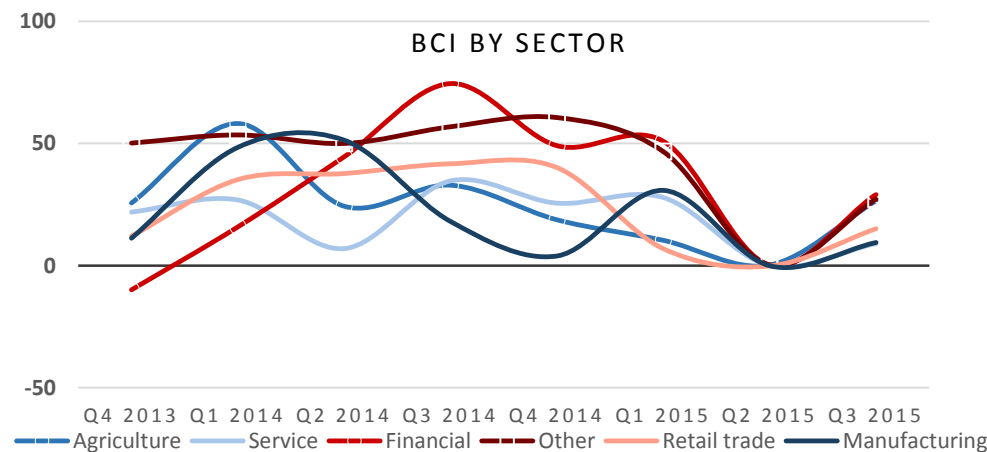


After the sharp decline in Q2 2015, business confidence (BCI) in Georgia showed signs of rebounding in Q3. In line with expectations, April, May and June were expected not particularly favorable months for Georgian businesses.

Out of the 211 companies surveyed, about half reported having trouble in business activities in April, May and June (reflected in low sales, turnover or production numbers). Accordingly, the main driver of the overall BCI rebound in Q3¹ was the strident increase in expectations. The business expectations index increased by 30 index points in one quarter – a sharp rebound that almost compensated for the loss of confidence in Q2 2015.

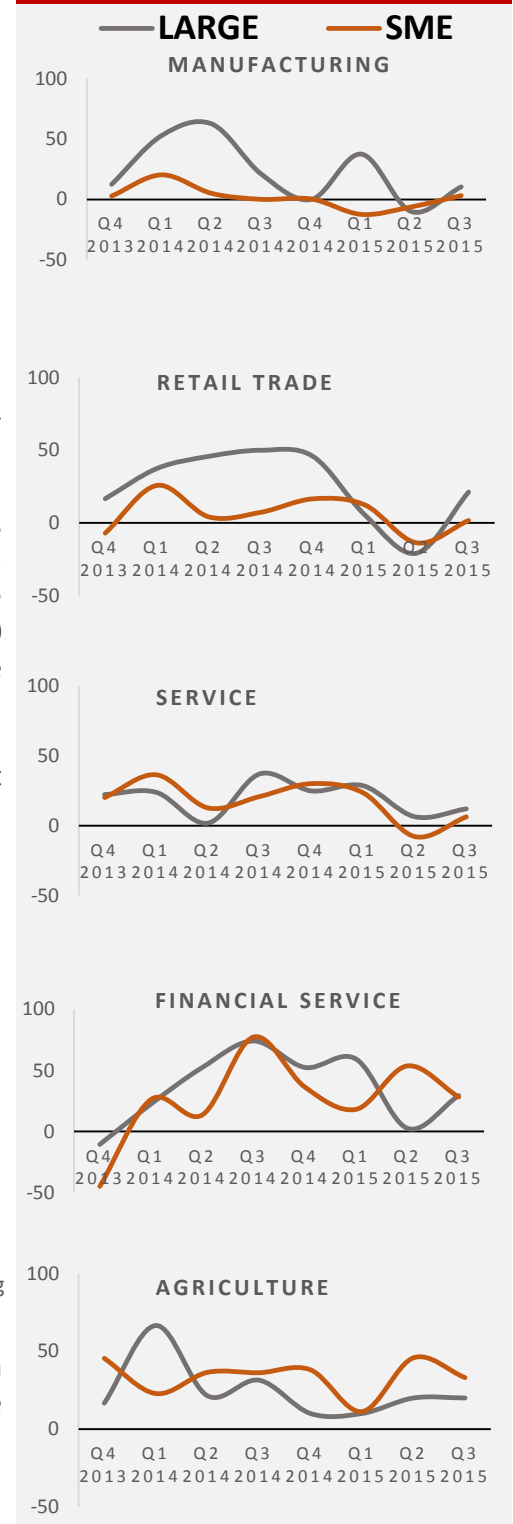
As can be seen from the chart below, an increase in business confidence is apparent in all sectors in the economy. It is also consistent across all firm sizes.



