Grant Thornton
An instinct for growth™

GRANT THORNTON INTERNATIONAL BUSINESS REPORT

Global economy in 2013: uncertainty weighing on growth

Contents

Foreword

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We have seen significant political change over the course of 2012, with presidential elections taking place in some of the largest economies in the world such as China, Egypt, France, Mexico, Russia and the United States. These leaders and their peers across the globe face a number of key challenges in the face of continuing economic uncertainty. Uncertainty continues to hamper business growth prospects.

Agreement on a series of tax rises in the United States pulled the economy back from the brink of the 'fiscal cliff', but tough negotiations on the debt ceiling and spending cuts remain. Deliberations also continue in the eurozone with the sovereign debt crisis still far from resolved and splits developing between northern and southern states, and between those within and outside the single currency. Political deadlock and another round of elections in Japan is not helping recovery from the devastating tsunami and earthquake in 2011, and the economy has slipped back into recession.

Emerging economies are growing faster, but challenges remain. In China, the new leadership is expected to focus on avoiding the middle income trap which will mean sacrificing faster for more sustainable growth. Reforms to open up the Indian economy to foreign direct investment have met with stiff resistance and the high inflation rate persists. Signs of reform in Russia are tepid and the government budget remains highly reliant on the price of oil and gas. Brazil has barely grown over the past 24 months, although interest and unemployment rates have dropped to record lows. The new administration in Mexico has targeted higher growth and greater security. Maritime disputes are threatening to upset relations in Southeast Asia, whilst the legacy of the Arab Spring is still reverberating across the Middle East and North Africa.

With uncertainty prevailing, reason might well tell business leaders to build cash levels and wait for a sustained recovery before investing. However we also encourage our clients to listen to their instinct: with interest rates low and talent plentiful in mature economies, this is the perfect time to invest in both their people and their operations. Investing now could help them to get ahead of the competition when the global economy is on a surer footing. Meanwhile, business leaders in emerging economies should consider their international expansion strategy – picking up distressed assets at low cost in mature economies could offer technology and skills transfers, allowing them to move onto a higher growth plain by offering higher value-add products and services.

Conditions are tough, but by applying both reason and instinct to their decision making, dynamic businesses can navigate through these strong economic headwinds in 2013. The growth prospects of those that do, look very healthy indeed.

The past 12 months

World events

23 Jan 2012 EU places further sanctions on trade with Iran

2 Feb 2012 Elizabeth II celebrates 60 years as head of the UK and the Commonwealth

21 Feb 2012 Eurozone finance ministers reach agreement on second Greek bailout worth €130-billion

2 Mar 2012 25 of the 27 members of the European Union (excluding UK, Czech Republic) sign a new "fiscal compact"

5 Mar 2011 Vladimir Putin elected for a third presidential term

31 Mar 2012 Aung San Suu Kyi elected to Parliament as Myanmar opens up to outside world

16 Apr 2012 Kim Yong Kim chosen as President of World Bank

5 May 2012 The Socialist Francois Hollande wins the French Presidential election and promises a 75% top rate of income tax

facebook

18 May 2012 Facebook IPO is hit by technical problems and stock loses 25% over next six months

9 Jun 2012 Spain requests loan of up to €100bn from European Financial Stability Facility to recapitalise its banks

24 Jun 2012 Mohamed Morsi of the Muslim Brotherhood elected President of Egypt

IBR releases

3 Jan 2012 Business confidence on a knife edge heading into 2012

0%

30 Jan 2012 Slowdown in workplace stress, as businesses adjust to more realistic performance goals

7 Feb 2012 Single currency receives welcome boost from eurozone business leaders

8 Mar 2012 Women in senior management on the rise in Europe as peers in emerging markets fall away

International Women's Day

2 Apr 2012 Improving business optimism in mature economies offers hope for global recovery

19%

9 May 2012 Businesses increasingly looking to overseas M&A in hunt for growth

16 May 2012 High price of oil driving business consideration of alternative fuel vehicles

1 Jul 2012 Spain win the 2012 European football championships

2 Jul 2012 Enrique Pena Nieto wins the Mexico Presidential election promising greater security and growth

3 Jul 2012 Glimmer of hope for global economy as business investment picks up

23%

26 Jul 2012 Big sporting events key to attracting investment, say emerging economies

27 Jul 2012 2012 Olympic and Paralympic Games opens in London

8 Aug 2012 Strong support for greater shareholder involvement in setting CEO compensation

WORLD TRADE ORGANIZATION

22 Aug 2012 Russia joins World Trade Organisation, 19 years after talks began

3 Sep 2012 Performance of cleantech sector shining through bleak economic outlook

19 Sep 2012 Apple launches the iPhone5

10 Oct 2012 BAE-EADS merger cancelled with German, French and UK governments unable to reach agreement on ownership

23 Oct 2012 Support for fiscal measures grows amongst businesses as confidence and investment drop sharply

8%

6 Nov 2012 Barack Obama reelected as President of the United States and promises to work with Republicans to pull back from the looming 'fiscal cliff'

6 Nov 2012 EU business survey reveals majority support for a more diverse audit market

15 Nov 2012 18th Party Congress ends with President-elect Xi Jingping raised to General Secretary and Commander-in-Chief

23 Nov 2012 Four in ten businesses globally see revenue hit by eurozone crisis

10 Dec 2012 Red tape threatens to obstruct globalisation opportunities for dynamic companies

YouTube

21 Dec 2012 Korean rap video 'Gangnam Style' becomes first to reach 1 billion views on YouTube

2 Jan 2013 American Taxpayer Relief Act of 2012 signed in United States

The year ahead

The global economic outlook remains highly uncertain. The eurozone sovereign debt crisis is perhaps the key challenge, and not just for business leaders in Europe. The European Union (EU) is China's largest trading partner, and China is the EU's second largest trade partner after the United States. China remains the world's largest exporter, but the slowdown in Europe has weighed on economic growth.

Growth rates in and around Europe look set to disappoint over the next 12 months. Having contracted by 0.4% in 2012, the eurozone is expected to expand by just 0.2% in 2013. Despite being outside of the single currency, the United Kingdom is expected to post growth of just 1.1% in 2013, following a forecast contraction of 0.4% in 2012. The emerging economies of central and eastern Europe are expected to grow faster in 2013 (2.6%) but their rates of expansion remain depressed by a slowdown in foreign direct investment (FDI) inflows.

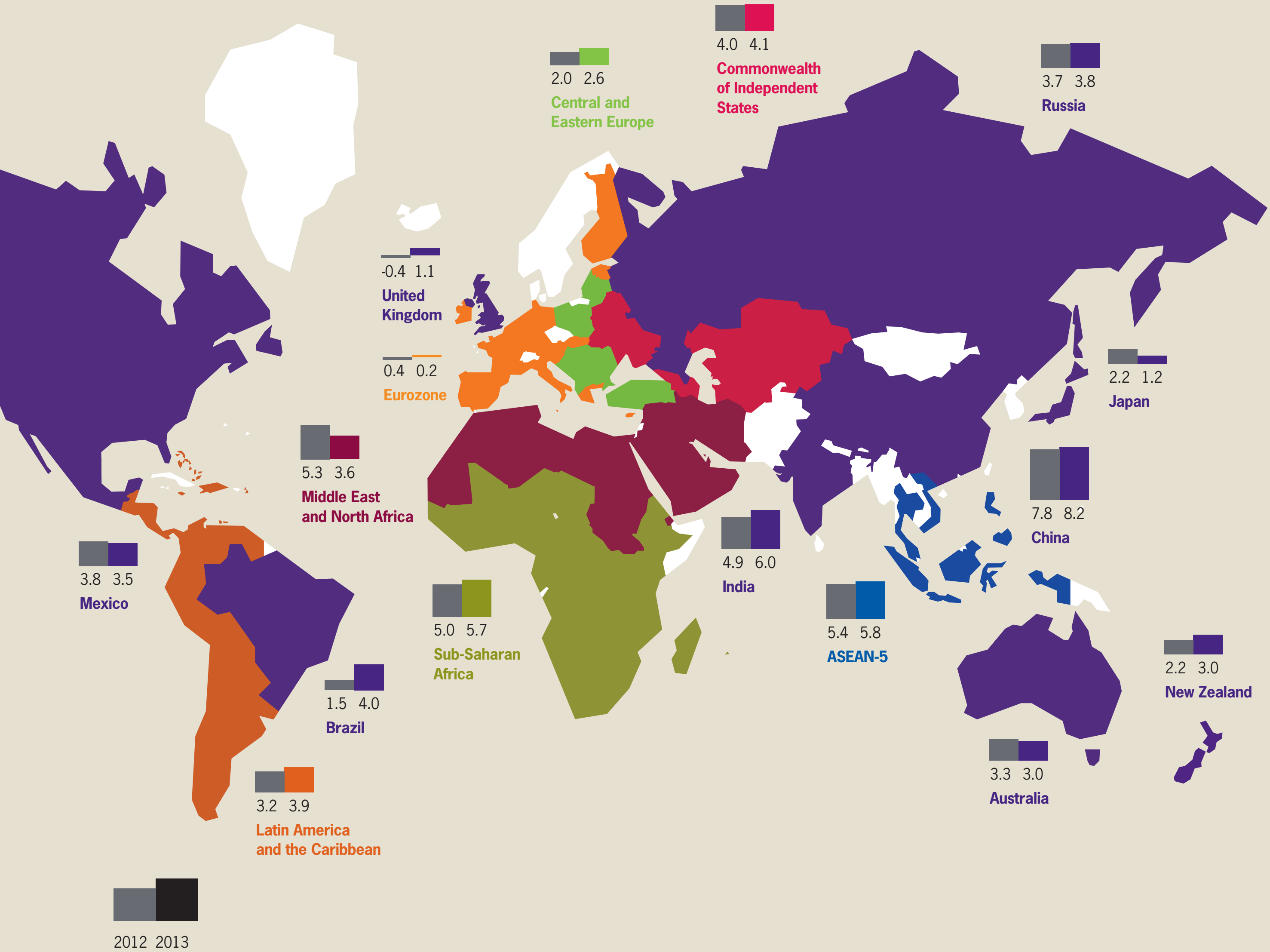
Across the Atlantic, economic growth in the United States remains weak and unemployment high. Democrats and Republicans eventually reached a deal to avert the so-called fiscal cliff, but this focused only on the tax side of the equation. Tough negotiations on spending cuts and raising the debt ceiling have been deferred, meaning more uncertainty for businesses in early 2013. The economy is expected to expand by just 2.1% in 2013, marginally ahead of Canada (2.0%). Having fallen back into recession in the last six months of 2012, Japan's economy is expected to expand by just 1.2% in 2013.

Growth rates in emerging economies look very healthy by comparison. China's growth rate is expected to pick up to 8.2% in 2013, from 7.8% in 2012, even as the new leadership tries to move economic drivers away from exports and investment towards consumption. Growth in India slipped to a nine-year low in 2012 as persistent high inflation cut into consumer spending power and political gridlock hampered meaningful economic reforms. However there are signs of change, with the lower house of Parliament recently voting to allow FDI in the retail sector and growth is expected to quicken to 6.0% in 2013. With unrest in the Middle East persisting, growth of 3.8% in Russia in 2013 will be underpinned by high oil and gas prices.

Growth prospects in Latin America are also strong. The Brazilian economy has endured a difficult past 24 months of little growth, but is forecast to expand by 4.0% in 2013. Mexico, which bounced back strongly from the recession north of its border is expected to grow by 3.5% in 2013, following expansion of 3.8% in 2012, although the ambitious reform agenda set out by the new administration could see growth push up towards 5% by 2020. The region as a whole is forecast to grow at 3.9%. Forecast growth expansion rates in Southeast Asia (5.8%) and Sub-Saharan Africa (5.7%) for 2013 are even more impressive, and underline the continuing development of emerging economies.

[1] Financial Times (2012) – Peña Nieto sets out reform agenda via http://www.ft.com/cms/s/0/46d86a20-3e57-11e2-91cb-00144feabdc0.html

FIGURE 1: FORECAST ECONOMIC GROWTH RATES
PERCENTAGE GROWTH IN GDP AT CONSTANT PRICES



SOURCE: IMF 2012

Business confidence

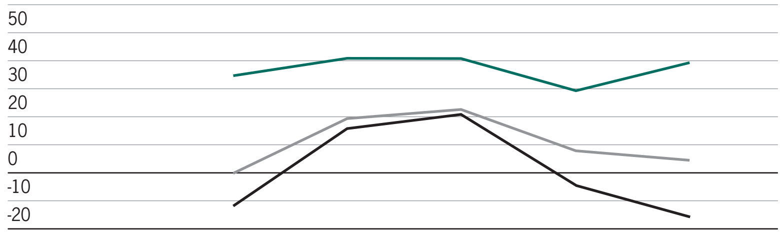
Business optimism for the year ahead has fluctuated with the strength of the recovery. At the back end of 2011, global confidence was at its lowest point since the global crisis began in 2009, and only remained neutral (net 0%) due to the strong optimism of Latin American businesses (net 61%).

