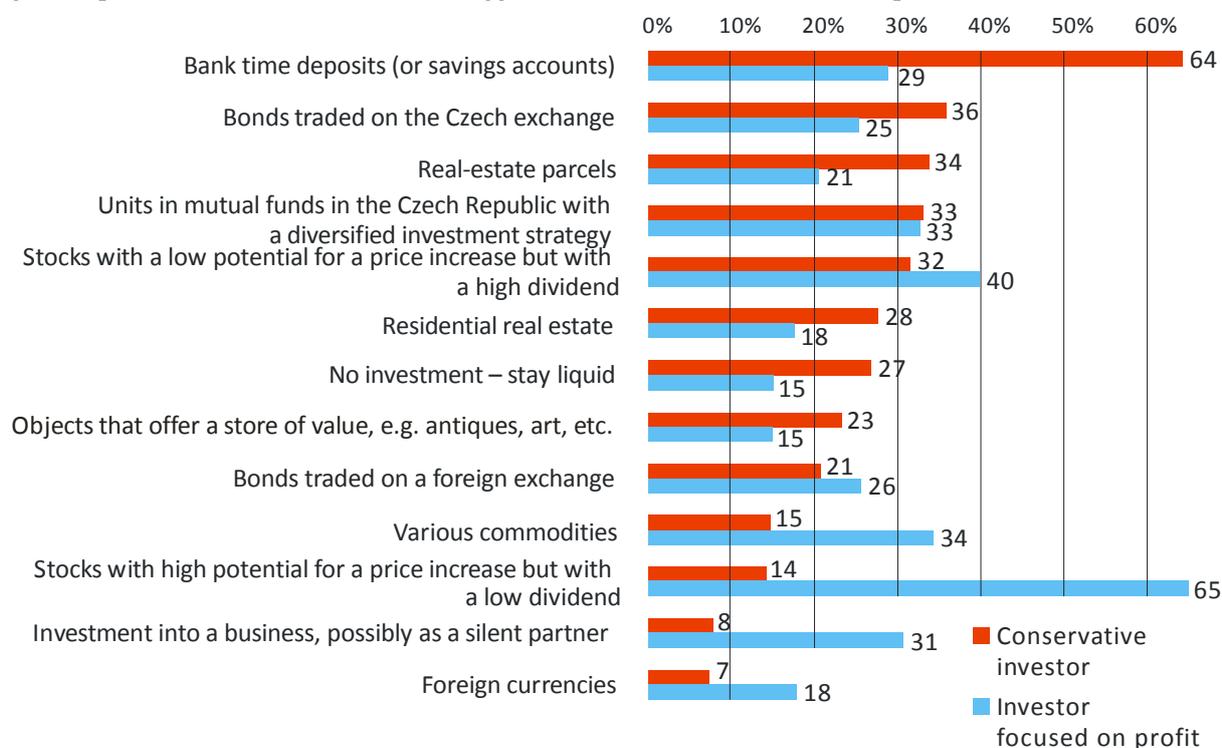
How many baskets to put one's eggs in?

On average, the experts recommend splitting the investment into three or four areas. For the conservative investor, they recommend splitting the investment on average into 2-4 areas. For the investor willing to take a measure of risk, they typically recommend 2-5 areas.