One of the most encouraging signals from the Q3 BCI is confidence rebounding in the retail sector, which had been on the decline since Q4 2014. As we have previously pointed out, the retail sector is the first link in the production chain and is thus first to react to changes in [consumer confidence](#).

¹ In the third quarter of 2015, the Business Confidence Index registered 14.8 on a scale of [-100; 100] points. The positive number on the index indicates that confidence among businesses is about 14.8 index points more positive than negative or neutral. A confidence index of 100 would indicate that all firms in the sample reported a positive outlook. An index of zero would indicate that the weighted balance of positive and negative views reported by firms is about equal or, alternatively, that all firms reported no change in the current business situation (for more details, see the methodological notes).

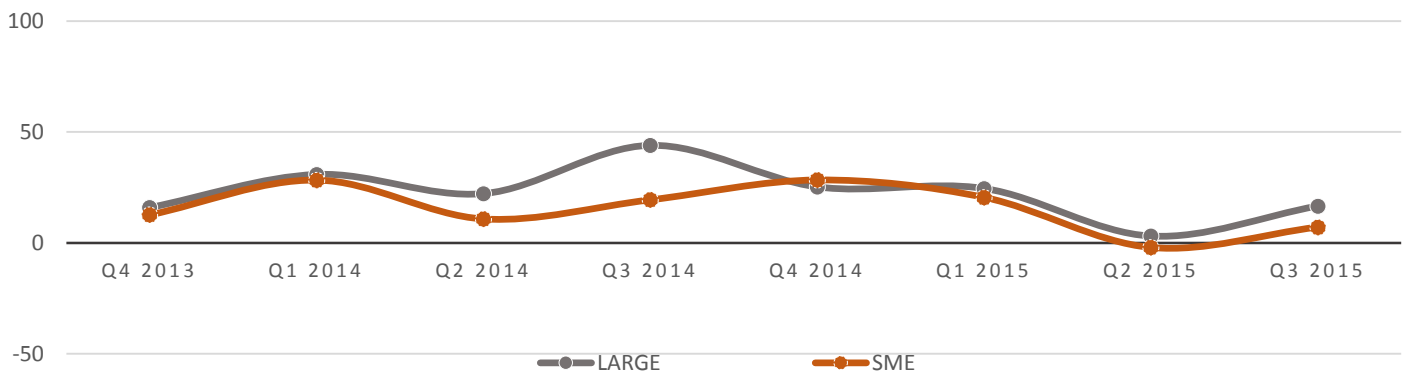
Overall business confidence by sector, for large firms and SMEs



The consumer confidence index has stabilized and started to increase. This growth is also reflected in the improvement of the retail sector in the BCI.

However, despite this improvement, it is apparent that firms in all sectors remain less confident in Q3 2015 compared to the same period last year.