Mature economies started to show signs of improvement in the first half of 2012 as the European Central Bank (ECB) made some positive statements about the level of support it would provide for the euro. Global optimism rose to net 19% in Q1-2012 and again to net 23% in Q2. However optimism fell to just net 8% in Q3 as hopes for a swift end to the eurozone crisis faded and commentators started to speculate about the impact of the United States falling off the 'fiscal cliff'. In Q4, optimism dipped even lower to just net 4%.

Business optimism amongst G7 businesses turned negative in Q3 (net -4%), indicating that more business leaders were pessimistic than were optimistic about the next 12 months. This trend continued in Q4 with net -16% optimistic for the year ahead, below the level seen 12 months previously.

Although businesses in emerging economies have remained more confident about the prospects for their economies over the next 12 months, they too have been impacted by the slowdown in the global economy. The optimism of businesses in the BRIC economies climbed to net 41% in Q1 and Q2 but then dropped back to net 29% in Q3. However, optimism bounced back to 39% in Q4.

FIGURE 2: MID-YEAR OPTIMISM DISSIPATES ACROSS THE GLOBE
NET BUSINESS OPTIMISM (NEXT 12 MONTHS)



	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
BRIC	34	41	41	29	39
G7	-12	16	21	-4	-16
Global	0	19	23	8	4

SOURCE: GRANT THORNTON IBR 2012

AVERAGE G7 BUSINESS OPTIMISM, 2012

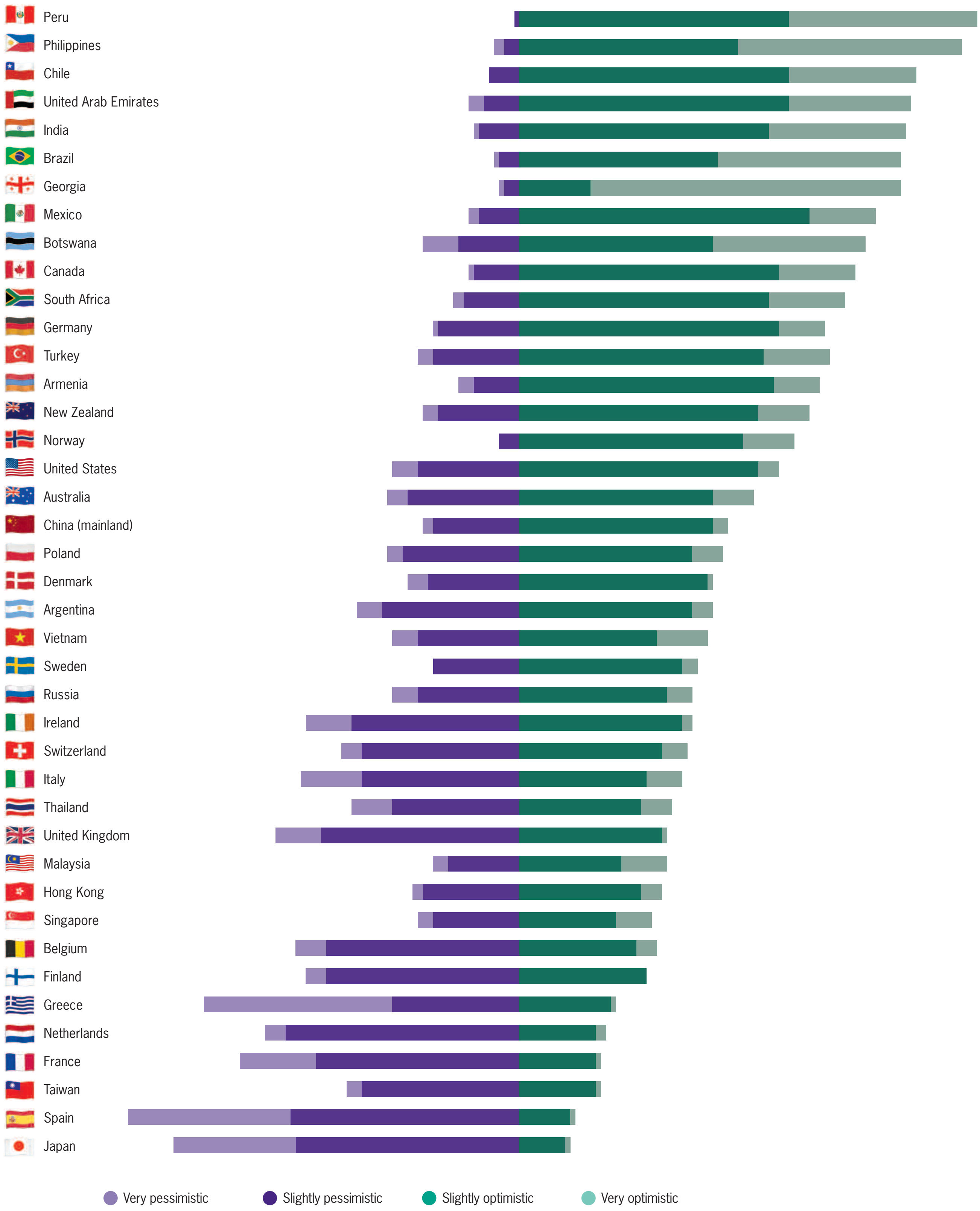
4%

AVERAGE BRIC BUSINESS OPTIMISM, 2012

34%

[2] Net figures indicate the proportion of businesses indicating optimism (or an increase) less the proportion indicating pessimism (or a decrease)

FIGURE 3: ANNUAL BUSINESS OPTIMISM BY COUNTRY
NET BUSINESS OPTIMISM (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

Business operations

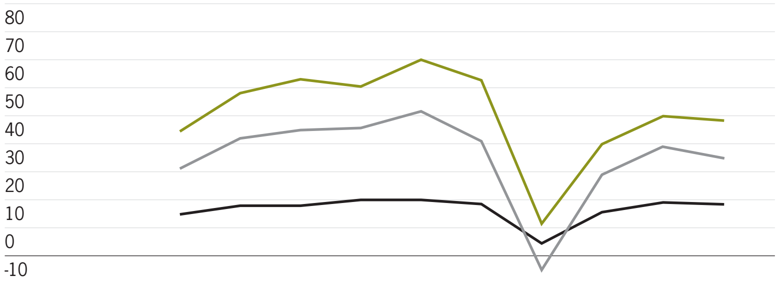
Business growth

Business leaders' expectations for the performance of their own operations have fluctuated along with wider economic expectations, indicating how global economic uncertainty is damaging growth prospects. From Q2-2012 to Q3, global business expectations for revenue, profit and export growth all slid by 5 percentage points.

Indeed business leaders showed less confidence in their business growth prospects across 2012, compared with 2011. Global expectations for increasing revenue and profitability over the next 12 months are both still positive, but remain below levels seen before the global financial crisis of 2008/9.

The proportion of business leaders expecting to increase revenues over the next 12 months is down in more than half of the economies we survey compared with 2011. The most notable decline in revenue confidence is observed in Hong Kong (down 35 percentage points), followed by Switzerland (down 30), the Philippines, Italy (both down 21), France and Spain (both down 20). The most optimistic business communities in terms of growing revenues are Vietnam (net 92%), India (net 82%), mainland China and Georgia (both at net 78%). Expectations are far less buoyant in Europe. Its economies occupy the bottom eight places of our 44 economies surveyed, although only businesses in Greece are expecting to see revenues decline (net -3%) with those in Spain expecting revenues to be flat.

FIGURE 4: PERFORMANCE INDICATORS – REVENUE, PROFITS AND EXPORTS
NET PERCENTAGE OF BUSINESSES GLOBALLY EXPECTING AN INCREASE (NEXT 12 MONTHS)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Turnover	44	58	63	61	70	63	11	40	50	48
Exports	15	18	18	20	20	18	4	16	19	18
Profitability	31	42	45	46	52	41	-5	29	39	35

SOURCE: GRANT THORNTON IBR 2012

"The uncertainty in the global economy has dampened business growth prospects not just in mature economies, but across the world. However, the sheer size and internal demand of economies such as Brazil, point to a much brighter 2013."

MADELEINE BLANKENSTEIN
GRANT THORNTON BRAZIL

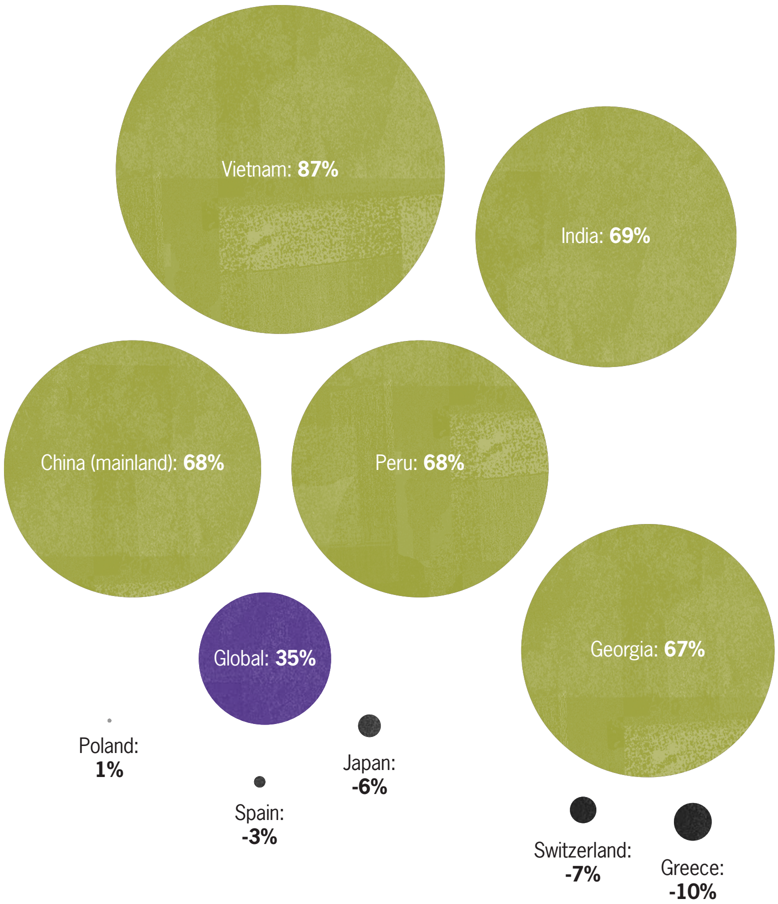
The proportion of businesses expecting to increase profitability over the next 12 months (net 35%) is down on 2011 levels (net 39%). Businesses in very few countries are now more confident in boosting profits than they were 12 months ago. The main exceptions are Peru, where profitability expectations have risen by 16 percentage points from 2011, and the United Arab Emirates (12 percentage point rise). The economies where profitability expectations have fallen most sharply include Argentina (down 25 percentage points) – where comprehensive foreign-exchange and import controls have been introduced to combat the trade deficit – and three eurozone nations – the Netherlands (-21) Germany (-18) and Italy (-17).

Perhaps unsurprisingly given respective growth rates, emerging economies fill the top five most confident about increasing profits over the next 12 months, led by Vietnam (net 87%), India (net 69%) and mainland China (net 68%). Conversely, mature economies – including Greece (net -10%) and Japan (net -6%), occupy the bottom five places.

Expectations for increasing exports fell slightly to net 18% in 2012, similar to results observed in 2008. Businesses in Turkey remain the most optimistic for exports in 2012 (net 57%) followed by the United Arab Emirates (net 37%) and India (net 30%). Interestingly, businesses in Greece, Ireland and Spain (all at net 28%) are also relatively confident about increasing exports over the next 12 months, perhaps reflecting their more expansive focus with domestic demand for their products and services depressed.