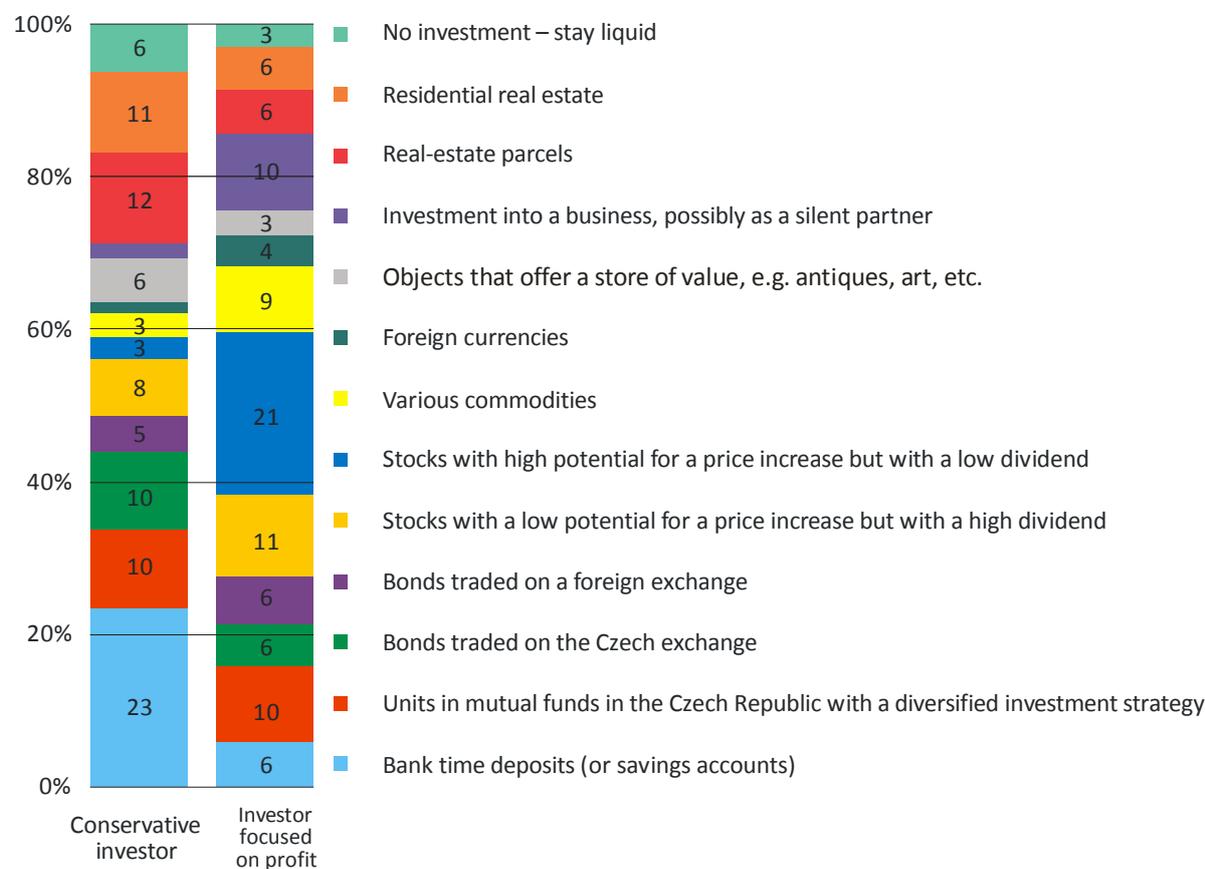


Investment opportunities by the frequency of recommendations

Respondents advise different forms of investment depending on the type of investor. Time deposits are the investment recommended most often to the conservative type, whilst purchases of stocks with a high growth potential but zero dividend are suggested for the investor focused on profit.



How much to put into each basket?



What kind of investment split do you think will yield the highest appreciation of the invested amount?

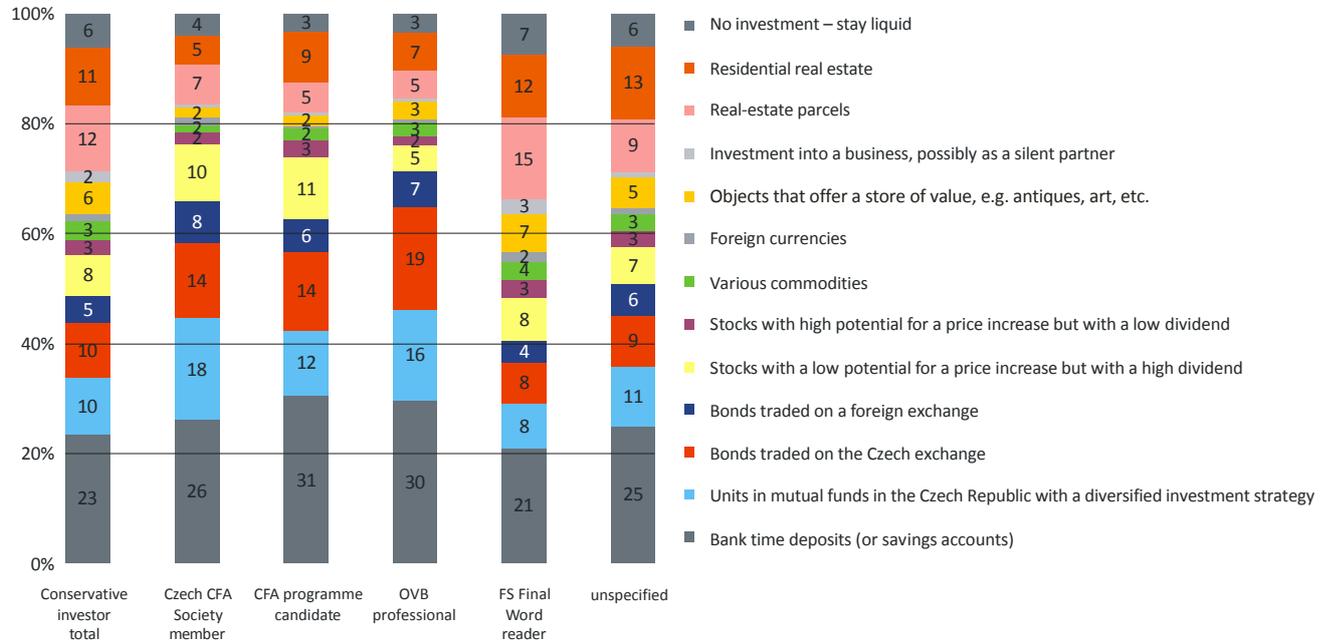
When taking into account not only where the money is invested, but also how large a share of the total amount is allocated, the following model can be derived from the individual recommendations:

