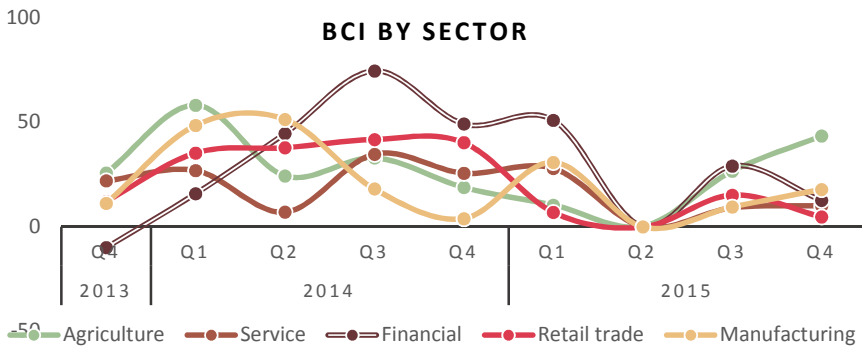


After the early signs of rebounding seen in Q3 2015, the Georgian Business Confidence Index (BCI) has lost 3 points (on [-100/100 scale])<sup>1</sup> on the weakening of business expectations.

Having soared more than 30 points in the previous quarter, Q4 expectations are more in line with the actual business performance in July, August and September, in which about 50% out of the 207 companies surveyed reported lower sales, turnover or production numbers. Having lost 18 index points in one quarter – a sharp decline! – The lowering of business expectations brought about a small and hopefully temporary downturn in the overall Q4 2015 BCI.

As can be seen from the chart below, the decrease in business confidence was not apparent in all sectors of the economy. Unsurprisingly, because of the harvest the agriculture sector's outlook improved. The manufacturing sector also offered an encouraging signal from Q4, with the sector irreversibly recovering from the shock of the lari depreciation.

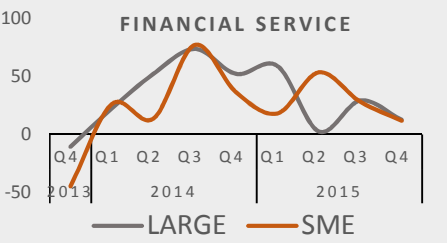
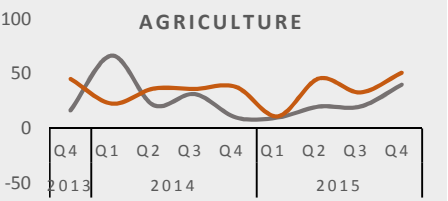
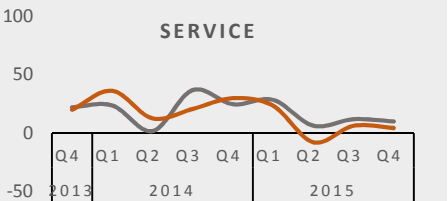
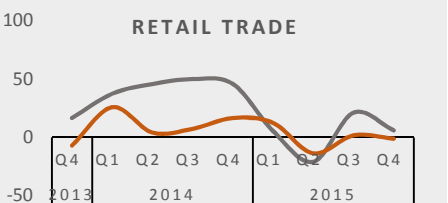
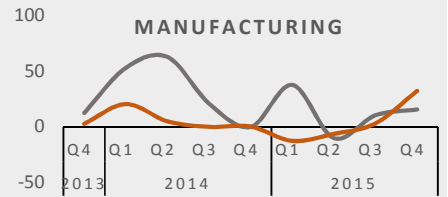


In contrast, the financial and retail sectors experienced a significant decrease in confidence. One of the more worrisome developments is the fact that financial sector confidence took a direct hit. This sector exhibited the sharpest drop, plummeting from 29.1 index points in the first quarter of 2015 to 12.6 points at the end of the year.

<sup>1</sup> In the fourth quarter of 2015, the Business Confidence Index registered 12 on a scale of [-100; 100] points. The positive number on the index indicates that confidence among businesses is about 12 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).