FIGURE 5: IN SEARCH OF PROFITABILITY – TOP AND BOTTOM 5 COUNTRIES

NET PERCENTAGE OF BUSINESSES FORECASTING PROFIT GROWTH (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

PROPORTION OF G7 BUSINESSES EXPECTING A RISE IN PROFITS (NEXT 12 MONTHS)

27%

PROPORTION OF BRIC BUSINESSES EXPECTING A RISE IN PROFITS (NEXT 12 MONTHS)

61%

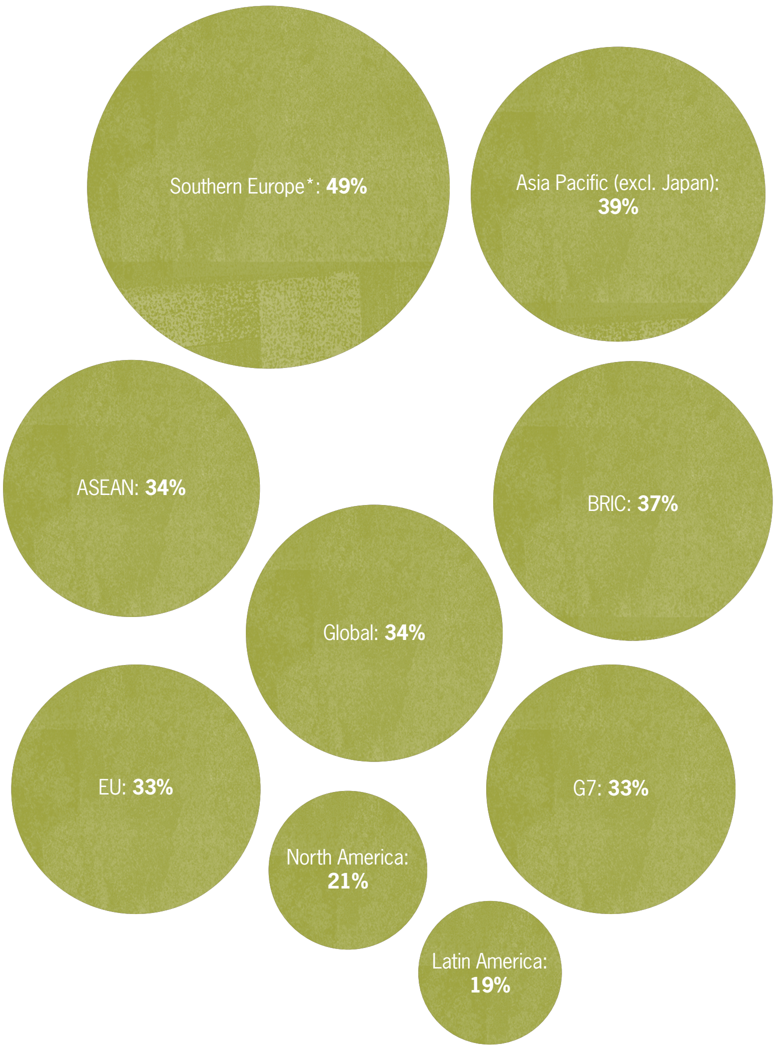
Demand

A fall in prospects for profits and revenues comes on the back of more businesses citing a shortage of orders/reduced demand as a constraint in 2012 (34%) compared with 2011 (31%). Perhaps unsurprisingly as unemployment persists and governments and consumers continue to tighten belts, it is businesses in troubled Southern Europe – Italy, Greece and Spain – which are suffering most from a lack of demand (49%, compared with 32% in 2011). However, this issue is also cited by 39% of businesses in the emerging and largely export-driven economies of Asia Pacific (excl, Japan), indicating how general economic uncertainty is affecting businesses globally. Conversely, businesses in North (21%) and Latin America (19%) appear relatively untroubled by levels of demand.

Businesses in three Asia Pacific economies – Japan (68%), Vietnam (60%) and Thailand (54%) – are most concerned with a lack of demand. All three are heavily dependent on exports and the contraction of European and North American markets is clearly impacting on business growth prospects. Three Southern European economies which are in the eye of the eurozone storm – Italy, Spain (both 50%) and Greece (48%) – are next. That the world's two largest emerging economies – India (46%) and mainland China (42%) – also make the top ten, is a worrying sign for global economic growth.

FIGURE 6: SLOWDOWN IN GLOBAL TRADE

PERCENTAGE OF BUSINESSES CITING A SHORTAGE OF ORDERS/REDUCED DEMAND TO CONSTRAIN GROWTH (NEXT 12 MONTHS)

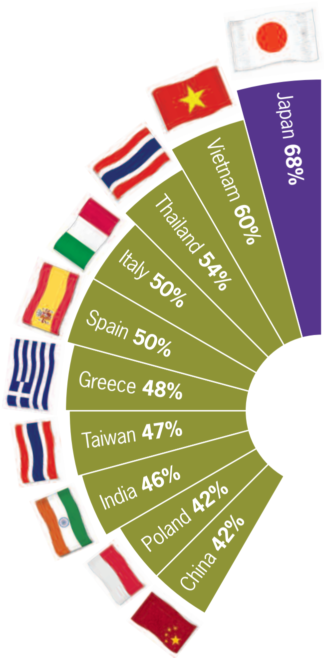


* ITALY, GREECE AND SPAIN

SOURCE: GRANT THORNTON IBR 2012

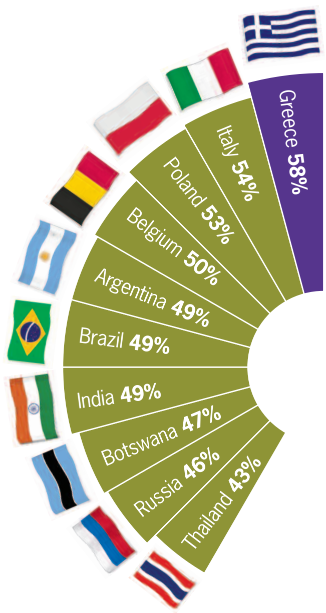
> "Growth in Europe remains tied to the fate of the single currency and contracting markets are clearly not good for business. However we remain hopeful of a swift resolution that will help both France and the wider continent regain lost competitiveness."
>
> **JEAN-JACQUES PICHON**
> GRANT THORNTON FRANCE

FIGURE 7: SQUEEZE ON ORDER BOOKS
PERCENTAGE OF BUSINESSES CITING A SHORTAGE OF ORDERS/REDUCED DEMAND AS A GROWTH CONSTRAINT (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

FIGURE 8: LEVELS OF BUREAUCRACY HOLDING BACK GROWTH
PERCENTAGE OF BUSINESSES CITING REGULATIONS/RED TAPE AS A GROWTH CONSTRAINT (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

Bureaucracy

Globally the impact of regulations and red tape has increased marginally as a constraint on business expansion, from 32% in 2011 to 34% in 2012. Businesses in Latin America are the most concerned about bureaucracy over the next 12 months with 42% citing it as a constraint. However, it is in the eurozone where the effects of bureaucracy have risen most over the past 12 months. Here 36% of business leaders cite it as a constraint on growth over the next 12 months, up from 29% in 2011.

This is largely driven by a 21 percentage point increase in Italy to 54% where the technocratic government of Mario Monti is trying to restore the economy's competitiveness. Italy sits just behind Greece (58%) and ahead of Poland (53%) and Belgium (50%). In Latin America, businesses in both Argentina and Brazil (both 49%) are also struggling with government interventions. As are businesses in India (49%), where corruption and political deadlock over reforms aimed at opening up certain sectors to FDI are hindering growth.

PROPORTION OF BUSINESSES GLOBALLY CITING SHORTAGE OF ORDERS/REDUCED DEMAND AS A GROWTH CONSTRAINT (NEXT 12 MONTHS)

34%

PROPORTION OF BUSINESSES GLOBALLY CITING REGULATIONS/RED TAPE AS A GROWTH CONSTRAINT (NEXT 12 MONTHS)

34%

Growth prospects for 2013

Businesses in the Latin American economies of Brazil, Peru and Mexico as well as in South Africa appear well placed for growth moving into 2013 with both strong order books and higher revenue expectations (the upper right quadrant). Growth prospects for other emerging economies such as Georgia, Argentina, Chile and the Philippines also look fairly healthy. They are joined by businesses in mature economies such as Canada, Germany and the United States.

By contrast, businesses in the eurozone economies of Belgium, France, Greece, Ireland, Italy and Spain expect another tough year in 2013. They are all forecasting low demand and low revenues. Poland, which is suffering from the regional slowdown, and Japan, which is still recovering from the devastating earthquake and tsunami of 2011, complete the bottom left quadrant.

Businesses in the lower right quadrant are confident about revenue growth prospects in 2013 but less so about orders. They include those in some of the large, rapidly expanding emerging economies such as mainland China, India, Russia and Turkey which could have an impact for longer term global economic growth.

Meanwhile those in the upper left hand quadrant seem to be suffering from increased competition with strong order books not translating into higher revenues. This quadrant includes economies at a variety of maturity levels – Hong Kong, Finland, the Netherlands Singapore, Switzerland and the United Kingdom.

FIGURE 9: EXPECTATIONS FOR ORDERS AGAINST REVENUE

SOURCE: GRANT THORNTON IBR 2012

Investment

FIGURE 10: 2013 INVESTMENT PLANS
PERCENTAGE OF BUSINESSES EXPECTING TO INCREASE INVESTMENT (NEXT 12 MONTHS)

	Latin America	BRIC	APAC (excl. Japan)	ASEAN	Global	North America	G7	EU
Plant & machinery	**50**	**44**	**40**	**33**	**35**	**38**	**32**	**26**
New building	**28**	**22**	**19**	**22**	**18**	**22**	**17**	**10**
R&D	**35**	**44**	**45**	**26**	**23**	**13**	**16**	**18**

SOURCE: GRANT THORNTON IBR 2012

Business investment

With the global economic outlook so uncertain, businesses are disappointingly, but understandably, cautious about investing in the future growth of their operations. In fact, business expectations for future investment have barely moved over the past 12 months. The proportion of businesses expecting to boost investment in new buildings or R&D are unchanged from 2011, and have risen by just one percentage point for new plant and machinery. With large corporates already sitting on over US$4trillion of cash reserves, the concern is that a huge source of potential private sector growth is lying dormant.

Investment sentiment is more buoyant in the higher growth emerging economies. In Latin America, net 50% of businesses expect to increase investment in plant and machinery over the next 12 months, net 35% in R&D and net 28% in new buildings. Businesses in Asia Pacific (excl. Japan) are equally as bullish with net 45% planning to increase investment in R&D, net 40% in new plant and machinery and net 19% in new buildings.

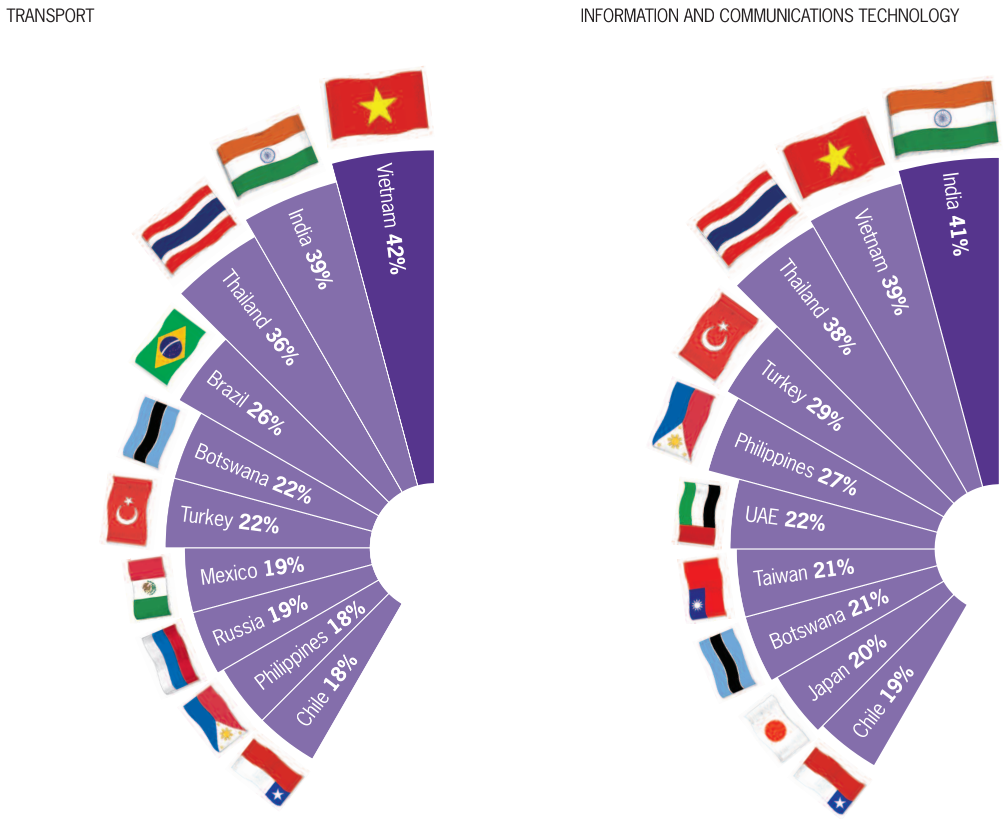
Almost a third of G7 businesses (net 32%) are planning to increase investment in plant and machinery over the next 12 months, and net 17% in new buildings but the divergence in priorities of emerging and mature economy businesses is highlighted by R&D plans. Net 44% of BRIC businesses plan to increase R&D investment over the next 12 months, compared with just 16% of G7 businesses. Interestingly, mainland China leads the R&D charge with net 55% of businesses planning to increase investment in R&D over the next 12 months, ahead of its fellow BRICs Brazil and India (both 38%).