The conservative investor should leave a quarter of the total investable amount in a time deposit. Other useful kinds of investment for this type of investor include purchases of real estate, of bonds traded on the Czech exchange, and of units in Czech mutual funds.

The investor focused on profit who is willing to take a measure of risk should look at stocks, especially those with high growth potential (but zero dividend), and also invest into business ventures and Czech mutual funds.

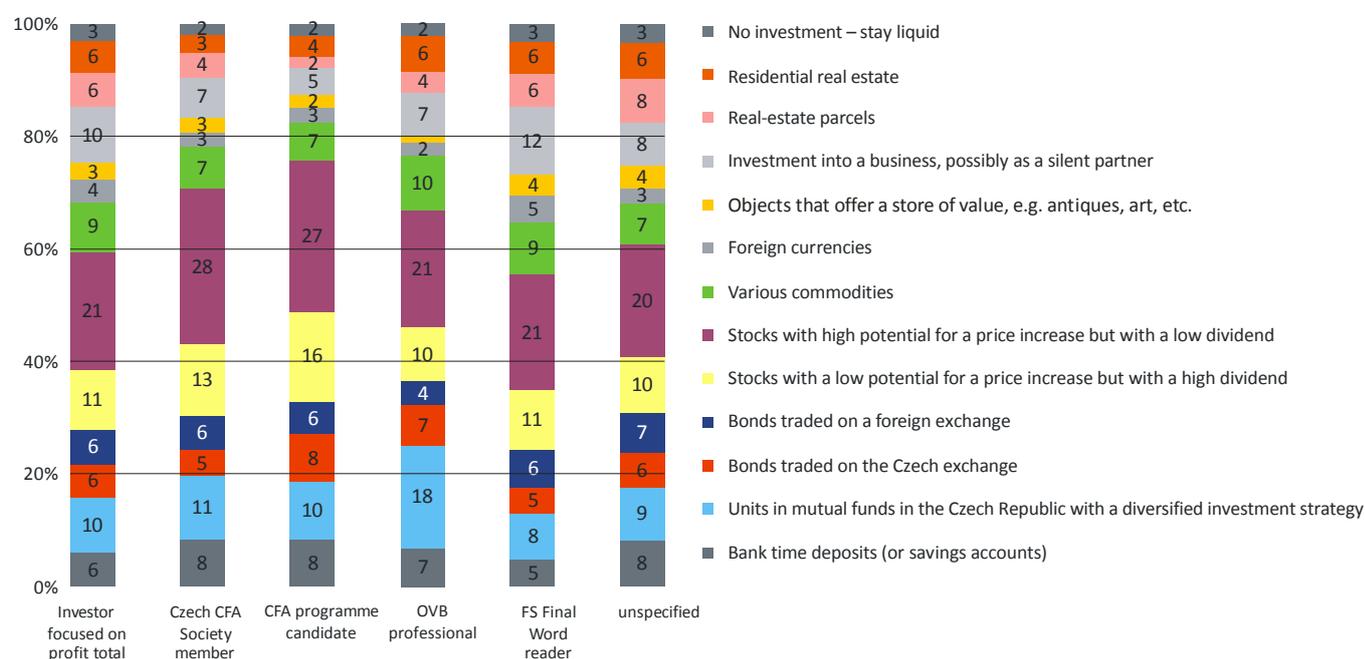
Do they all think the same?

What split do you think will yield the best appreciation of the amount invested by the conservative investor?



The differences in the strategies recommended by the various groups of respondents are minimal. Readers of the Final Word would more often than the others invest a larger part into purchases of real estate, whilst OVB senior staff would invest more often into objects that provide a store of value and into units of Czech mutual funds.