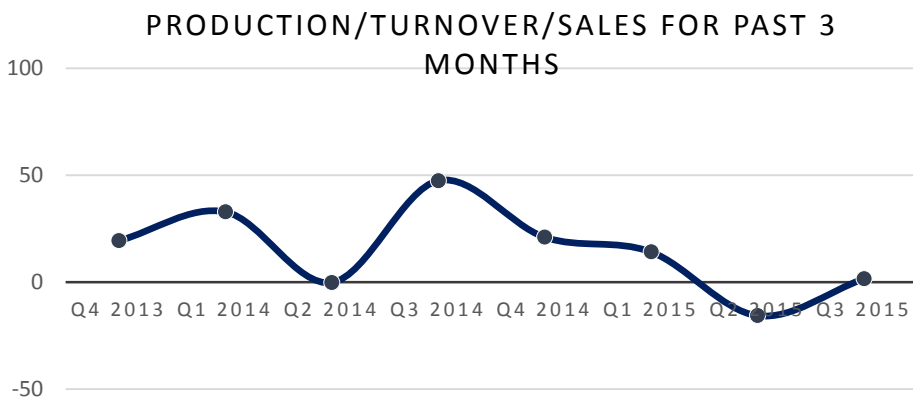
BCI: LARGE VS. SME



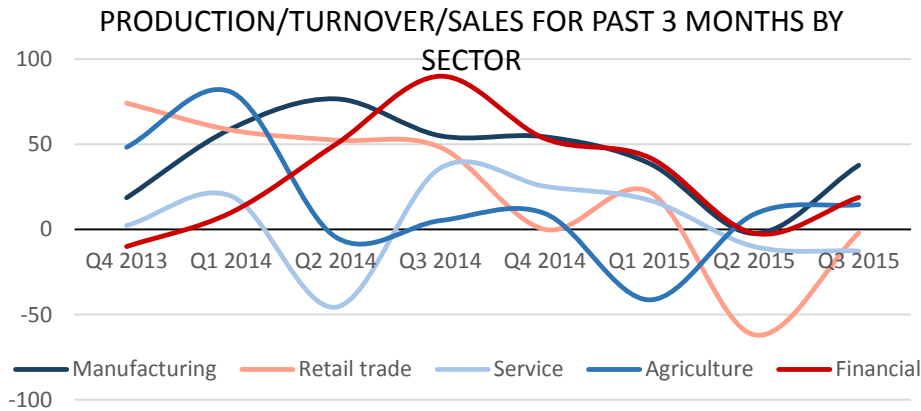
Business confidence in the third quarter of 2015 improved for large companies as well as SMEs. Large companies in retail and agriculture, which had very low business expectations in the second quarter, saw a particularly notable increase in confidence.

In terms of SMEs, farmers (the agricultural sector) and small financial intermediaries were slightly less optimistic in Q3 2015.

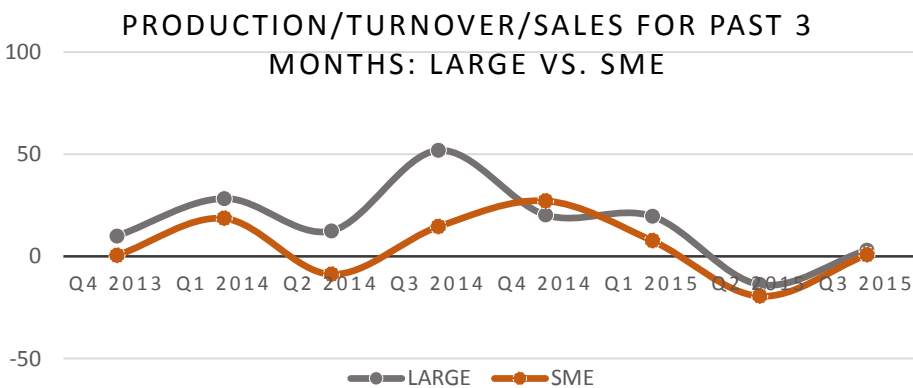
It should be noted that the BCI results presented here may be overestimated as the survey only covers businesses currently operating, and not those that have already exited the market. Firms still in operation are more likely to have a positive outlook. Data showing a simultaneous decline in the number of firms entering the market would support this view.