NET PROPORTION OF BUSINESSES GLOBALLY PLANNING TO INCREASE INVESTMENT IN R&D (NEXT 12 MONTHS)

23%

[3] Hogan Lovells research into total cash on the balance sheets of the world's top 500 non-financial companies:http://www.hoganlovellsevolution.com/evolution-heatmaps-cash-on-balance-sheet

FIGURE 11: POOR CONNECTIVITY CONSTRAINING GROWTH IN EMERGING ECONOMIES
PERCENTAGE OF BUSINESSES CITING INFRASTRUCTURE AS A CONSTRAINT ON GROWTH



SOURCE: GRANT THORNTON IBR 2012

Infrastructure

Emerging economies are to some degree playing catch up with investment as strong existing infrastructure in mature economies gives their businesses a huge advantage in terms of driving efficiencies in their operations. More than a fifth of BRIC businesses cite the poor quality of local transport (21%) and information and communications technology (ICT, 21%) infrastructure as likely growth constraints in 2013. This compares to just 9% and 11% respectively in the G7 economies.

Businesses in India and Vietnam are particularly concerned with the quality of local infrastucture. Around two in five business leaders in each economy cite transport and ICT infrastructure as an impediment to growing their operations over the next 12 months. In both economies, this represents a large increase from 2011 suggesting connectivity issues are getting worse. Over a third of businesses in Thailand, and over a quarter in Turkey also express dissatisfaction with local infrastructure.

Latin American businesses are particularly dissatisfied with the quality of local transport infrastructure. 26% of businesses in Brazil, which will host both the next FIFA World Cup and Summer Olympic Games, cite transport infrastructure as a growth constraint, up marginally from 25% in 2011. Elsewhere in Latin America, businesses in Mexico (19%) and Chile (18%) also cite this factor.

PROPORTION OF BRIC BUSINESSES CITING ICT INFRASTRUCTURE AS A CONSTRAINT (NEXT 12 MONTHS)

21%

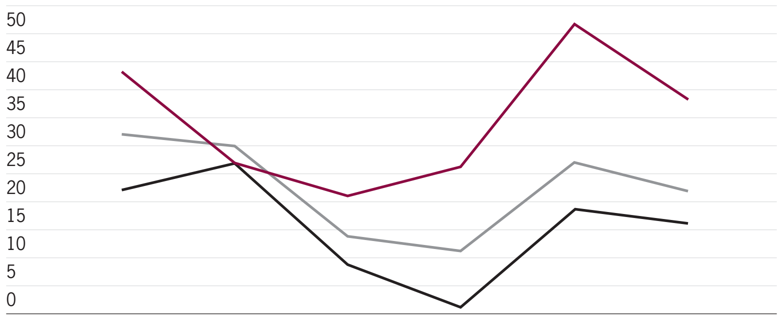
Inflation

Prices

Inflationary pressures have eased in 2012 compared to 2011. However if prices rise quicker than salaries, real incomes decline thus reducing spending power and depriving economies of consumer demand. Inflation is not high on the agenda of most mature economy central banks, many of which have launched vast quantitative easing programmes which pump money into their economies in an effort to boost growth through raising liquidity. However some higher growth emerging economies such as Argentina, Brazil, India, Russia and Turkey are grappling with much higher inflation rates, although the rate in China has continued to ease.

Business expectations for increasing selling prices have fallen by three percentage points globally from 2011. Only seven economies – including Peru (up 24 percentage points), United States and India (both up four) – are more bullish about increasing selling prices over the next 12 months. Globally, net 22% of businesses expect to increase selling prices over the next 12 months, with businesses in the BRIC economies (net 38%) far more likely to boost prices than peers in the G7 (net 16%).

FIGURE 12: PRICE RISES SLOWING
NET PERCENTAGE OF BUSINESSES EXPECTING TO RAISE SELLING PRICES (NEXT 12 MONTHS)



	2007	2008	2009	2010	2011	2012
BRIC	43	27	21	26	52	38
G7	22	27	9	1	19	16
Global	32	30	14	11	27	22

SOURCE: GRANT THORNTON IBR 2012

Some of the biggest drops in selling price expectations are apparent in Asia Pacific. The proportion of businesses in Southeast Asia planning to increase selling prices declined from net 38% in 2011 to net 23% in 2012. In mainland China the proportion dropped from net 43% to net 29% and in Hong Kong from net 40% to net 16%.

PROPORTION OF BRIC BUSINESSES PLANNING REAL SALARY INCREASES (NEXT 12 MONTHS)

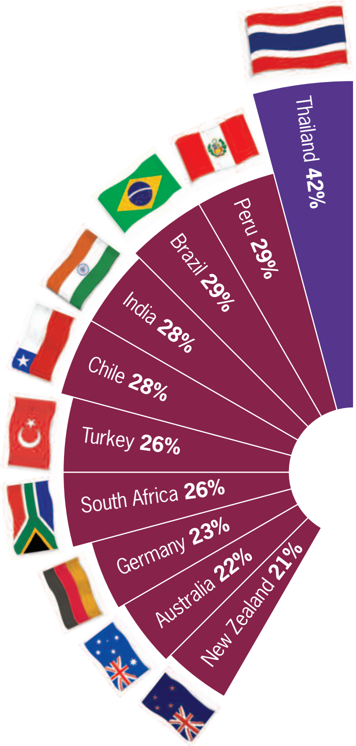
17%

PROPORTION OF G7 BUSINESSES PLANNING REAL SALARY INCREASES (NEXT 12 MONTHS)

12%

FIGURE 13: WHERE TO GO FOR A PAY RISE

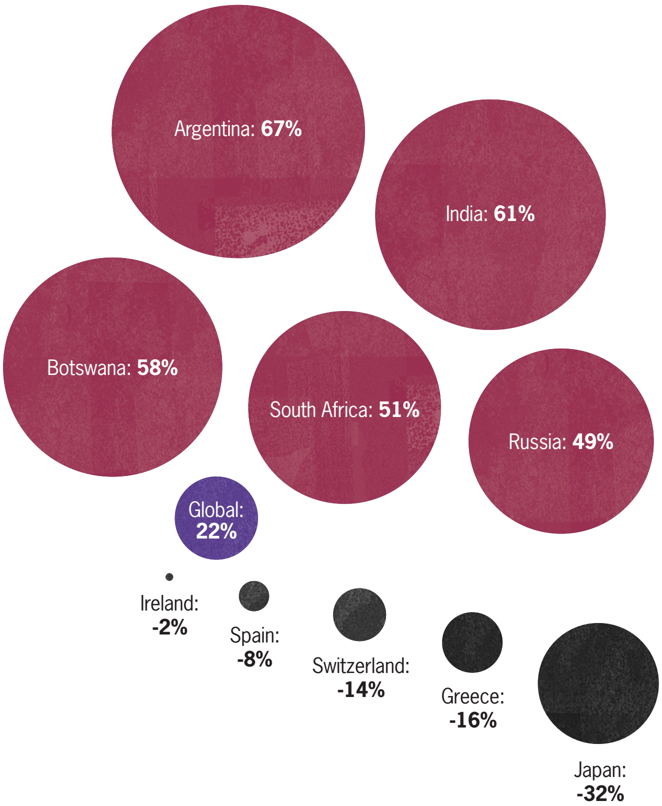
NET PERCENTAGE OF BUSINESSES EXPECTING TO OFFER EMPLOYEES A REAL PAY RISE (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

FIGURE 14: PRICE WAR – TOP AND BOTTOM 5 COUNTRIES

NET PERCENTAGE OF BUSINESSES EXPECTING TO RAISE SELLING PRICES (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

At the country level, businesses in Argentina (67%), India (61%), Botswana (58%), South Africa (51%) and Russia (49%) are most likely to raise prices over the next 12 months. At the other end of the scale, Japan (-32%) – where deflation remains a major concern despite interest rates being near zero – expect selling prices to fall. Businesses in Greece (-16%), Switzerland (-14%), Spain (-8%) and Ireland (-2%) are also looking to reduce prices as European markets continue to contract.

Salaries

With consumer price inflationary pressures apparently easing, the good news for the global economy is that two-thirds of businesses (66%) are planning to offer workers a pay rise at least in line with inflation, well above the 2010 level (51%) and up slightly from 2011 (64%). Employees in Latin America (86%), the Nordic region (84%), North America (79%) and Southeast Asia (75%) appear the most likely to get a pay rise in 2013. Workers in the eurozone (56%), especially in Southern Europe (35%), are least likely to get a raise.

At the country level, employees in businesses in Sweden (94%), South Africa (93%), Brazil and Norway (both at 90%) look set to benefit from higher wages over the next 12 months. Those in Greece (3%), Ireland (17%) and Japan (25%) are unlikely to be as fortunate. In fact, 31% of businesses in Greece and 10% in Spain plan to reduce salaries over the next 12 months, which will further squeeze consumer demand.

In terms of real salary increases (those above the rate of inflation), businesses in Latin America (25%) are expected to be the most generous, led by Peru and Brazil (both 29%). Thailand tops the rankings with 42% of businesses planning to offer such increases. Conversely just 9% of EU businesses expect to offer real salary increases over the next 12 months, although this rises to 23% in Germany which points towards a rebalancing of competitiveness inside the single currency.

Inflation in 2012

Wage-price spirals describe a vicious cycle where the two sides of the wage bargain (employers and employees) try to keep up with inflation to protect real incomes (profits and salaries). The graphic below shows where businesses are looking to boost both salaries and selling prices over the next 12 months, and therefore which economies are most vulnerable to such cycles.

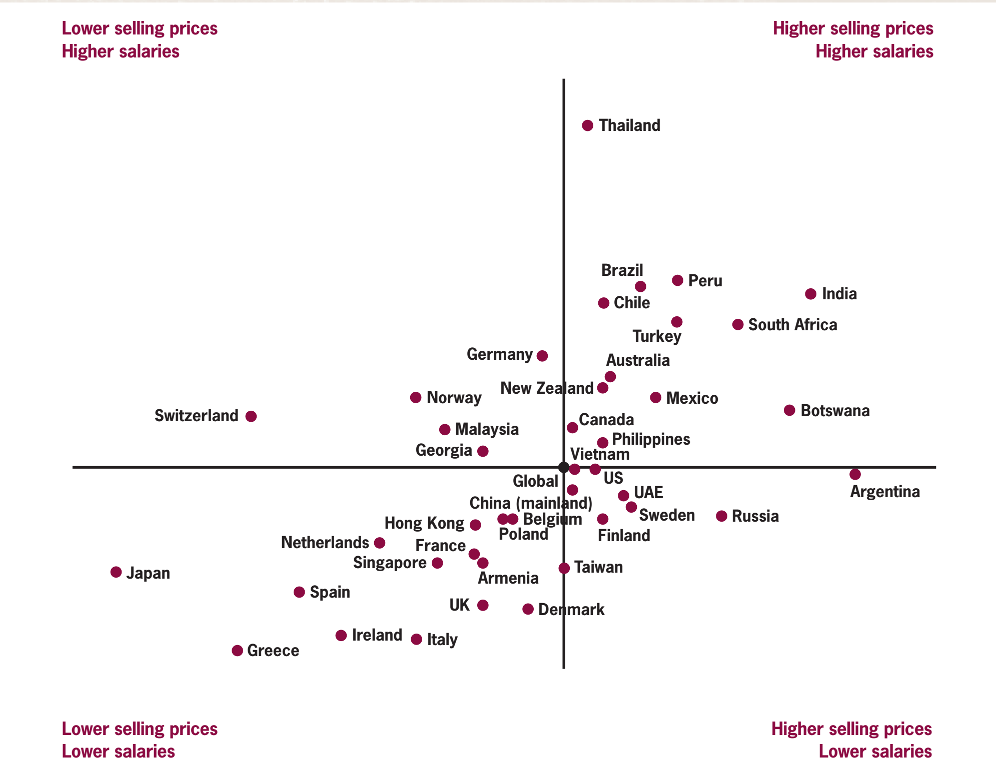
Those economies in the upper right quadrant appear most in danger from rising inflation over the next 12 months. These economies include the Latin American economies of Brazil, Chile, Mexico and Peru. In Brazil, interest rates have fallen to record lows with the central bank apparently tolerating inflation above 5% in a bid to stimulate the economy. India also appears in this quadrant, suggesting the central bank will have to continue to closely monitor an inflation rate which continues to touch double figures. Both African economies in our survey – Botswana and South Africa – also appear in this quadrant.

Those economies in the bottom right quadrant could find consumer spending falling in 2013 as salaries fail to keep pace with inflation. They include Argentina, Russia and two Nordic nations – Finland and Sweden.

