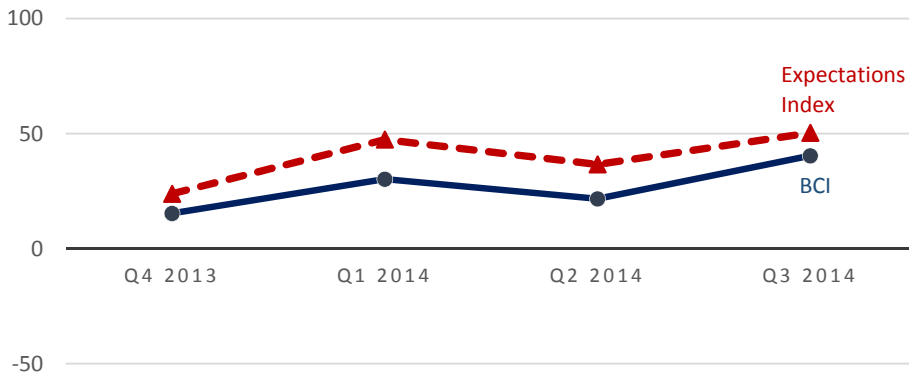
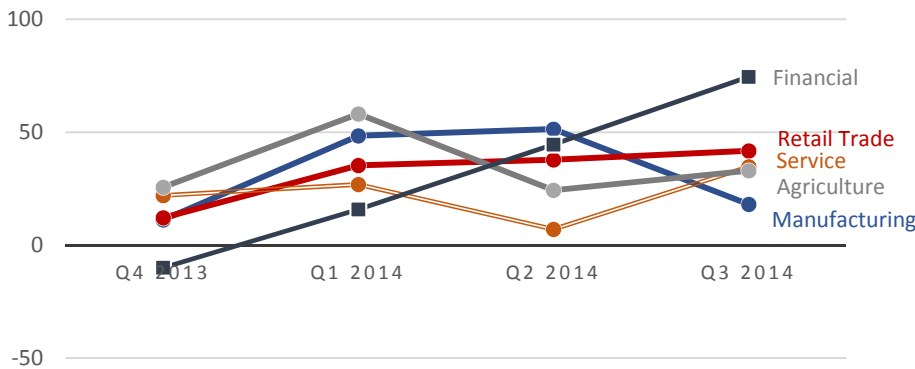


**BUSINESS CONFIDENCE INDEX**



The Business Confidence Index increased and registered 40.4 on a scale of 100 points in the third quarter of this year (see methodology below). This is up from the 21.7 recorded in the second quarter of the same year. The positive number indicates that confidence factor among businesses is about 40 index points more positive, rather than negative or neutral (e.g. a confidence index of 100 would have indicated 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).

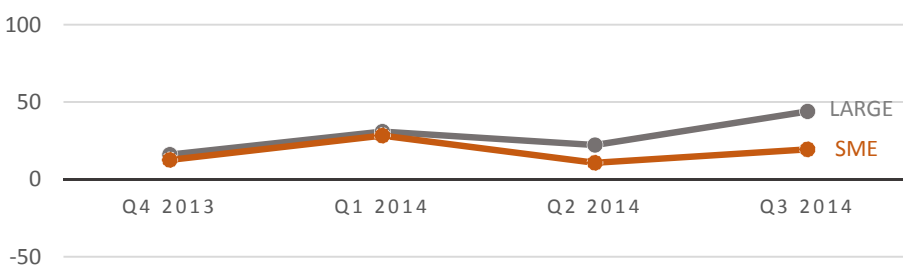
**BCI BY SECTOR**



Summer can be a high or a low season for businesses, depending on the sector. Tourism and recreation sector activities clearly rise with the highest marginal increase in hotel and restaurant business. . As for the manufacturing, after a smooth rise in the previous period, their business confidence deteriorated, and is now the lowest among the sectors. This decline is mostly driven by passive order books in heavy manufacturing firms and companies producing inputs for sectors such as health care, with low summer seasonal turnover.