In the Q3 2015 reporting period, the sales (production or turnover) of the 211 firms surveyed increased by 16 index points, from -15 to 1. This indicator describes the current activities of businesses in May, June and July, and parts of April and August.

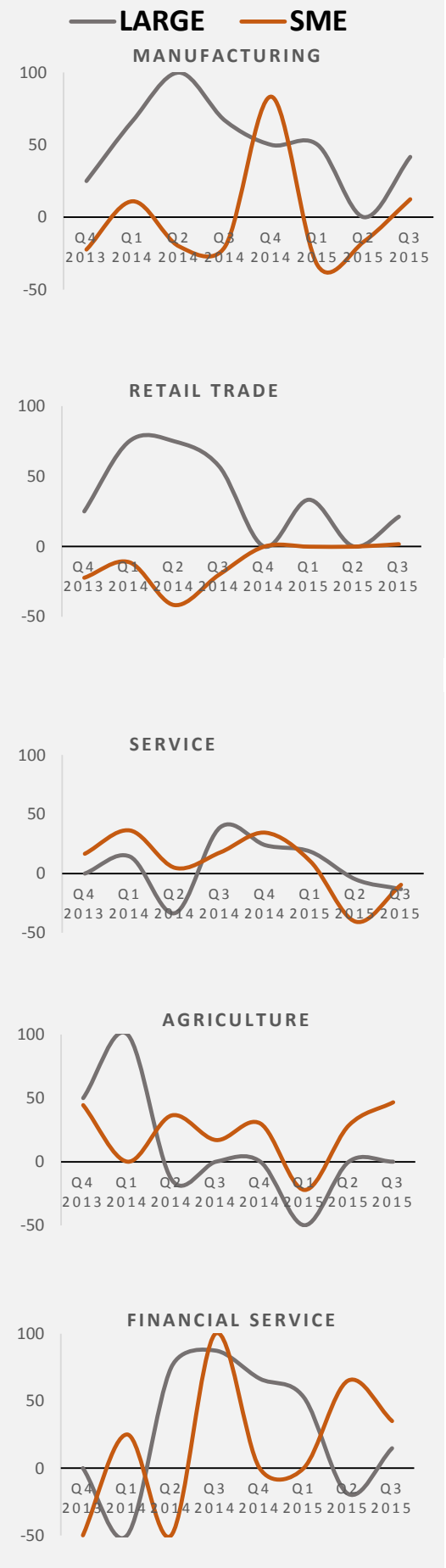


The current situation for many firms has become more positive, but the index remains close to zero. The financial and manufacturing sectors have both improved their positions. The agriculture sector remained close to the previously achieved level of 14 index points. However, retail and service companies appear to have faced challenges in the reporting period. This may have been driven by consumer confidence and the slowdown of demand in the first three quarters of the year.

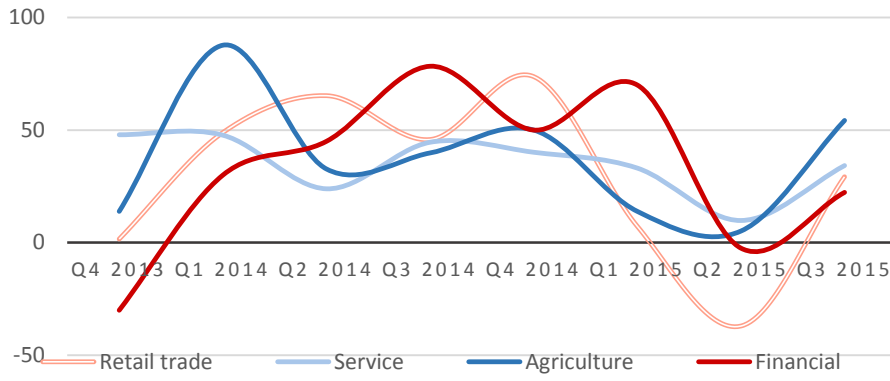


Analyzing the data in terms of business size, it is evident that 2015 got off to a rough start for both large firms and SMEs. Over the third quarter of 2015, the Georgian private sector has fared worse in terms of sales (turnover) than it did during the same period in 2014.