In the bottom left quadrant, inflationary pressures are not expected to surface in 2013. The quadrant includes Japan where prices are either flat or falling, and the troubled eurozone economies of Greece, Ireland, Italy and Spain which are going through an internal devaluation as they look to restore lost competitiveness in relation to the other members of the single currency. Business in other EU countries outside the single currency – including Denmark, Poland and the United Kingdom – also appear to be looking to boost competitiveness.

Finally those businesses in the upper right quadrant appear set to help boost consumer demand by raising salaries faster than selling prices. Whilst this may squeeze profits in economies such as Germany, Malaysia, Norway and Switzerland, it should have some positive feedback effects on economic growth.

FIGURE 15: EXPECTATIONS FOR SALARIES AGAINST SELLING PRICES



SOURCE: GRANT THORNTON IBR 2012

Employment

Hiring

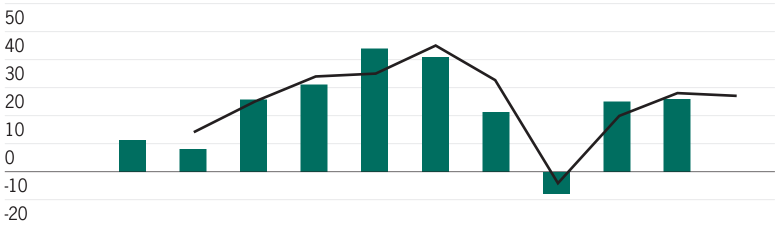
The public sector in many mature economies has, and in some cases is continuing to, shed workers as governments try to tackle huge deficits and levels of public debt. Unfortunately, with the economic climate so uncertain, job creation in the private sector has largely been unable to keep up. In Greece and Spain the unemployment rate now tops 25%. In France and Italy it is close to 11%. In the United Kingdom and the United States the proportion of the workforce looking for employment remains stubbornly just below 8%.

Unemployment rates in emerging economies are generally lower, with Brazil, China, Russia and Mexico all around the 5% mark (the exception is India where unemployment is running at 9.8%). Businesses in these economies are more concerned with finding workers with the right skills to help them grow their businesses, potentially through offering higher value-add products and services.

The stickiness of the labour market globally is evidenced by the IBR figures. Net 26% of businesses hired staff over the past 12 months, a rise of just one percentage point from the previous 12 month period. Hiring was strongest in higher growth emerging economies of Latin America (net 38%), the BRIC economies (net 35%) and Asia Pacific (excl. Japan, net 32%), although net 33% of businesses in North America also boosted workforce numbers over the past 12 months, a seven percentage point increase from 2011.

Hiring has been weakest in Europe – just net 16% of EU businesses hired workers over the past 12 months, rising to net 40% in Germany which continues to outperform its eurozone partners. The EU average is dragged down by Greece (net -33%), Spain (net -22%) and Ireland (net -3%) where workforces contracted on average in 2012.

FIGURE 16: HOW EMPLOYMENT EXPECTATIONS TRACK RECORDED CHANGES (2002-2012)
NET PERCENTAGE OF BUSINESSES WHO HIRED/PLAN TO HIRE WORKERS (LAST/NEXT 12 MONTHS)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Actual	11	8	26	31	44	41	21	-8	25	26	–
Expected	–	14	25	34	35	45	33	-4	20	28	27

SOURCE: GRANT THORNTON IBR 2011

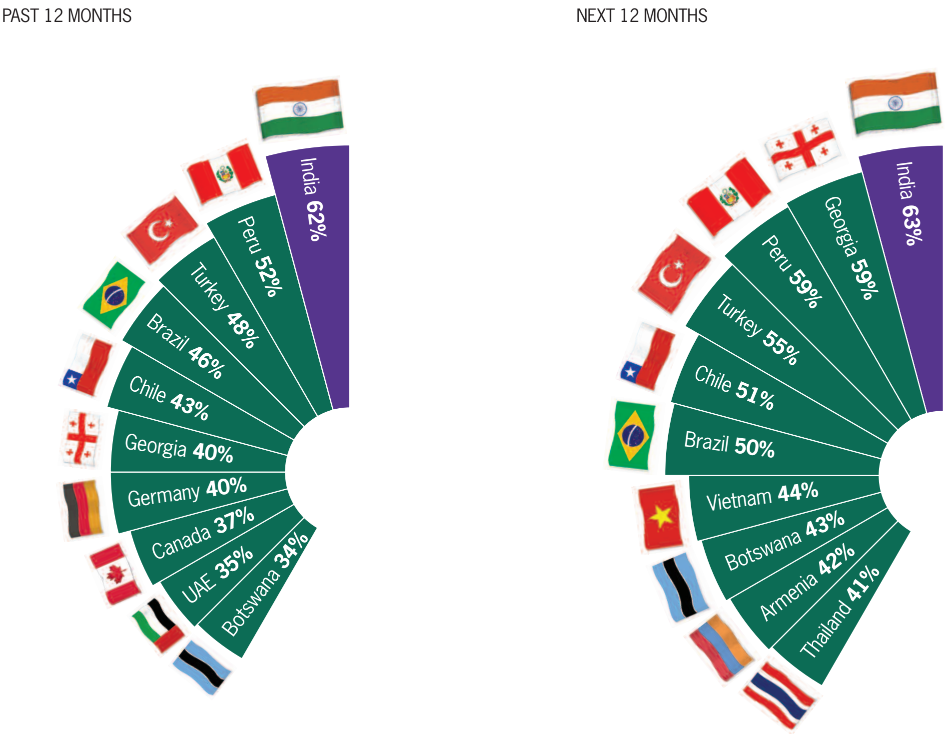
PROPORTION OF BUSINESSES GLOBALLY WHICH HIRED WORKERS OVER PAST 12 MONTHS

26%

PROPORTION OF BUSINESSES GLOBALLY PLANNING TO HIRE WORKERS OVER NEXT 12 MONTHS

27%

FIGURE 17: HIRING PLANS – PAST AND FUTURE
NET PERCENTAGE OF BUSINESSES WHO HIRED/PLAN TO HIRE WORKERS (LAST/NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

Looking ahead, global economic uncertainty continues to depress business hiring plans. Net 27% of businesses globally expect to increase employment in 2013, down one percentage point from 2011 and below the pre-crisis level of 33%. Higher growth rates in emerging economies are allowing businesses to consider expanding their workforces to a much greater extent than peers in mature economies: net 41% of BRIC businesses are planning to hire more workers over the next 12 months, with the Latin America average even higher at net 45%, and Asia Pacific (excl. Japan) not far behind (38%). This compares to just net 24% of G7 businesses, and just net 5% in the eurozone. The North America average remains fairly buoyant by contrast at net 33%.

India (net 62%) tops the ranking of economies looking to expand their workforces in 2013, followed by Georgia (net 59%) and Peru (net 58%). At least 50% of businesses in Turkey, Chile and Brazil also plan to hire more workers over the next 12 months. The highest ranked mature economy is the United States (net 34%) in 15th place, slightly behind mainland China and Mexico (both net 38%).

In yet more evidence of how the sovereign debt crisis is damaging business and economic growth prospects, the bottom 11 places are taken by European countries. Indeed, the majority of businesses in Greece (net -21%) Spain (net -16%), Ireland (net -5%) and Italy (net -3%), Poland and Switzerland (both net -1%) plan to lose workers in 2013.

The relative decline over the past 12 months is also most pronounced in European economies, with 10% fewer businesses in the eurozone planning to hire workers in 2013 compared with 12 months previously. Expectations in Belgium, France, Finland, Italy, the Netherlands and Spain have all declined by at least 10 percentage points. However the biggest falls are observed in Switzerland (down 23 percentage points), Argentina (down 21) and Vietnam (down 20).

Finding skilled workers

With unemployment rates high, talent is largely plentiful in mature economies. However a lack of skilled workers is the key issue constraining business growth in higher growth emerging economies.

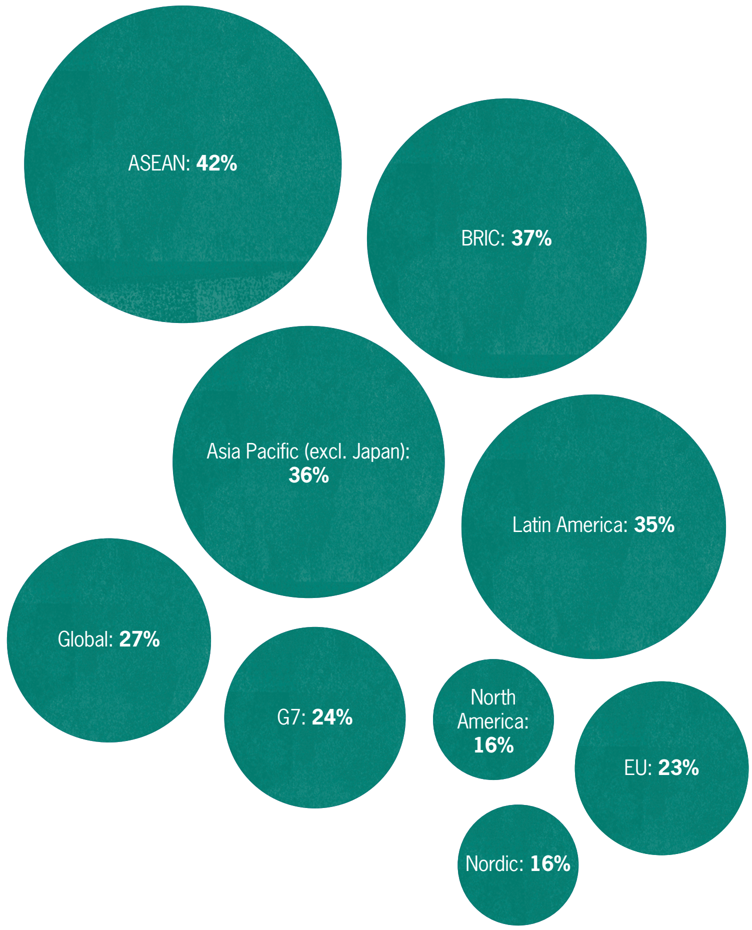
Nearly two in five businesses (37%) in the BRIC economies believe an inability to get the right workers will dampen growth in 2013. Although this is a slight fall from 2011 (39%), it is well above the G7 business average (24%). Businesses in the emerging economies of Southeast Asia (42%), Asia Pacific (excl. Japan, 36%) and Latin America (35%) are dealing with similar talent shortages.

The rise of this issue has been notable in Southeast Asia. The proportion of businesses citing talent scarcity as a constraint on growth has risen by seven percentage points over the past 12 months, led by Singapore (up 17 percentage points), Vietnam (up 10) and the Philippines (up nine). Elsewhere Chile and Germany (both up eight) are also reporting skills shortages.

The top six economies reporting skills shortages are all emerging economies, led by Botswana (56%) – which is struggling more than neighbour South Africa (38%) on this measure – India (53%) and Thailand (51%). Brazil (44%), where the unemployment stands at just 5.3%, is top in Latin America. Singapore is the top mature economy (43%) and is joined in the top ten by Australia and New Zealand (both 40%). Interestingly a lack of skilled workers is far more of an issue in Canada, Japan (both 38%) and Germany (37%) than in France (26%), the United Kingdom (19%) or the United States (14%). Almost a third of businesses in China (32%), where unemployment is running at just 4.1%, cite it as a constraint.

FIGURE 18: CALLING FOR SKILLED WORKERS

PERCENTAGE OF BUSINESSES CITING A LACK OF SKILLED WORKERS AS A CONSTRAINT ON GROWTH (NEXT 12 MONTHS)



SOURCE: GRANT THORNTON IBR 2012

FIGURE 19: GLOBAL RACE FOR TALENT

PERCENTAGE OF BUSINESSES CITING A LACK OF SKILLED WORKERS AS A CONSTRAINT ON GROWTH (NEXT 12 MONTHS)

SOURCE: GRANT THORNTON IBR 2012

Employment in 2013

Without the right workers to drive a vision forward, an entrepreneur will not be able to achieve scalability in his or her businesses. The best workers not only increase productivity, but can also save a business time and money.

The upper right quadrant includes some of the largest emerging economies in the world such as Brazil, China, India and Turkey, as well as Malaysia, Thailand and Vietnam from Southeast Asia. Businesses in these economies are planning to hire significantly in 2013 to drive growth but are unsure that the talent available matches their ambitions. Businesses in mature economies such as Australia, Canada, Germany, New Zealand and Singapore are in a similar situation.

Businesses in economies in the lower right quadrant are also looking to hire significantly over the next 12 months, but are more confident about the talent available to them. This quadrant includes Mexico and Peru from Latin America, as well as Norway, Sweden, the United Kingdom and the United States.