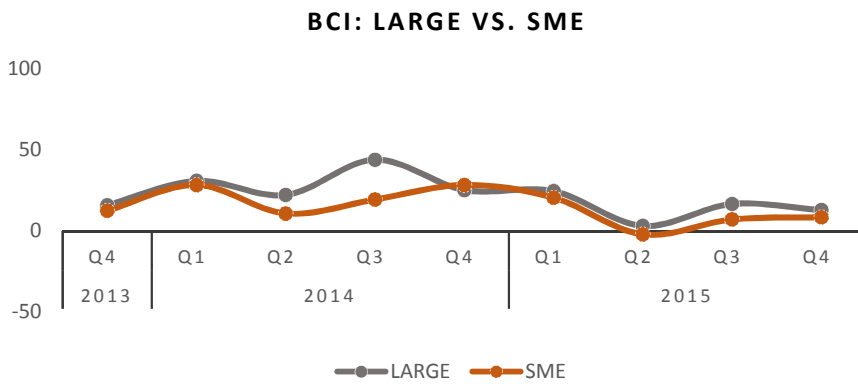
### OVERALL BUSINESS CONFIDENCE

by sector for large firms and SMEs

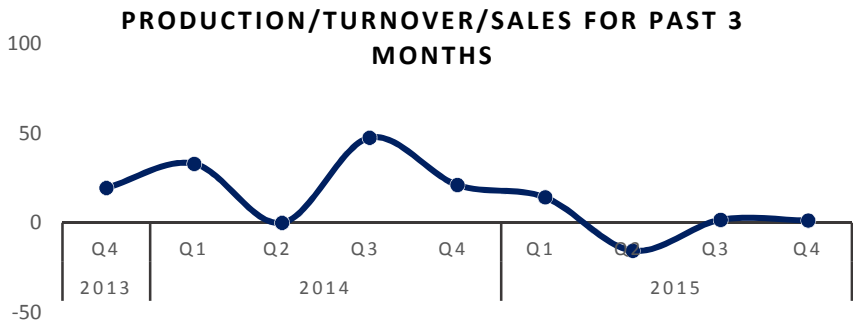


The [Consumer Confidence Index \(CCI\)](#) saw a gradual fall in July and August and reached its historical minimum in September (decreasing from -39 in July to -50 in September). With the business survey held in October and the slowdown in demand, retailers were unable to keep increasing their outlook for the fourth quarter of 2015.

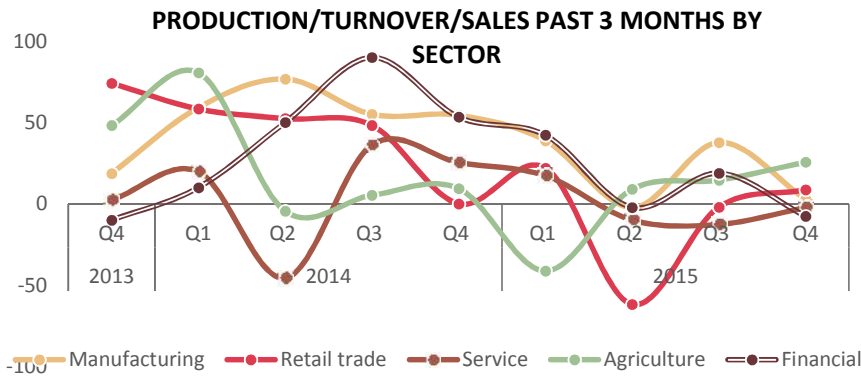
It is apparent that firms in all sectors are less confident in Q4 2015 than they were in the same period last year.



Business confidence in the fourth quarter of 2015 slightly improved for SMEs and declined for large companies. 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.

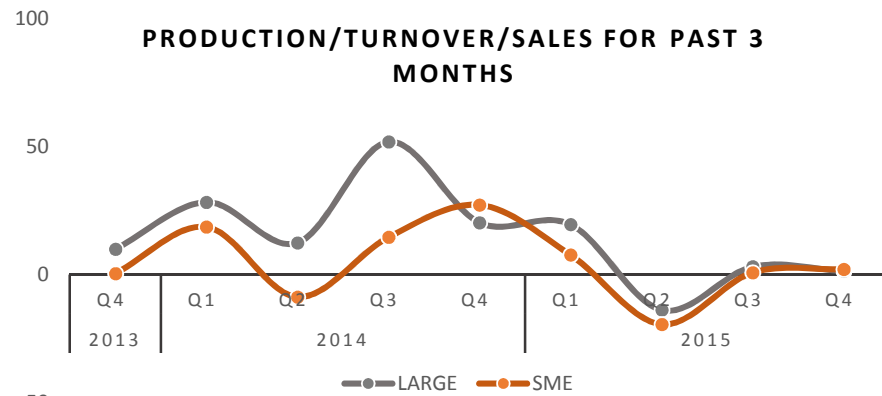


In the Q4 2015 reporting period, the sales (production or turnover) of the 207 firms surveyed remained the same and was close to zero. This indicator describes the activities of businesses in July, September, October and part of November.