Sales/production/turnover for past 3 months by sector, for large firms and SMEs



BUSINESS EXPECTATIONS INDEX BY SECTOR

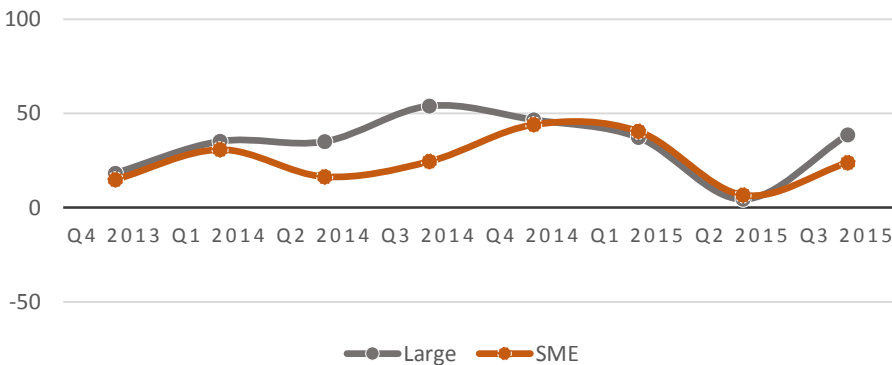


The expectations index increased by 30 index points and stood at 34 in the third quarter of 2015. This was driven by all sectors, but a particularly high increase was observed in the agriculture and retail sectors.

The expectations index for the agriculture sector is the highest and has exceeded the level of the index for the same period last year. The largest increase in expectations was in the retail sector, but optimism in the sector remains below last year's level.

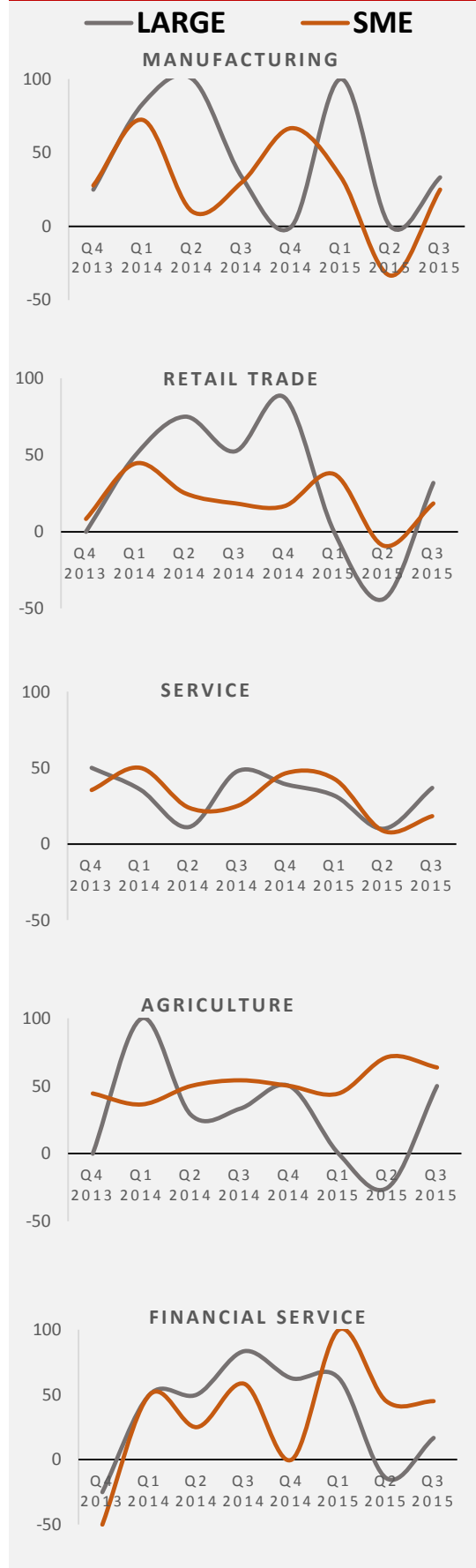
Expectations in the financial sector, which plunged to their lowest level last quarter, have finally rebounded.