The lower left quadrant is home to those economies where businesses are happy with the talent on offer but they are simply not looking to hire as readily. Given the impact of austerity on growth rates and public sector employment, it is perhaps unsurprising to see this quadrant filled by European nations including Greece, Spain, Ireland, Italy and France. Unfortunately these results suggest that unemployment rates, which are running in double figures in each economy, are unlikely to come down significantly in 2013.

FIGURE 20: EXPECTATIONS FOR HIRING STAFF AGAINST AVAILABILITY OF SKILLED WORKERS

SOURCE: GRANT THORNTON IBR 2012

Access to finance

Funding constraints

Finance plays a key role in bringing the ambitious growth plans of dynamic businesses to life. Central banks across the globe from the ECB to the United States Federal Reserve to the Bank of Japan have been required to pump liquidity into their economies to keep them afloat since the collapse of Lehman Brothers and the ensuing global financial crisis.

Having peaked in 2009-10, funding constraints have eased off for businesses over the past 24 months dropping back to pre-crisis levels. However, they have not fallen back to 2004-05 levels which might come as a relief to those not wanting a swift return to the easy credit conditions of the last decade.

In 2009, more than 26% of businesses globally cited a shortage of long term finance and of working capital and the cost of finance as constraints on their growth prospects. Each of these factors fell between 2010 and 2011 and this trend has continued in 2012 with 22% of businesses globally citing all three factors.

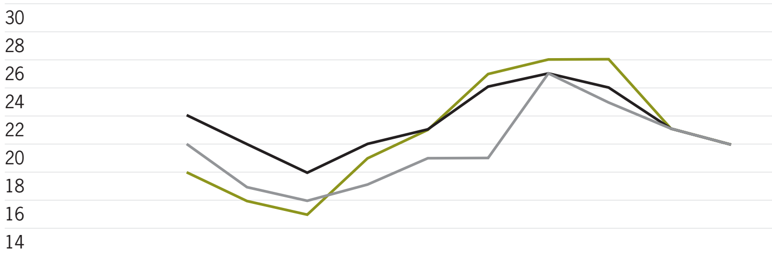
Businesses in emerging economies are generally more constrained by financial issues compared with peers in mature economies. For example, more than a third of businesses in the BRIC economies cite the cost of finance (34%), double the proportion in the G7 (17%) and the difference is similar for both the shortage of long-term finance and of working capital. A third of businesses in Asia Pacific (excl. Japan) cite the cost of finance and a shortage of working capital (both 33%). In Latin America the key funding worry is a shortage of long-term finance (31%).

Businesses in North America expect to be largely free from financial constraints over the next 12 months. Just 10% cite the cost of finance whilst 9% cite both shortages of long term finance and working capital. However, the situation in Europe appears tighter, with concerns remaining over the exposure of many of the region's banks to risky sovereign debt. Around one in four businesses in the EU cite each of the financial constraints, boosted by the Southern Europe figure which rises to over one in three.

Greece tops the ranking for the economies most constrained by the cost of finance and a shortage of working capital (both 65%). Businesses in Vietnam are the most concerned by a shortage of long-term

FIGURE 21: FUNDING CONSTRAINTS CONTINUE TO SLIDE

PERCENTAGE OF BUSINESSES GLOBALLY CITING FINANCIAL CONSTRAINTS ON GROWTH



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cost of finance	20	18	17	21	23	27	28	28	23	22
Shortage of working capital	24	22	20	22	23	26	27	26	23	22
Shortage of long term finance	22	19	18	19	21	21	27	25	23	22

SOURCE: GRANT THORNTON IBR 2012

PROPORTION OF BUSINESSES GLOBALLY CITING LENDERS AS SUPPORTIVE

75%

finance (57%). Other economies with high proportions of businesses constrained by funding issues include India, Thailand and Vietnam in Asia; Ireland, Italy and Spain from the eurozone; Argentina in Latin America and Georgia, Russia and Turkey from wider Europe.

Lender support

In times of economic uncertainty, it is even more important that business leaders stay close to lenders, keeping them informed of how their funding needs change. Globally, the proportion of businesses citing lenders as supportive of their business has increased marginally from 74% in 2011, to 75% this year. The proportion identifying lenders as unsupportive remains unchanged at 7%.

The support of lenders in North America has improved most significantly over the past 12 months, rising from 83% in 2011 to 90% this year. This is by far the highest level of lender support, well ahead of Asia Pacific (75%), Latin America (69%) and the EU (64%). Indeed, 14% of EU businesses express dissatisfaction with the support provided by lenders.

Businesses in the Philippines and the United States (both 91%) are the most satisfied with lender support, ahead of India, New Zealand (both 87%) and Japan (86%). Those most dissatisfied are split between the eurozone – Greece (24%), France and Italy (both 21%) – and Latin America – Mexico (23%) and Argentina (21%).

The biggest falls in lender supportiveness are observed in Singapore (down 15 percentage points), Switzerland (down 12) and Argentina (down 11). Conversely the biggest rises are seen in Hong Kong (up 17) and Turkey (up 12).

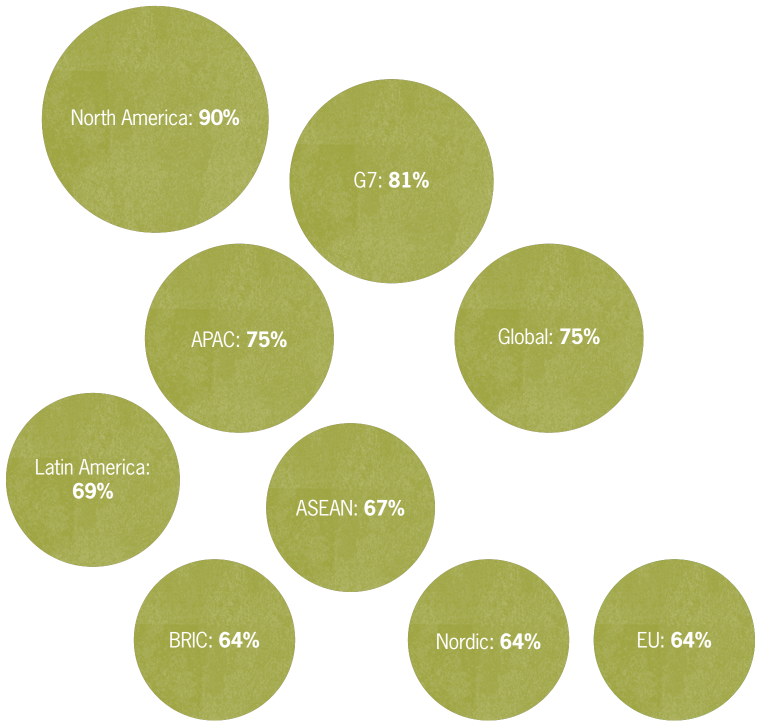
PROPORTION OF BUSINESSES GLOBALLY CITING LENDERS AS UNSUPPORTIVE

7%

FIGURE 22: STRUGGLING FOR FUNDS
AVERAGE PERCENTAGE OF BUSINESSES CITING THREE FINANCIAL CONSTRAINTS ON GROWTH

SOURCE: GRANT THORNTON IBR 2012

FIGURE 23: FUNDING TO GROW
PERCENTAGE OF BUSINESSES CITING LENDERS AS SUPPORTIVE



SOURCE: GRANT THORNTON IBR 2012

Topical issues

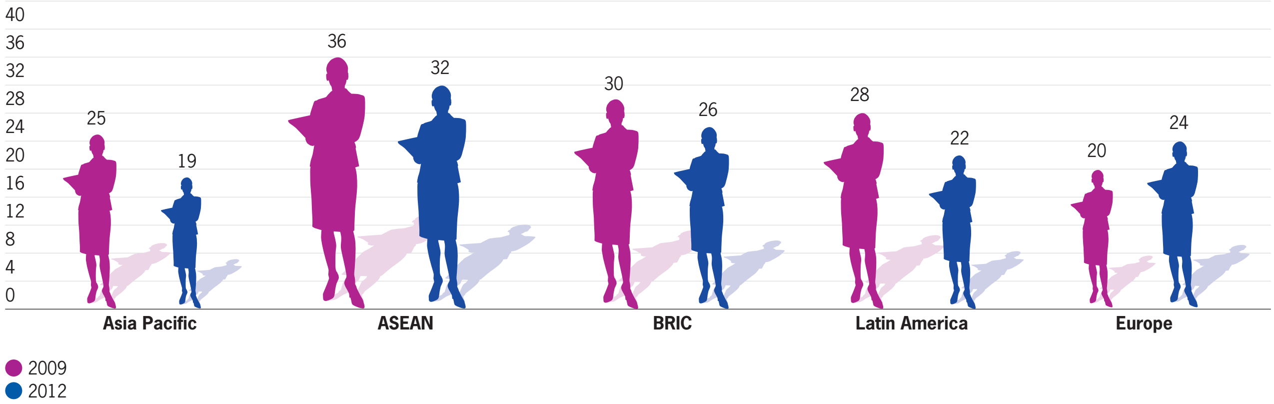
Women in business

The past 12 months have seen women take the lead in some of the toughest economic and political environments: Christine Lagarde became the first female to head the International Monetary Fund, Angela Merkel, the German Chancellor, has emerged as the key figure in solving the eurozone sovereign debt crisis and Maria das Gracas Foster has taken over at Petrobras, becoming the first woman to run one of the world's top five oil companies. Women also head governments in countries such as Argentina, Australia, Brazil and Thailand.

In our annual look at the proportion of women in senior management we found little change from previous years. The IBR indicates that women currently hold 21% of senior management positions globally, marginally up from 20% in 2011 but barely higher than the level reported in 2004 (19%). The results also found that the percentage of businesses that have no women in their senior management has fallen to 31% compared, to 38% in 2011. This is concerning, with a growing body of research suggesting that such imbalance in the boardroom can be detrimental to business growth prospects[4].

Despite rising unemployment, the proportion of women in senior management in Europe has continued to rise steadily from 17% in 2004 to 20% in 2009 to 24% in 2012, catching up with peers in emerging economies. Of course, getting more women into senior management positions has been high on the European political agenda for quite some time.

FIGURE 24: DECLINE TO MEDIOCRITY?
PROPORTION OF WOMEN IN SENIOR MANAGEMENT



SOURCE: GRANT THORNTON IBR 2012

[4] 'Women in senior management: still not enough' – Grant Thornton International via http://www.internationalbusinessreport.com/Reports/2012/women.asp

Governments have been vocal about addressing the imbalance – with France, Italy, Spain and Norway even adopting quotas – and as a result business practices have been under intense scrutiny.

However, we found that the reverse was true in emerging economies, where businesses have historically employed more females in senior roles. Just over one in five (22%) senior management positions in Latin America are held by women, down from 28% in 2009. Similar falls were recorded in the Asia Pacific economies (25% in 2009, down to 19% in 2012), South East Asia (36% in 2009, down to 32% in 2012) and the BRIC economies (30% in 2009, down to 26% in 2012).

Of course, there are a myriad of cultural, economic and social barriers which prevent women from reaching the top jobs, but rapid urbanisation, which has accompanied rapid economic growth in emerging economies, could help explain why the proportion of women in senior management is falling away. Since 1978, China has experienced the largest internal migration in human history, with nearly 160m people moving from the countryside into cities[5]. The proportion of people living in urban areas passed 50% in 2011, and is projected to hit 55% by 2020. Similarly in Mexico, the proportion of the population living in urban areas is projected to rise from 74% in 2000 to 80% by 2020[6]. This is putting a huge strain on traditional family models in which strong support networks allowed women to work whilst children were looked after by relatives.

Across the world, businesses in Russia employ the most women in senior management (46%), ahead of Botswana, Thailand and the Philippines (all 39%), whilst Italy ranks highest in Europe (36%). Bottom of the table is Japan, where only 5% of senior management positions are filled by women, below Germany (13%), India (14%) and Denmark (15%).

The biggest risers over the past 12 months include Turkey (25% to 31%), and the United Arab Emirates (8% to 15%), results that suggest that the wave of economic liberalisation in the Middle East as a result of the Arab Spring could have boosted the chances of women in the region reaching the top.

Of those businesses in which women occupy senior management positions, they are most likely to be head of human resources (21%), Chief Financial Officer or Corporate Controller both 13%). Just 9% of businesses are run by a woman.

