Focus on: Georgia

International Business Report 2012 – Economy focus series

The economy

Following a strong rebound from recession in 2010, the economy is expected to have grown by 4.6% in 2011, driven by a 25% rise in the value of exports. The state budget has returned to surplus thanks to a sharp increase in revenues and the government's policy of fiscal restraint. Growth prospects for 2012 look robust, although a full-scale meltdown in the eurozone provides a significant downside risk

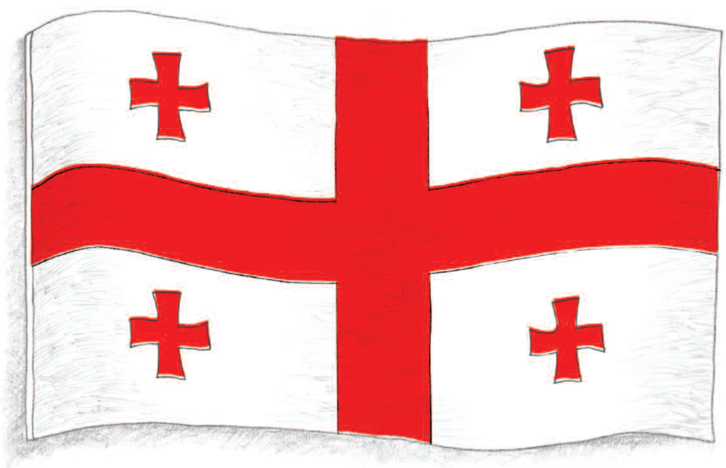
The key indicators[1] are highlighted below:

- the economy expanded by 7.5% year on year in Q3 2011, up from 4.9% in Q2
- financial services surged by 24.9% year on year, manufacturing production was up by 16.6%, and agriculture grew by 6.1%
- however, mining sector output fell by 6.2%
- the state budget recorded a surplus of Lari625.5m (US$351m) in the first nine months of 2011.

The business perspective

The Grant Thornton International Business Report (IBR) surveys more than 11,500 businesses in 40 economies around the world. This report focuses on businesses in Georgia and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Georgia are far more optimistic that those in the EU. Expectations for hiring staff are also well above the EU average, but the cost and availability of long-term finance remain major constraints on business growth.



[1] Source: International Monetary Fund, The Economist and Experian.

The outlook

Following expansion of an estimated 4.6% in 2011, the economy is likely to slow this year as global economic conditions deteriorate. The drag on Foreign Direct Investment and exports is likely to see the growth fall to 3.5%. This is likely to accelerate to 4.5% in 2013 as the global economy, and particularly the euorzone, recovers.

These growth forecasts are likely to squeeze on the 2012 state budget which was delivered based on growth of closer to 5%. Total state revenue under the budget is expected to be Lari6.6bn (US$3.7bn) with Lari6.1bn coming from taxes, with expenditure set at Lari6.18bn.

Figure 1: Key indicators for PHBs

Georgia compared to the EU average	2011 Georgia	2011 EU
Outlook for the economy over the next 12 months		
Net optimism	+78%	-17%
Change in employment levels		
Net hiring expectations	+49%	+15%
Constraints on expansion		
Cost of finance	54%	21%
Shortage of long term finance	38%	23%

Source: Grant Thornton IBR 2012

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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International Business Report results

The results reveal that global business optimism dipped again in the fourth quarter of 2011. However, businesses sentiment for the next 12 months in Georgia rose from net 73% to net 78%.

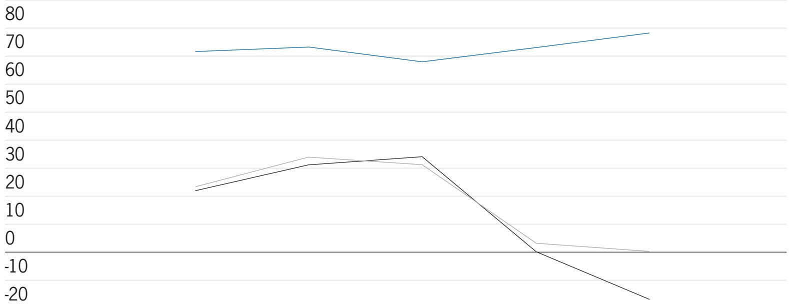
The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union dropped to -17% in Q4. However confidence in the BRIC economies ticked upwards to 34%.