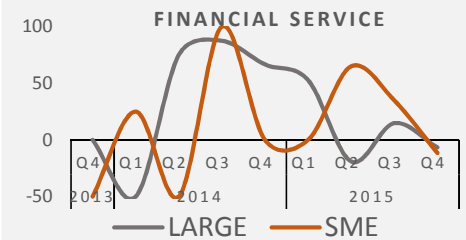
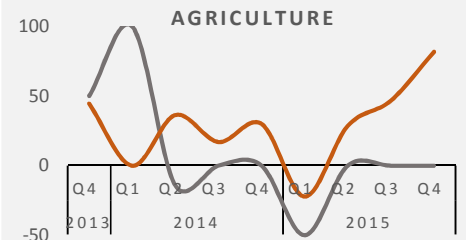
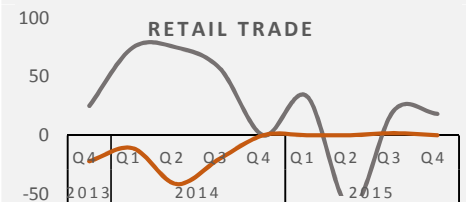
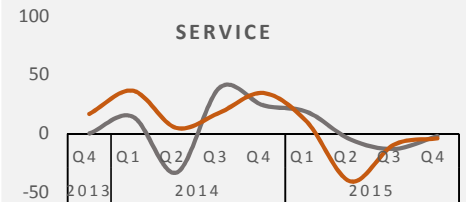
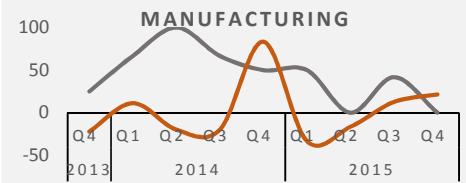
The current situation for many firms has remained low and for some sectors has even become negative. The decrease in the financial sector was marginally the highest. More financial intermediaries assessed their performance as being negative than as either positive or neutral.

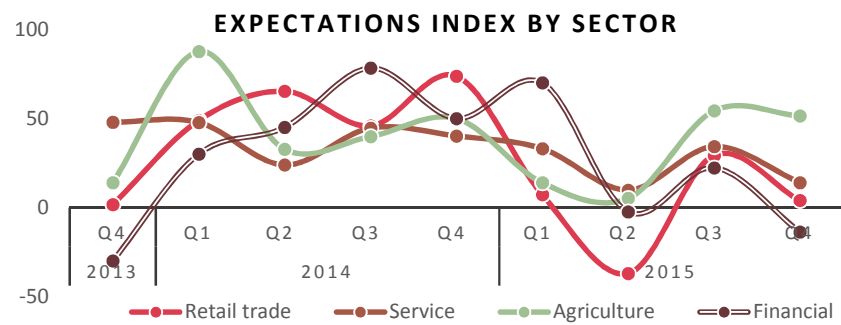
The increase in agricultural performance this fall compensated for the rise of pessimism in the manufacturing, service and financial service sectors.



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. The Georgian private sector has fared worse in terms of sales (turnover) in the fourth quarter of 2015 than it did during the same period in 2014.