BUSINESS EXPECTATIONS INDEX: L. VS. SME



As one can see from the graph above, business expectations of the next three months (August, September and October) for both large and SME companies diverged, but remained positive during the reporting period.

Expectations index by sector, for large firms and SMEs



SALES PRICE EXPECTATIONS

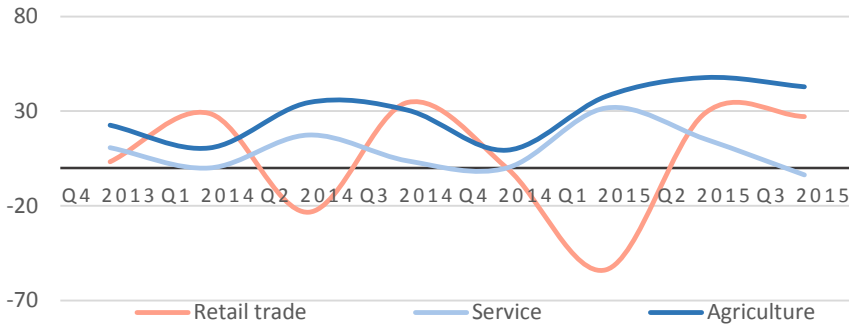


Sales price expectations for businesses decreased slightly over the last quarter, dropping from 16 (Q1 2015) to 3 (Q2 2015) index points.

There are several factors that can affect price expectations. On the one hand, decreased consumer demand would have pulled price expectations down. On the other hand, if the costs of doing business increase, this would push prices up (the supply effect). If both are at play simultaneously, the overall effect on prices is ambiguous.

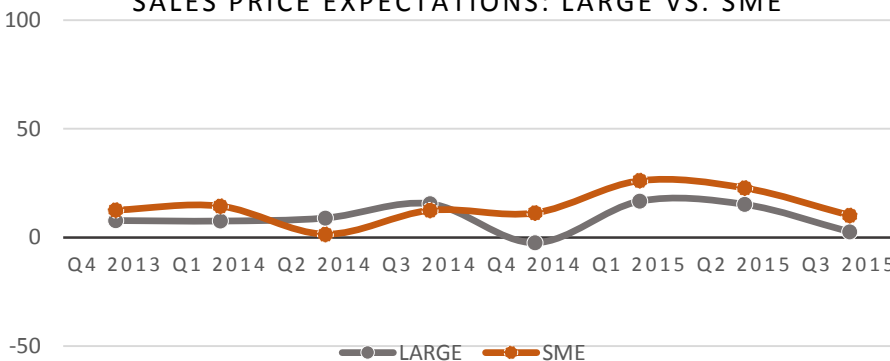
In our case, low consumer confidence would have dampened price expectations, while the GEL depreciation and import price increases would have pushed costs up. As a result, we can see that the changes in price expectations are rather mild.