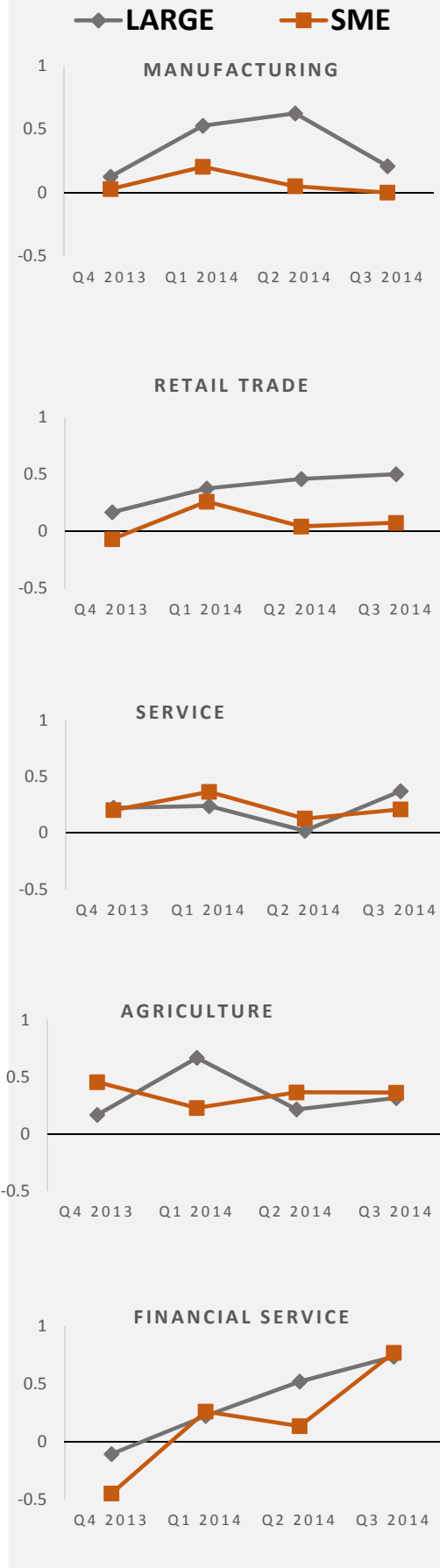
In general, sectoral breakdown of the BCI shows that marginally positive outlook dominates in all sectors. In particular, the financial sector outlook as improved considerably since the last quarter of 2013. In addition, one may note that all sectors except manufacturing registered improvement in business confidence relative to the previous quarter.

**BCI: LARGE VS. SME**

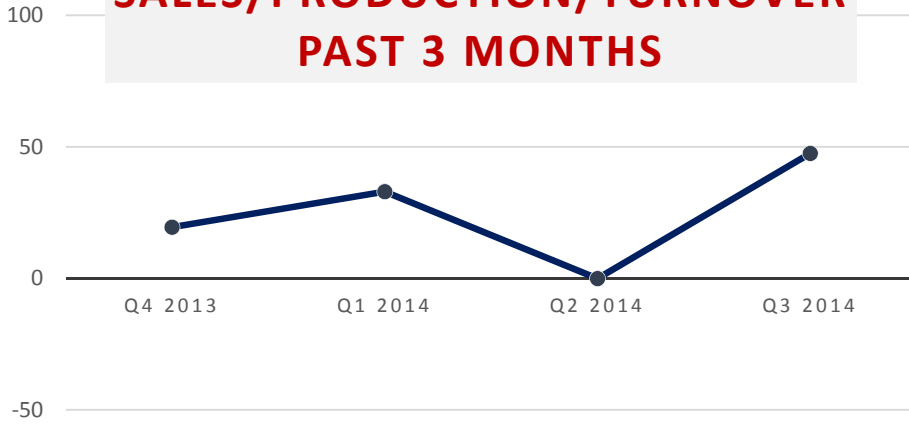


The BCI for large and small firms continues to diverge in Q3 2014.