## SALES/PRODUCTION/TURNOVER FOR PAST 3 MONTHS by sector for large firms and SMEs

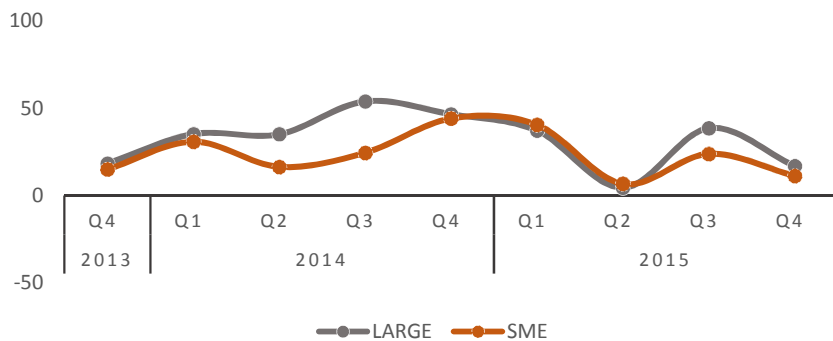




The expectations index decreased by 14 index points and stood at 16 in the fourth quarter of 2015. Although this was driven by all sectors, a particularly high decrease was observed in the financial and retail sectors.

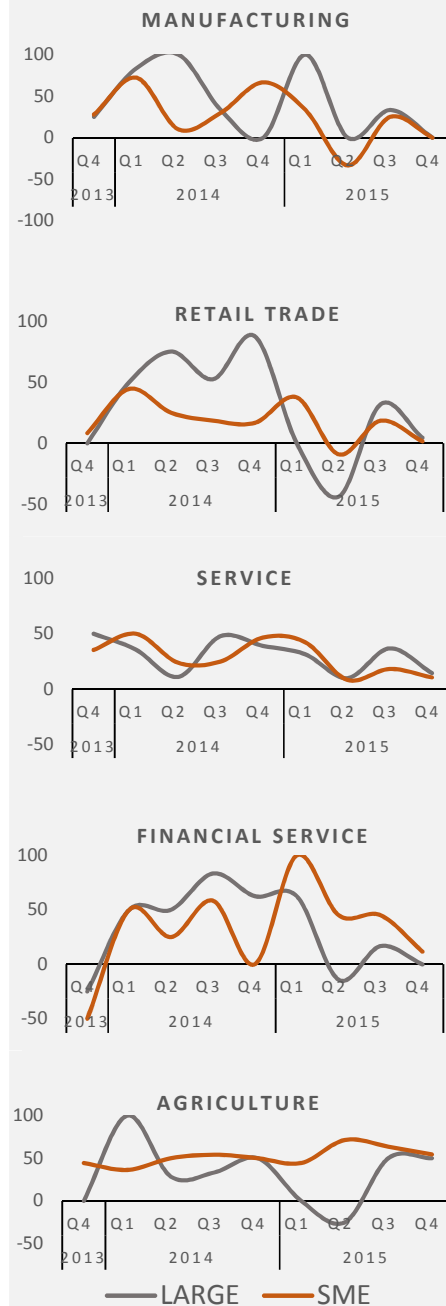
The main reason for this dramatic change in expectations was the re-activated exchange rate fluctuation in August 2015. After the June appreciation of the lari and the stabilization of the exchange rate in July, the 6% depreciation in August (the lari reaching its minimum value against the dollar) was unexpected and businesses adjusted accordingly.