Year-on-year optimism amongst businesses has declined slightly from net 22% in 2010, to net 16% across 2011.

Optimism/pessimism

- business optimism in Georgia rose from net 73% in Q3 to net 78% in Q4
- this is the highest level recorded over the past five quarters
- the EU[3] average plummeted to -17%
- the global average fell from net 3% to net 0%, down from net 34% in Q1-2011.

Figure 2: Outlook for the economy over the next 12 months: Q4 2010 to Q4 2011
Net percentage of businesses indicating optimism less those indicating pessimism[2]



	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Georgia	72	73	68	73	78
EU	22	31	34	0	-17
Global	23	34	31	3	0

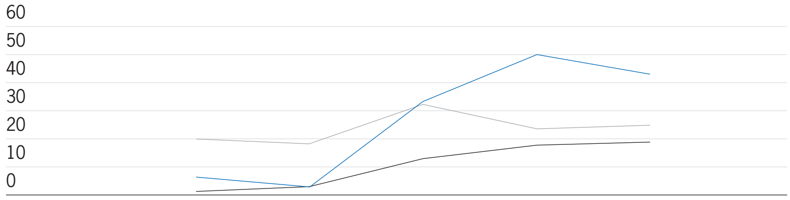
Source: Grant Thornton IBR 2012

[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
[3] for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- net 43% of businesses in Georgia hired workers in 2011, up from just 7% in 2010
- the EU average is far lower at 19%
- the global average stayed steady at 25%.

Figure 3: Employment history: Q4 2010 to Q4 2011
Net percentage businesses



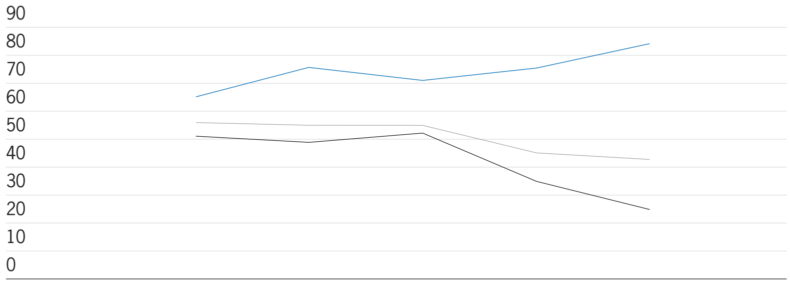
	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Georgia	7	3	33	50	43
EU	1	3	13	18	19
Global	20	18	32	24	25

Source: Grant Thornton IBR 2012

Revenue expectations

- business expectations for increasing revenues increased even further in Q4 rising to 84%
- this is up from 71% in Q2
- the EU average declined from 35% to 25% over the past quarter, and from 49% over the year
- the global average remained fairly steady at 43%.

Figure 4: Revenue expectations: Q1 to Q4 2011
Net percentage businesses indicating an increase less those indicating a decrease



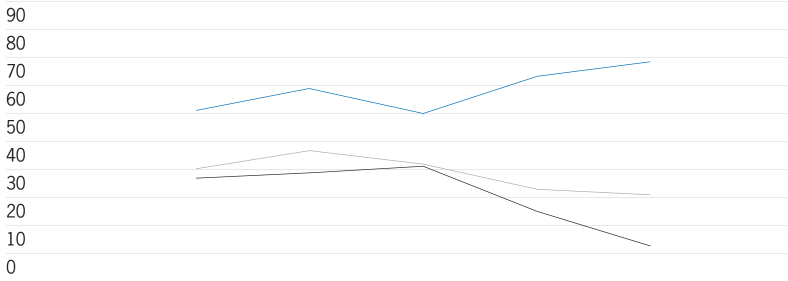
	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Georgia	65	76	71	76	84
EU	51	49	52	35	25
Global	56	55	55	45	43

Source: Grant Thornton IBR 2012

Profitability expectations

- profitability expectations increased again in Georgia in Q4, rising from 73% to 78%
- this was a further increase from 60% in Q2
- the EU average fell sharply, from 25% to 13%
- the global average fell slightly from 33% to 31%.