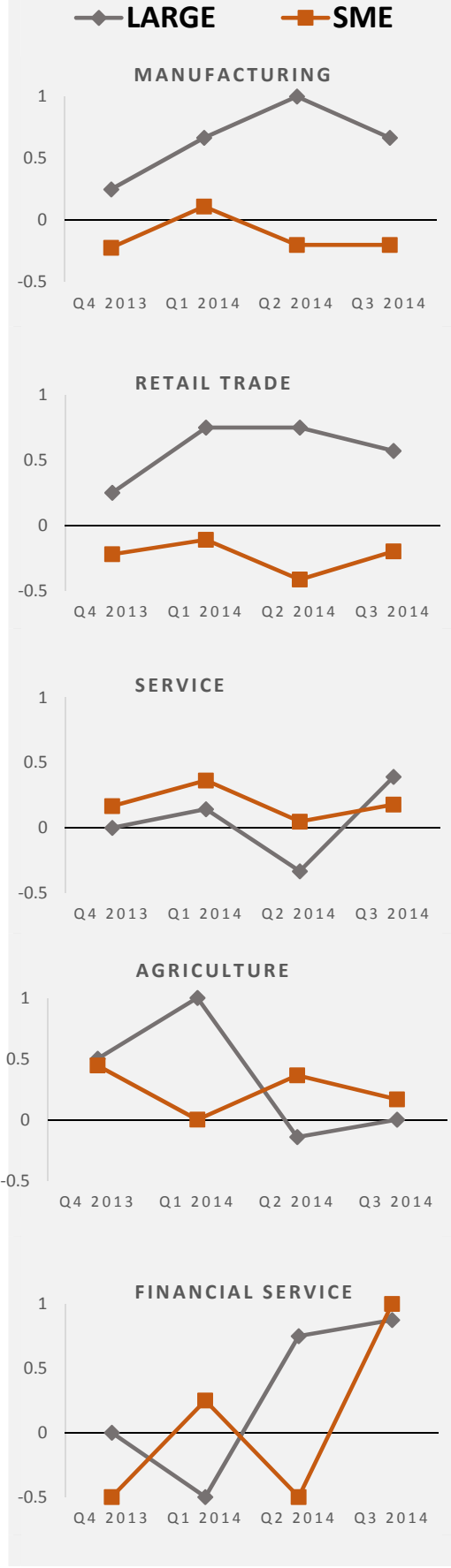
**Overall business confidence by sector, for large firms and SMEs**