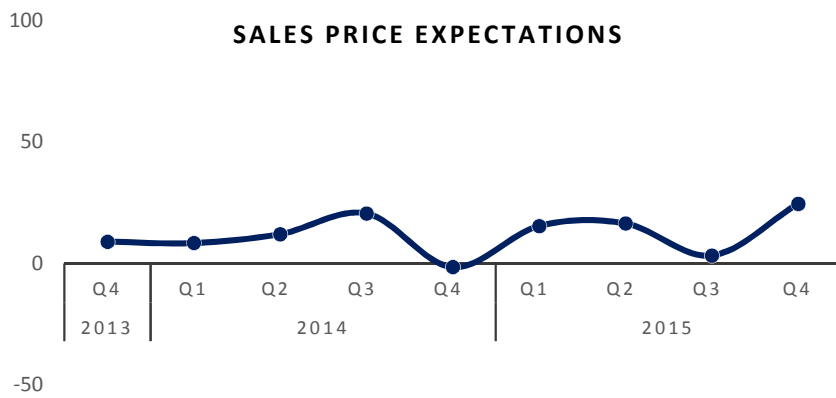
### EXPECTATIONS: L.VS.SME



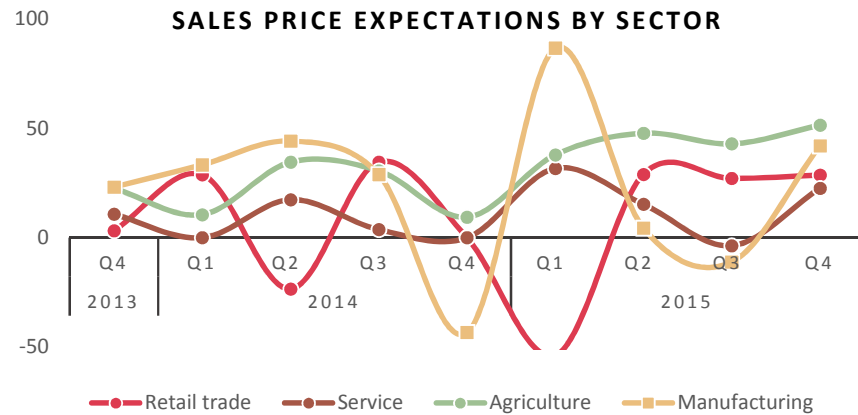
As one can see from the graph above, business expectations of the next three months (October, November and December) for both large and SME companies converged and decreased during the reporting period.

## EXPECTATIONS INDEX by sector for large firms and SMEs



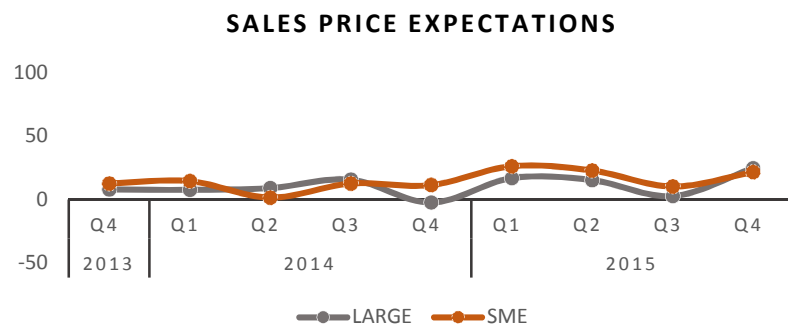


Sales price expectations for businesses reached its highest point in Q4. More of the surveyed companies reported their readiness and plans to increase prices over the quarter. The 37% lari depreciation over a year (November 2014 to November 2015) was not much reflected in sales price expectations and the index was rather moderate. Decreased consumer activity pulled price expectations down and business side was waiting the right moment to reflect increased costs (due to import prices) on the sales prices. As it seems holding time is exhausted.



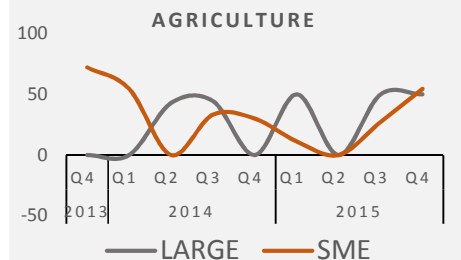
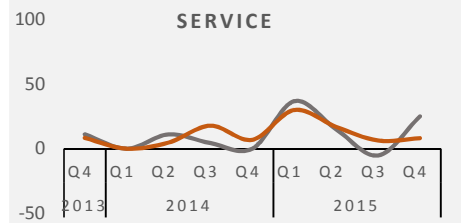
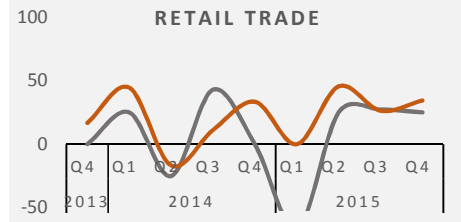
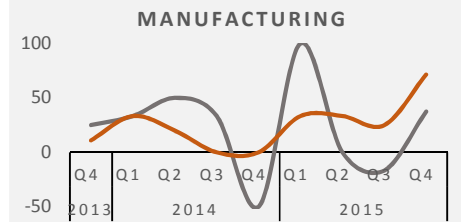
Sales price expectations increased for all sectors aside from the retail sector. The reason for this is obvious. The retails sector adjusted its price setting one quarter after the exchange rate started to depreciate. The largest share of retail products are imported and retailers did not have time to wait for demand reactions and thus automatically increased prices. Logically, as can be seen from the graph, they took into account the possibility of future depreciation and, as a result, despite the continued decrease of the lari's value, retail prices did not change after that.