FIGURE 25: RUSSIA LEADING THE WAY
PERCENTAGE OF WOMEN IN SENIOR MANAGEMENT

Russia	46	↑
Botswana	39	↑
Thailand	39	↓
Philippines	39	↑
Georgia	38	↓
Italy	36	↑
Hong Kong	33	↓
Turkey	31	↑
Poland	30	↓
Malaysia	28	↓
New Zealand	28	↓
South Africa	28	↑
Finland	27	↑
Armenia	27	↑
Taiwan	27	↓
Vietnam	27	↑
Peru	27	→
Brazil	27	↑
China (mainland)	25	↓
Canada	25	↓
Australia	24	↓
Spain	24	↑
France	24	↑
Singapore	23	↓
Sweden	23	↓
Switzerland	22	↑
Chile	21	↓
Ireland	21	↑
Greece	21	↓
Belgium	21	↑
United Kingdom	20	↓
Argentina	20	↑
Mexico	18	→
Netherlands	18	↑
United States	17	↑
United Arab Emirates	15	↑
Denmark	15	↑
India	14	↑
Germany	13	↑
Japan	5	↓

SOURCE: GRANT THORNTON IBR 2012

[5] The Economist; from 25 February 2012 edition
[6] United Nations' Population Division

Future of Europe

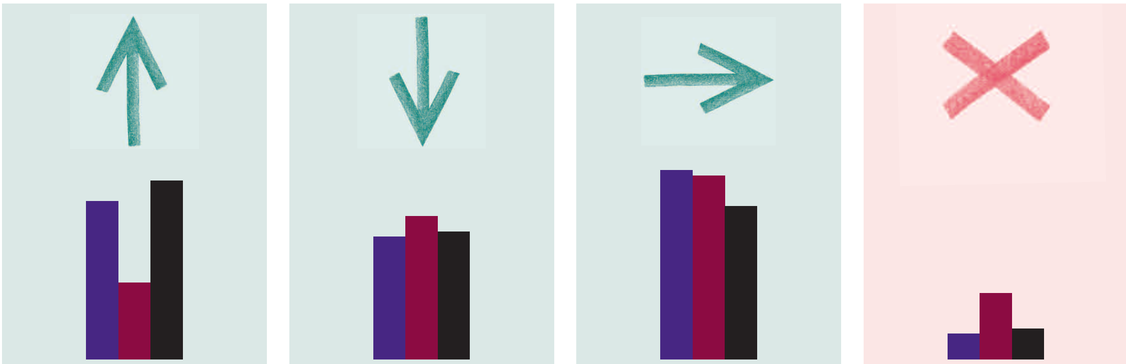
In 1951, in the aftermath of the Second World War, Belgium, France, Germany, Italy, Luxembourg and the Netherlands came together to found the European Union. Over the ensuing years, the EU has grown both in membership, and in economic and political influence to become the largest single market in the world. On 1 Jan 1999 the single currency – the euro – was launched and has now been adopted by 17 of the 27 EU member states[7].

However, cracks started to appear in 'the European project' in 2010, driven by the sovereign debt crisis. In 2011, these cracks widened, clouding the future of the region in uncertainty, so we asked business leaders from in and around Europe for their views on the single currency and future integration.

Despite the ongoing problems, we found that businesses remain very supportive of the single currency. Almost four in five (78%) businesses in the eurozone believe joining the euro has had a positive impact on their business. The main positive impacts cited were the boost to trade with other euro countries (23%), the elimination of exchange rate risk (15%) and greater transparency on prices (12%).

However, it has not all been positive with businesses indicating that there have been some drawbacks associated with adopting the euro – 57% cited a rise in costs and prices – but when asked if they would like to see the euro survive, an overwhelming 92% agreed. Businesses in Finland (90%) and Belgium (84%) are the most positive about the impact of the single currency, with those in Italy (48%) the least. The two regional economic heavyweights, Germany (79%) and France (71%), remain solidly supportive.

FIGURE 26: WOULD YOU LIKE TO SEE THE EURO SURVIVE?
PERCENTAGE OF BUSINESSES, BY GROUP



	Yes, and continue to expand	Yes, but with some countries dropping out	Yes, but with no more countries joining in the near future	No, it should break up
Euro	31	24	37	5
EU only	15	28	36	13
Neighbours	35	25	30	6

SOURCE: GRANT THORNTON IBR 2012

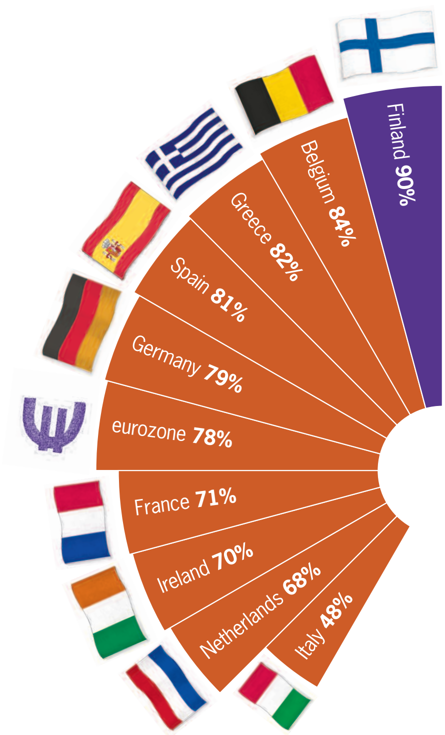
[7] 'The future of Europe: clouded by uncertainty' – Grant Thornton International via http://www.internationalbusinessreport.com/eports/2012/Future_of_Europe.asp

Views on further European integration are more mixed. Fewer than one in three eurozone businesses indicated they would like to see the single currency expand (31%), although interestingly, those in the troubled economies of Greece (62%) and Spain (53%) were most keen to welcome new entrants.

Meanwhile, almost a quarter of eurozone businesses (24%) said they would like to see some countries drop out of the single currency. This was a popular option in the only remaining eurozone members with AAA-rated sovereign debt: Finland (50%), Germany (40%) and the Netherlands (24%).

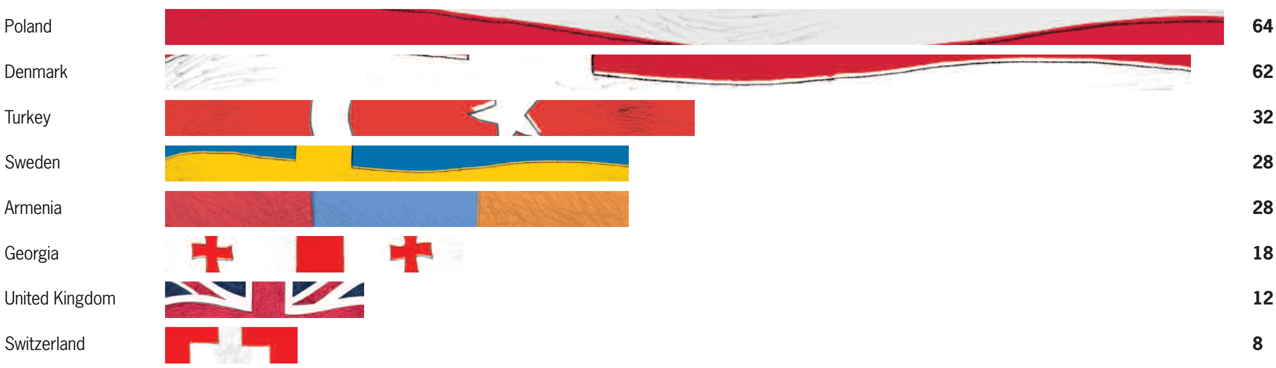
Outside the eurozone the picture was also varied; the majority of business leaders in Poland (64%) and Denmark (62%) would like their country to join the single currency. But few of their peers in the UK (12%) and Sweden (28%) agree. Outside the EU, 88% of businesses in Turkey would like their economy to integrate further with Europe, but just 32% would like to join the euro.

FIGURE 27: POSITIVE IMPACT OF ENTRY TO EUROZONE
PERCENTAGE OF BUSINESSES



SOURCE: GRANT THORNTON IBR 2012

FIGURE 28: WOULD YOU LIKE YOUR COUNTRY TO ADOPT THE EURO?
PERCENTAGE OF BUSINESSES



SOURCE: GRANT THORNTON IBR 2012

Stress

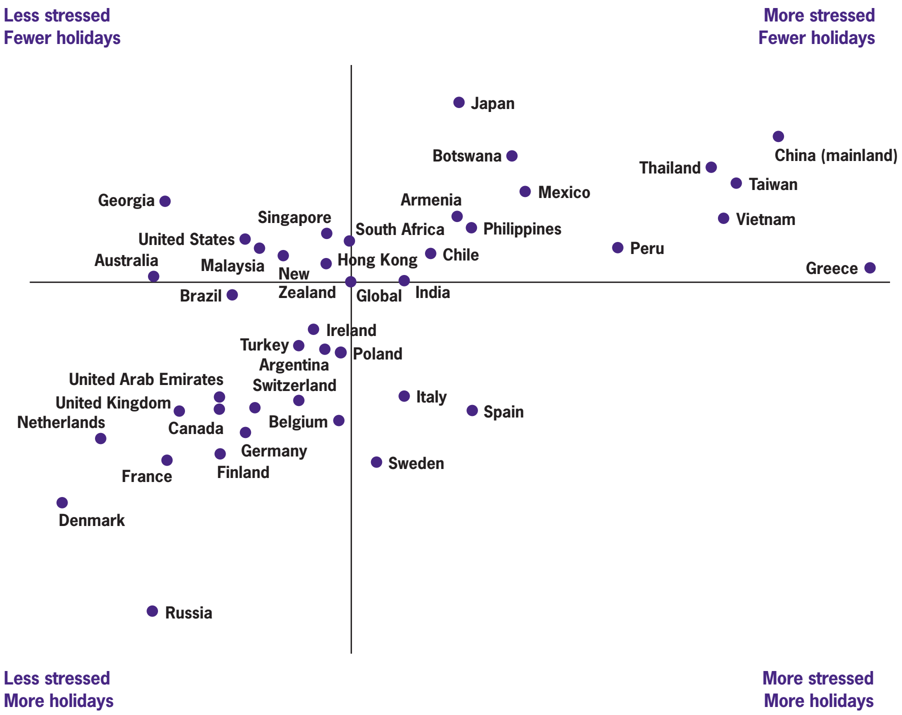
Levels of stress felt by business leaders showed their lowest annual increase since 2005 when we surveyed in early 2012. With economies depressed and the outlook for many still uncertain, this raised the question of whether business leaders are managing their goals to alleviate stress, adding a further brake to growth, or whether they have learnt to better manage the challenges they are facing.

In 2010, net 45% of business leaders reported an increase in stress levels over the past 12 months, but this fell to just 28% in 2011. And the pattern is consistent around the world; net 21% of business leaders in North America cite an increase in stress in the last 12 months, compared with 35% in 2010. Asia Pacific is the most stressed region with net 44% reporting an increase in stress over the past 12 months, but this too is down from 58% in 2010. Even in troubled Europe the net increase in stress declined from 40% in 2010 to 22% this year.

The results indicated that reaching performance targets is by far the biggest headache for businesses; globally 30% of business leaders cite it as the major cause of workplace stress, as do 37 of the 40 economies surveyed on this topic. The volume of communications, office politics (both 11%) and work/life balance (9%) are much smaller contributors.

However, just 42% of business leaders take a holiday to relieve stress, behind exercise/playing sports (62%) and entertainment in home (54%). This is despite a clear correlation between the number of holidays taken by business leaders and their levels of stress. Those countries where businesses take the fewest holidays – such as Japan, mainland China and Thailand – reported the biggest increases in stress. Conversely, business leaders in the Netherlands, Russia and Denmark took the most days off in 2011 and reported the lowest increases in stress.

FIGURE 29: HOLIDAYS TAKEN VS LEVELS OF STRESS



SOURCE: GRANT THORNTON IBR 2012

Sport in Business

Ahead of the 2012 Olympic Games in London, we asked businesses about the prospects of their economies bidding for and holding major sporting events. Interestingly, businesses in emerging economies most value the ability of big sporting events to attract investment to their economies, whilst counterparts in developed economies view them as less important.

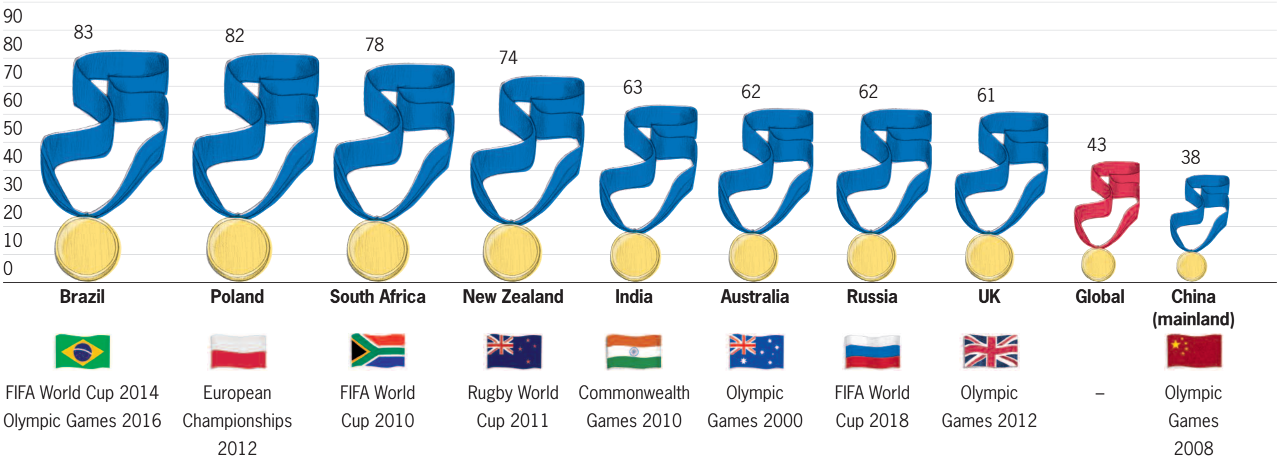
In Latin America, almost three quarters (74%) of businesses believe major sporting events are important in attracting investment to their economy and across the BRIC nations over half (54%) hold this view. By contrast, far fewer businesses in the EU (42%) and North America (44%) believe in the ability of big sporting events to attract investment, dropping to just over one in three (36%) in the G7.