# SALES/PRODUCTION/TURNOVER PAST 3 MONTHS

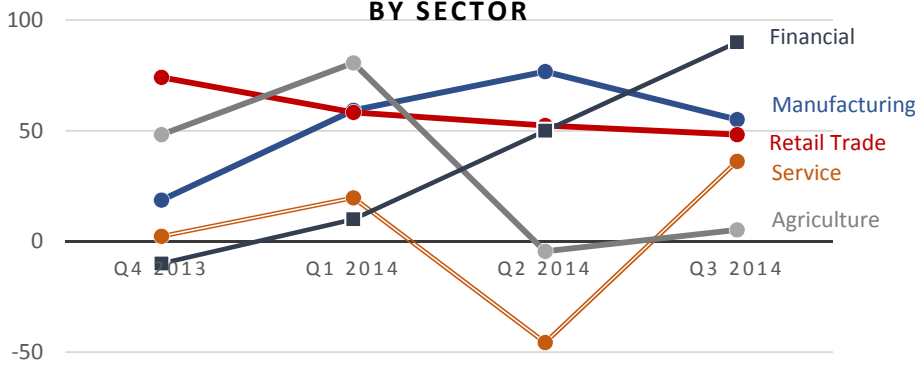


## Sales/production/turnover for past 3 months by sector, for large and small&medium firms



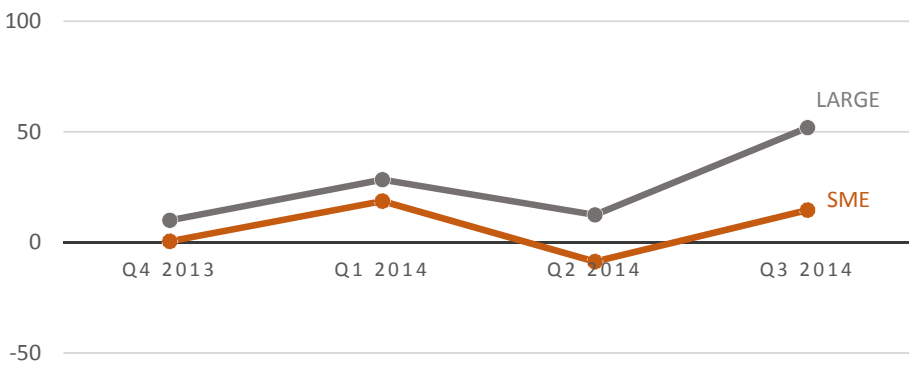
In Q3 2014, the sales (production or turnover) of the surveyed 119 firms has increased and reached the highest level to date - 47.5 points.

### SALES/PRODUCTION/TURNOVER PAST 3 MONTHS, BY SECTOR



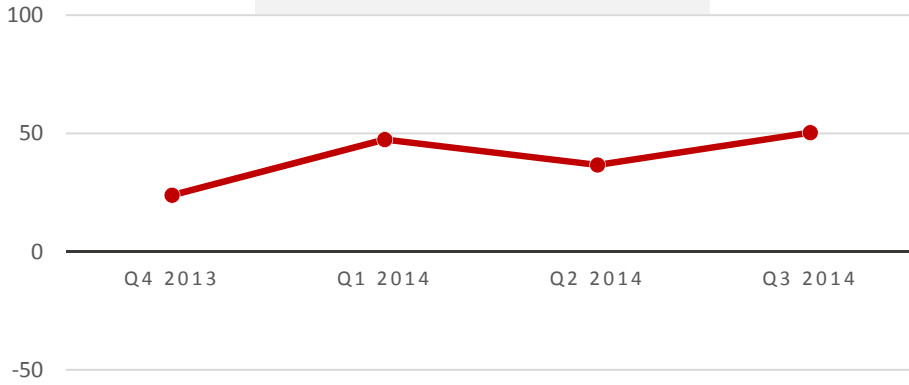
Increases in production were reported by all of the large service firms in the sample as well as SMEs. The decrease in turnover was felt by large retailers as well as large manufacturing companies. Situation improved for large agricultural enterprises turnover (demand) in the past 3 months. And yet, the agricultural SMEs' outlook remained higher than that of large agribusinesses. The divergence may be driven by the government programs targeting smallholder farming support.

### SALES/PRODUCTION/TURNOVER PAST 3 MONTHS: LARGE VS. SME



Overall, in the three months preceding July, SMEs in Georgia have fared worse in terms of sales (turnover) than larger firms.

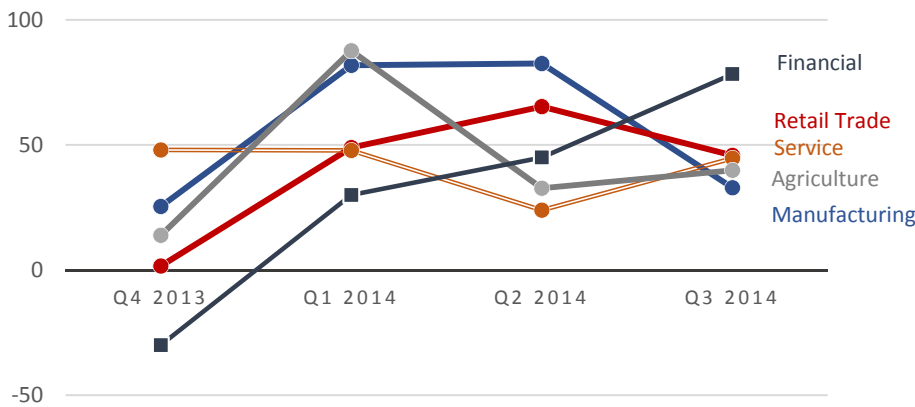
## EXPECTATIONS INDEX



Expectations index has increased as well. About 50% more firms are optimistic rather than pessimistic or neutral about the next three months. The optimism is driven by services and financial service sectors.