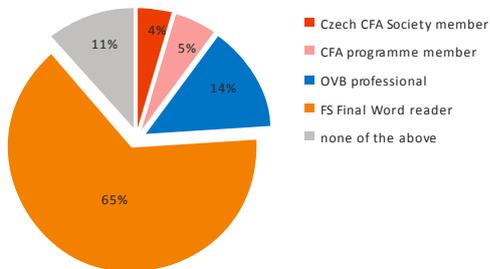
What split do you think will yield the best appreciation of the amount invested by the profit-minded investor?



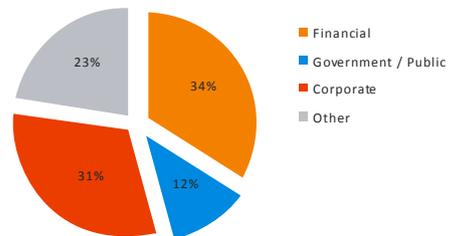
Again, the recommendations from all groups of respondents are very similar. CFA members and candidates would more often than the others invest a larger proportion into the purchase of stocks with a high growth potential, whilst OVB senior staff would more often invest into units of a Czech mutual fund.

Structure of the survey sample

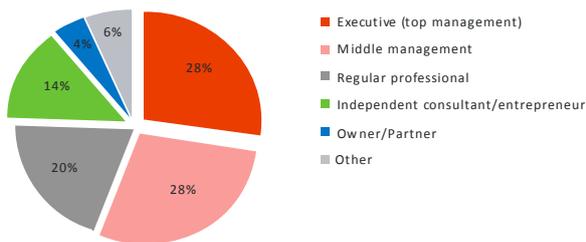
Respondents' affiliation



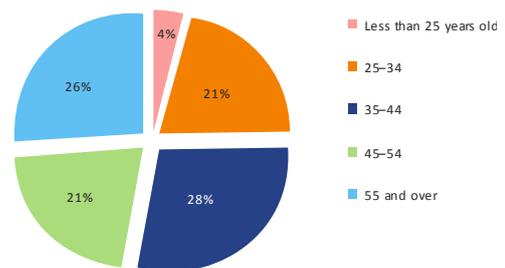
Sector of work



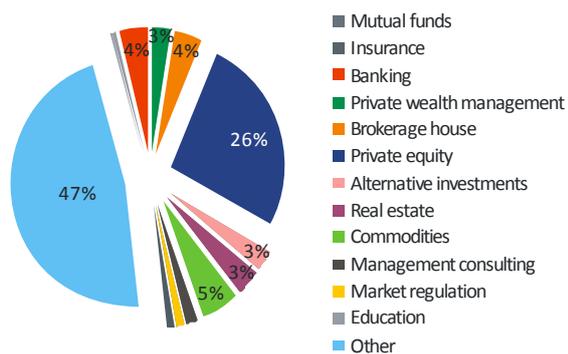
Position in the corporate hierarchy



Age category



Professional focus



Declaration of free distribution

This Final Report is intended for free distribution. In case of quotes, please specify the following source:
© 2012 Donath Business & Media (www.dbm.cz) and Factum Invenio (www.factum.cz).

Authors of the survey:

D|BIM partners in
communications

Donath Business & Media has been active in the area of public relations and public affairs since 1991. For more information, see www.dbm.cz.

Michal Donath
Donath Business & Media
Spálená 29
110 00 Praha 1
Tel.: +420 224 211 220
E-mail: michal.donath@dbm.cz

FACTUM
INVENIO

Factum Invenio has been active in the area of market research and public opinion since 1991, when the trademark „Factum“ was created. For more information about the company, see www.factum.cz.

Jan Herzmann
Factum Invenio
Office Park Nové Butovice / A
Bucharova 1281/2
158 00 Praha 13
Tel.: +420 233 111 027
E-mail: herzmann@ppmfactum.cz

Partners of the survey

the **fleet sheet's final word**

An English-language e-mail bulletin devoted to politics and economic news in the Czech Republic. For more info, see www.fsfinalword.com.

Fleet Sheet (E.S. Best s.r.o)
Tel.: +420 296 580 160
E-mail: info@fleet.cz

aspiro

ASPIRO management consultancy offers corporate and management consulting services in the countries of Central and Eastern Europe. For project information, see www.aspiro.cz.

David Března
Aspiro, s.r.o.
Odborů 286/12
120 00 Praha 2
Tel.: +420 241 485 868
E-mail: david.brezna@aspiro.cz