Holding a major sporting event gives an emerging economy a global shop window, allowing it to present and market what it has to offer to a massive worldwide audience. For more established economies, international sporting competitions are still a great opportunity, but appear to be just one element of a much bigger offensive to attract investment.

Moreover, developed economies will normally have the venues, transport and technology infrastructure already in place for any major event. Capital investment to build new infrastructure is therefore much more limited in these economies, compared with the level of investment required in emerging economies such as China and Brazil.

The results also indicate that businesses in those economies which have recently held, or are soon to hold, major sporting events are more bullish about the investment they bring (the exception is mainland China, where the legacy of the 2008 Olympic Games in Beijing remains unclear). Businesses in Brazil – which is gearing up to host the 2014 FIFA World Cup and 2016 Olympic Games – show the greatest faith in sport's ability to deliver investment (83%). Businesses in Poland (82%) – host of the 2011 European Championships – and South Africa (78%) – FIFA World Cup 2010 are also positive in this regard.

FIGURE 30: HOW IMPORTANT DO YOU BELIEVE HOSTING MAJOR SPORTING EVENTS ARE IN TERMS OF ATTRACTING INVESTMENT TO YOUR ECONOMY?
PERCENTAGE OF BUSINESSES ANSWERING 4 OR 5 (WHERE 5 IS VERY IMPORTANT AND 1 IS NOT AT ALL IMPORTANT)



SOURCE: GRANT THORNTON IBR 2012

Executive compensation

The salaries of executives at large corporates around the world has been the subject of much debate so we asked business leaders for their views on compensation and shareholder action.

Two-thirds (67%) of business leaders around the world say that shareholders should have greater involvement in establishing remuneration policy for senior executives at large public companies and 66% believe that senior executives are paid too much.

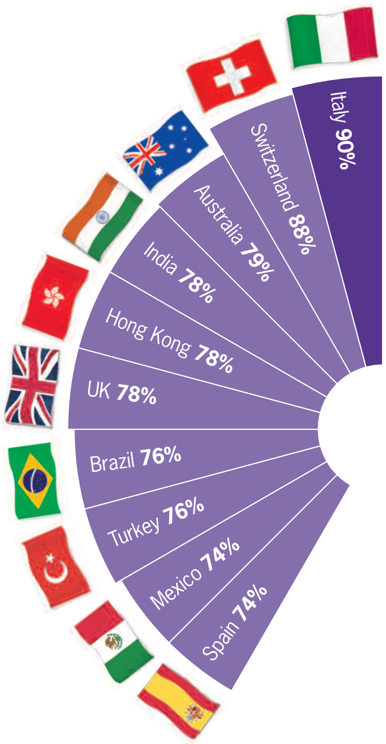
Those businesses most keen to increase the role of shareholders in setting executive pay are found in emerging economies such as mainland China (89%), Vietnam (88%), South Africa (85%) and Brazil (85%).

Meanwhile, businesses around Europe, including those in Italy (90%), Switzerland (88%) and the United Kingdom (78%), are most likely to think that senior executives at large public companies are paid too much. They are joined by peers from Australia (79%), India (78%) and Hong Kong (78%).

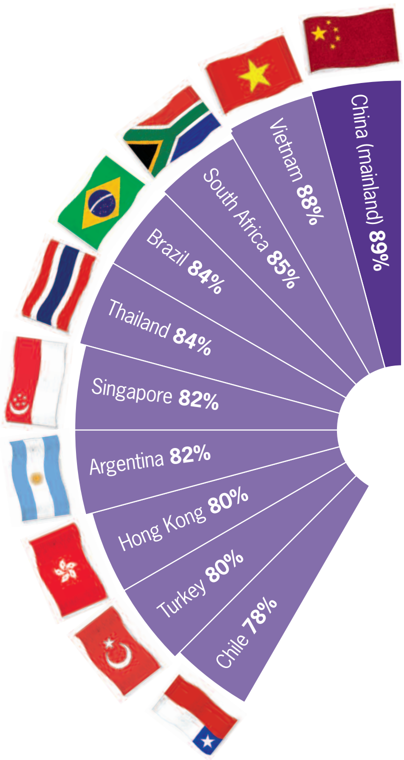
More than three-quarters globally (77%) say that public companies should disclose the remuneration policy and individual remuneration of executive and non-executive directors and 80% believe that the roles of CEO and Chairman of the Board should be held by different people to ensure greater oversight. A further 90% of business leaders think executive remunerations at public companies should be closely linked to performance targets.

FIGURE 31: EXECUTIVE COMPENSATION
PERCENTAGE OF BUSINESSES WHO BELIEVE THAT AT LARGE PUBLIC COMPANIES

SENIOR EXECUTIVES ARE PAID TOO MUCH



SHAREHOLDERS SHOULD HAVE GREATER INVOLVEMENT IN ESTABLISHING REMUNERATION POLICY FOR SENIOR EXECUTIVES



SOURCE: GRANT THORNTON IBR 2012

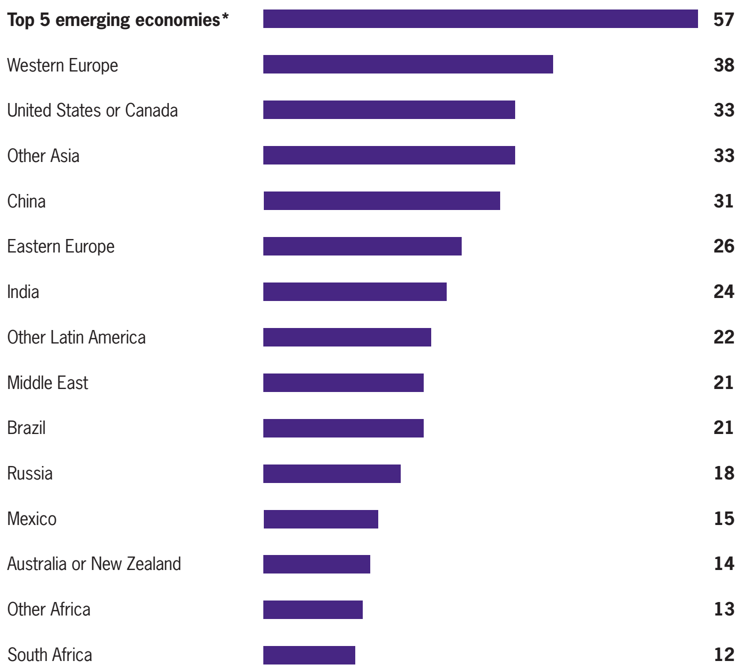
International expansion

In an ever more globalised world, dynamic businesses are increasingly looking to boost their growth prospects by expanding internationally. And globalisation is no longer a one-way street with business leaders in mature economies looking to access low-cost inputs such as labour and land, and vast consumer markets in emerging economies. Increasingly cash-rich businesses in emerging economies are looking for expansion opportunities in mature markets, whether through opening premises or buying distressed assets, to access strategic markets, skills or technologies. These transfers can move businesses onto higher growth plains, allowing them to produce higher value-add products and services.

Our survey results reveal that, globally, 57% of those business leaders considering international expansion are looking at the five biggest emerging economies – China, India, Russia, Brazil and Mexico – compared with 38% looking at Western Europe and 33% at North America.

This interest in higher growth economies is particularly apparent amongst businesses in mature economies: 63% of Japanese businesses and 45% of those in the G7 are looking at opportunities in China; 59% of German businesses are looking at Russia and 57% of North American businesses are looking at Latin America. However, businesses in Turkey (59%), Russia (37%), India (33%) and China (27%) are all looking at opportunities in Western Europe. And 33% of Latin American businesses, rising to 58% in Mexico, are looking at North America.

FIGURE 32: INTERNATIONAL INVESTMENT HOTSPOTS
PERCENTAGE OF BUSINESSES CONSIDERING INTERNATIONAL EXPANSION IN REGIONS/AREAS



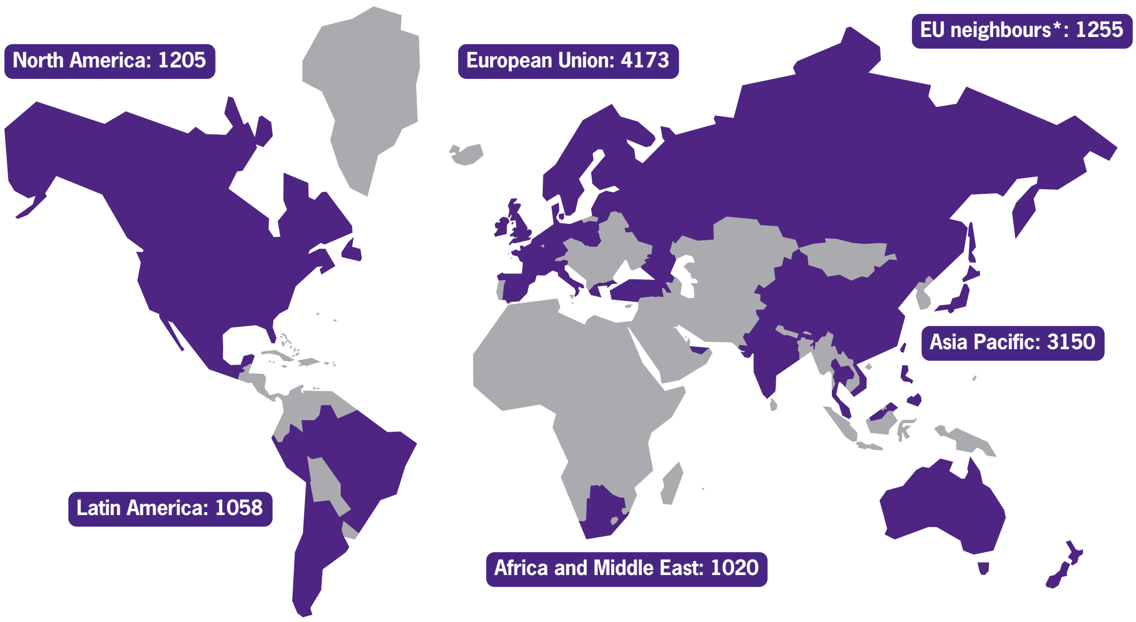
*PERCENTAGE OF BUSINESSES CONSIDERING EXPANSION TO AT LEAST ONE OF BRAZIL, CHINA, INDIA, MEXICO, RUSSIA

SOURCE: GRANT THORNTON IBR 2012

The key issue preventing businesses from expanding internationally is regulations and legislation, cited by 45% of businesses globally. It was cited as the key challenge for businesses in North America (50%) and the EU (39%) as well as in Latin America (50%) and the BRIC economies (35%). With the global economic recovery still tepid at best, lowering barriers to trade and foreign direct investment (FDI) could provide a boost to business growth prospects and help the global economy get back on a surer footing.

Methodology & IBR participants

FIGURE 33: IBR PARTICIPANT ECONOMIES AND TOTAL NUMBER OF INTERVIEWS COMPLETED



*Armenia, Georgia, Norway, Russia, Switzerland, Turkey

The International Business Report (IBR) is a quarterly survey of the views and expectations of both public and privately-held businesses. Launched in 1992 in nine European countries, IBR now interviews 3,200 businesses in 44 economies every quarter. The total number of individual business leaders interviewed per year is over 12,000.

Data collection is managed by Grant Thornton International's core research partner – Experian. Questionnaires are translated into local languages with each participating country having the option to ask a small number of country specific questions in addition to the core questionnaire. The research is carried out primarily by telephone. Responses are weighted by economy GDP figures.

The data for this report are principally drawn from interviews conducted between December 2011 and September 2012. The Q4-2012 business optimism figures (p.6) come from interviews conducted in November/December 2012, but are not included in the totals above. The target respondents are chief executive officers, chief financial officers, managing directors and chairmen. Business leaders are drawn from all industry sectors.

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