SALES PRICE EXPECTATIONS BY SECTOR



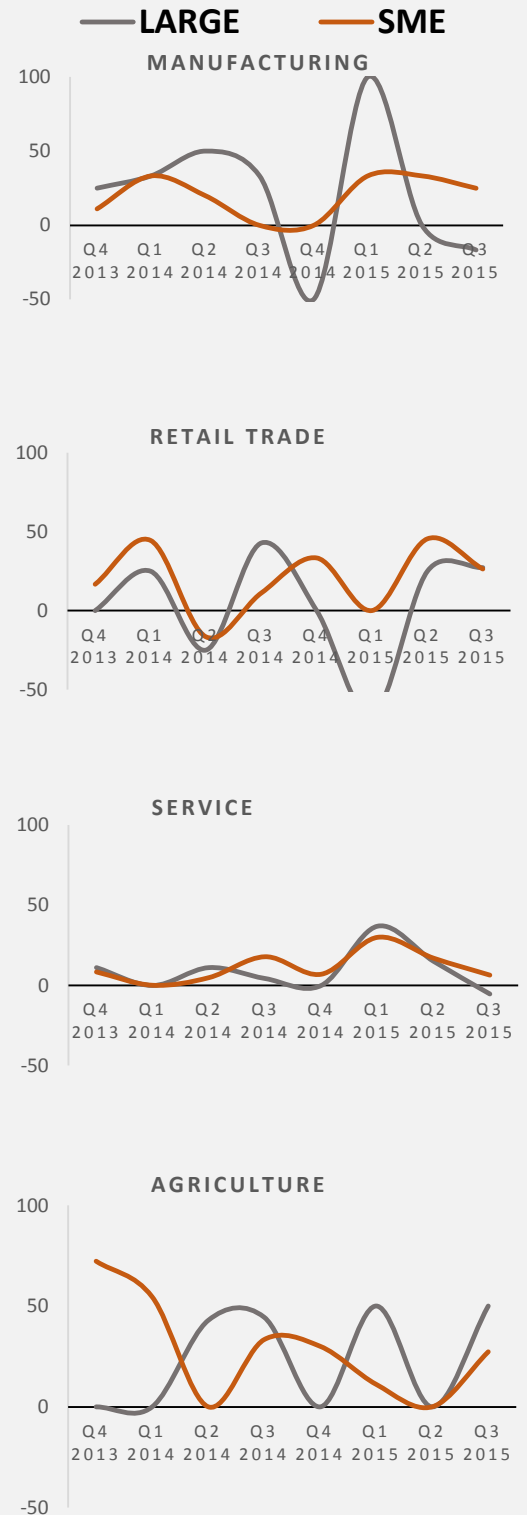
With harvest season nearing, farmers are expecting an increase in agricultural product prices. The agricultural sector is thus the leader in the price expectation index, followed by retail traders.