Representatives from the service, manufacturing and agriculture sectors all decided to increase their prices at once. The producer price index (PPI) increased by 8.4% in a year (October 2014 to October 2015), while the consumer price index (CPI) increased by 6.3% within the same period. Judging by this information and the results of the survey, it appears that inflation pressure will increase.

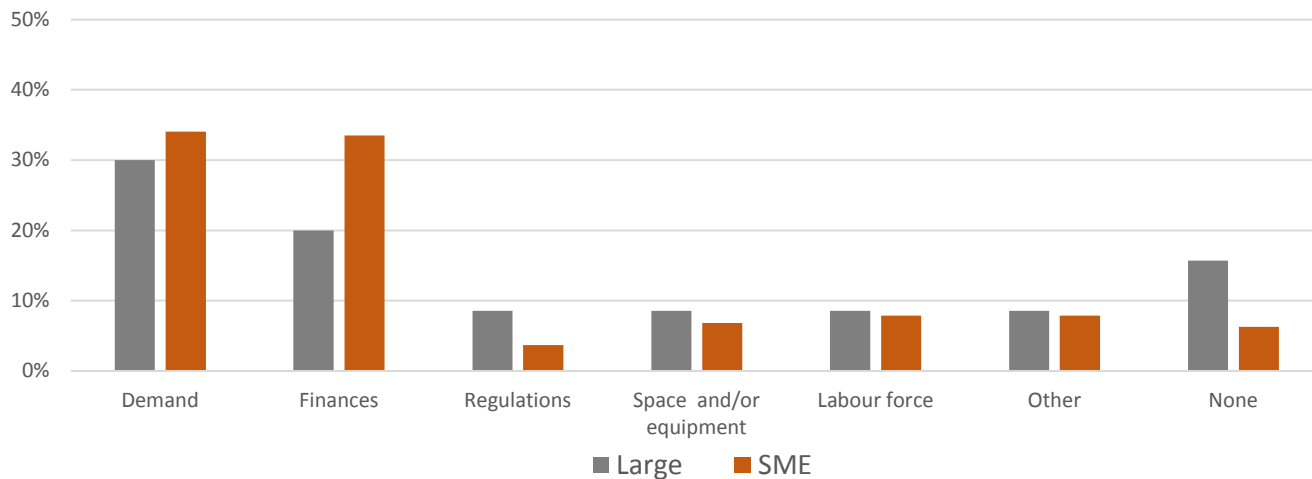


The overall sales price expectations index achieved its peak values in quarter 4. A marginally high contribution was made by large companies. Large companies appear to be planning to increase prices on their production/services in the near future.

## SALES PRICE EXPECTATIONS INDEX by sector for large firms and SMEs



## WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 4, 2015



The most limiting factor for doing business for both large and SMEs in Q4 2015 was *insufficient demand*. A total of 30% of large companies reported low consumer demand as the main obstacle. SMEs found it particularly hard to operate with unstable demand on the market, and this index stood at 34% for SMEs.

SMEs typically have more trouble attracting financial resources than larger companies and this pattern was enhanced during the quarter. Payback abilities and the unstable financial environment worsened SME access to finance. Financial constraints were thus listed as being as problematic as insufficient demand for SME business operations. On the other hand, government intervention was considered to be a greater problem for larger enterprises.

### SAMPLE SIZE BY SECTOR (see methodology)

|         | Sector                 | Firm Size |            | Total      |
|---------|------------------------|-----------|------------|------------|
|         |                        | Large     | SME        |            |
| Q4 2015 | Construction           | 8         | 16         | 24         |
|         | Financial Service      | 5         | 13         | 18         |
|         | Manufacturing Industry | 8         | 7          | 15         |
|         | Retail Trade           | 11        | 32         | 43         |
|         | Service                | 24        | 61         | 85         |
|         | Agriculture            | 2         | 11         | 13         |
|         | Other                  | 3         | 6          | 9          |
|         | <b>Total</b>           | <b>61</b> | <b>146</b> | <b>207</b> |

Interviews were conducted during between 5 October and 20 November 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 **large<sup>2</sup> 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.

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<sup>2</sup> 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](http://geostat.ge/cms/site_images/files/georgian/methodology/business/BS%20metodologia.pdf))