Figure 5: Profitability expectations: Q1 to Q4 2011
Net percentage businesses indicating an increase less those indicating a decrease



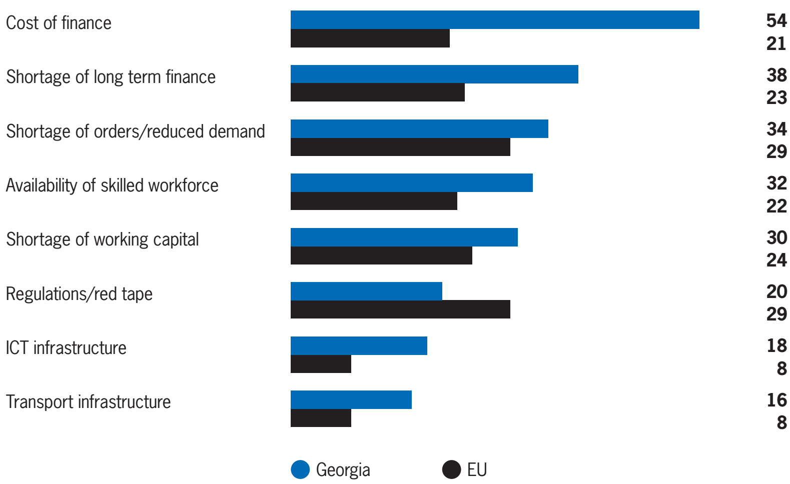
	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
Georgia	61	69	60	73	78
EU	37	39	41	25	13
Global	40	47	42	33	31

Source: Grant Thornton IBR 2012

Constraints

- the cost of finance is the greatest constraint on business growth prospects in Georgia
- it is cited by 54% of businesses compared with just 21% in the EU
- a shortage of long-term finance (38%) is also a major issue
- a lack of skilled workers (32%) and a shortage of orders (34%) are much more of a constraint on business growth in Georgia than the EU.

Figure 6: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

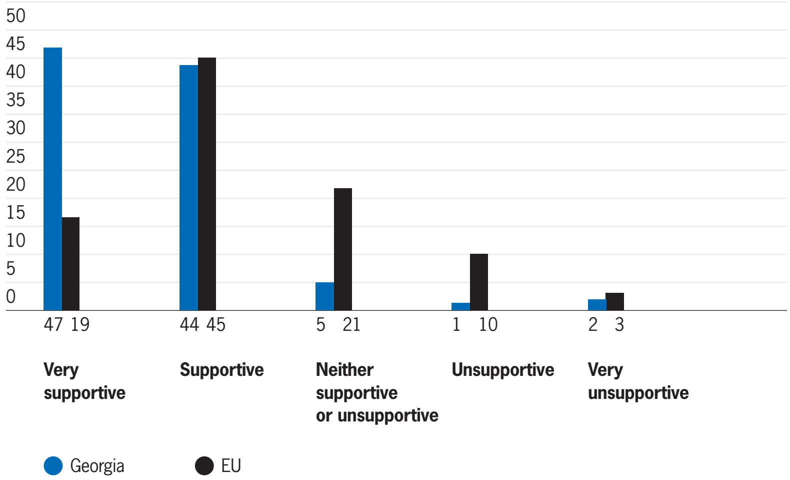


Source: Grant Thornton IBR 2012

Support of lender

- 91% of businesses in Georgia class lenders as supportive of their business
- this compares with 74% in the EU
- just 3% class lenders as unsupportive, compared with 13% in the EU.

Figure 7: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2012

The Grant Thornton International Business Report (IBR) is a quarterly survey of 2,800 senior executives in businesses all over the world. Launched in 1992 in nine European countries the report now surveys over 11,500 businesses in 40 economies on an annual basis providing insights on the economic and commercial issues affecting the global economy.

In Georgia 200 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 50 and 499. Data for this report were drawn from interviews conducted between January and December 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Georgia
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Peru
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
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