SALES PRICE EXPECTATIONS: LARGE VS. SME

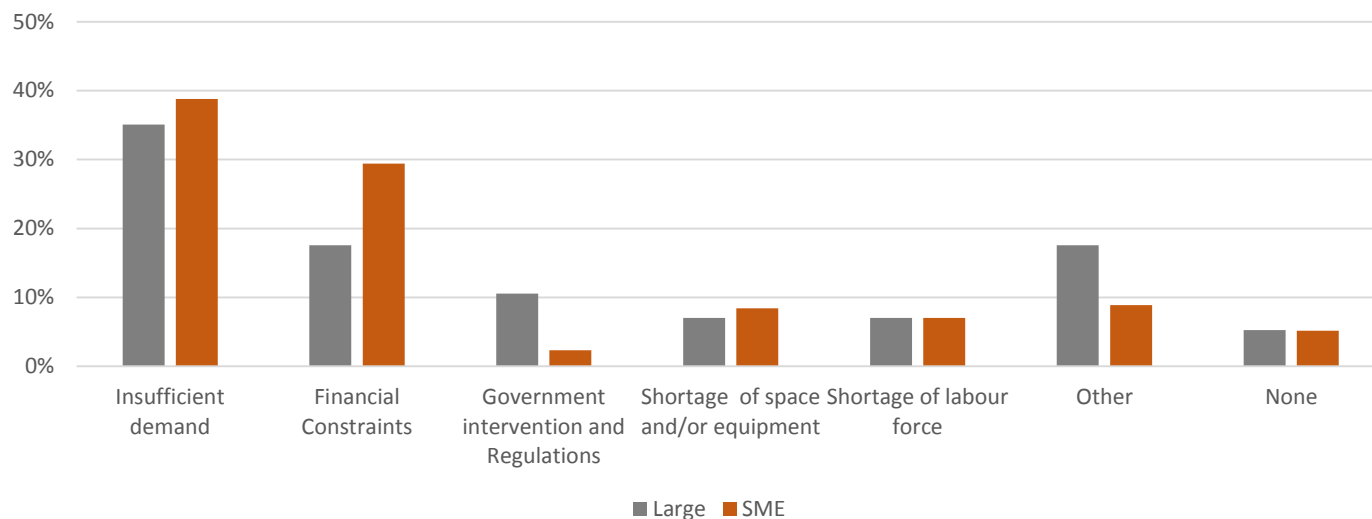


The overall price outlook for both large firms and SMEs remains stable and positive. However, large companies expect very little change in prices for the next three months.

Sales price expectations index by sector, for large firms and SMEs



WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 3, 2015



The most limiting factor for doing business in Q3 2015 was *insufficient demand*. A total of 35% of large companies reported low consumer demand as the main obstacle. SMEs found it particularly hard to operate with unstable demand on the market, with this index standing at 38% for SMEs in the third quarter of 2015.

SMEs typically have more trouble attracting financial resources than larger companies and this pattern has been preserved during the quarter. Financial constraints remain the second most significant problem for business operations. On the other hand, government intervention is a greater problem for larger enterprises.

SAMPLE SIZE BY SECTOR (see methodology)

Q3 2015	Sector	Firm Size		Total
		Large	SME	
	Construction	4	20	24
	Financial Service	9	10	19
	Manufacturing Industry	6	4	10
	Retail Trade	16	33	49
	Service	19	63	82
	Agriculture	2	15	17
	Other	3	7	10
	Total	59	152	211

Interviews were conducted during 1-27 July 2015.

*Methodology

The ISET Policy Institute, working in partnership with the BIA (Business Information Agency) and International Chamber of Commerce in Georgia (ICC), has implemented the Business Confidence Survey since December 2013 and publishes the Business Confidence Index (BCI) on a quarterly basis.

Business confidence for Georgia is measured by seven sector-specific indices focusing on: 1) services, 2) retail trade, 3) agriculture, 4) manufacturing industry, 5) financial service 6) construction and 7) other sectors. For each sector, confidence is measured through a simple survey instrument targeted at top business executives.

Answers obtained from the surveys are aggregated in the form of “balances”. Balances are constructed as the difference between the percentage of respondents giving positive and negative replies.

Using this method, a Confidence Index of +100 would indicate that all survey respondents were much more confident about future prospects, while -100 would indicate that all survey respondents were much less confident about future prospects.

VARIABLE	SCORE
Positive	+1
Neutral	0
Negative	-1

The methodology for compiling the indices is based on the Joint Harmonised EU Programme of Business and Consumer Surveys.

DEFINITIONS

- The **Business Confidence Index** is calculated as a weighted average of the balances induced from all the answers about production/sales/turnover, competition, order books, volume of stock, demand evaluation, operation costs, profit, employment, and sales price setting.
- The **expectations index** is calculated based on two questions: production/sales/turnover for the next three months and employment plans for the next three months.
- A **large² firm** is one with a yearly average of over 100 people employed or a yearly average turnover exceeding 1.5 million GEL.
- **Small firms** are those with an average of fewer than 20 people employed over a year and an annual average turnover of less than 0.5 million GEL.
- **Medium firms** are those that are neither large nor small.

² The size of the company is defined according to the Main Indicators' Calculation Methodology of Business Statistics (http://geostat.ge/cms/site_images/files/georgian/methodology/business/BS%20metodologia.pdf)