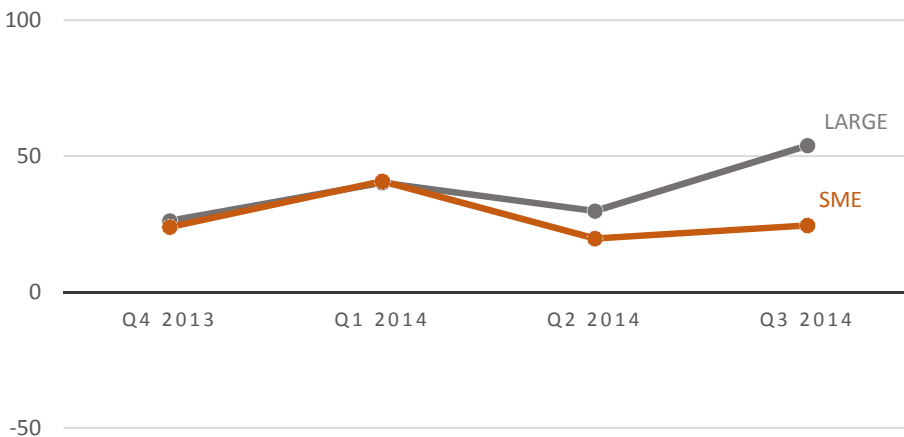
Notably, the economic outlook for the next three months has been positive for all sectors. However, the optimism is a bit dampened for retail and manufacturing sectors relative to the second quarter of the year.

## EXPECTATIONS INDEX BY SECTOR



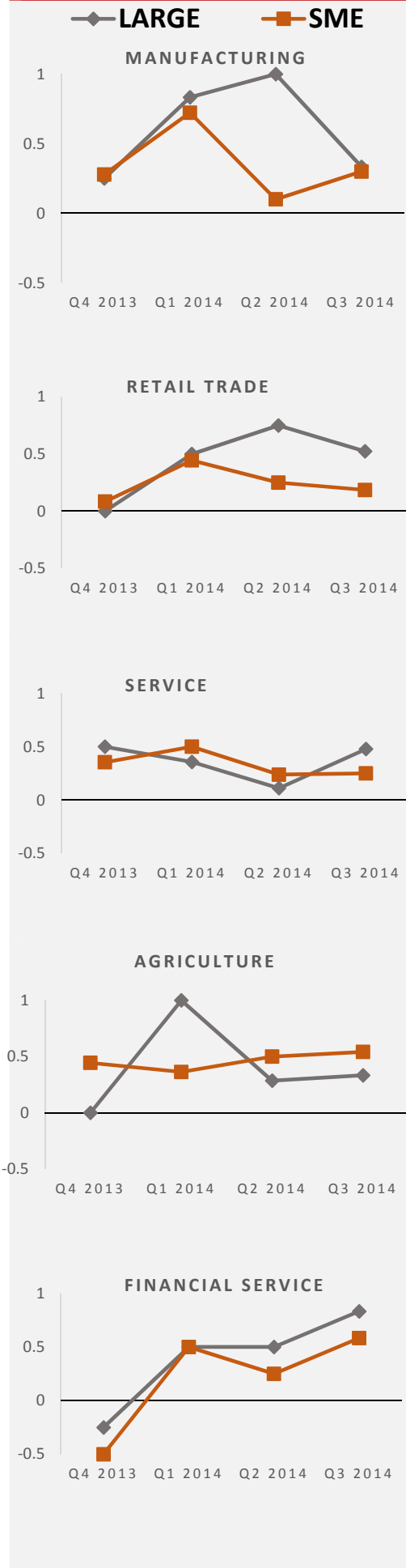
Agricultural sector expectations are also rising in anticipation of a fruitful harvest. After a significant dive in expectations for large agricultural companies in the second quarter of this year, the expectations index has stabilized at a positive value. The small agricultural firms maintain roughly the same levels of confidence.

## EXPECTATIONS INDEX: LARGE VS. SME

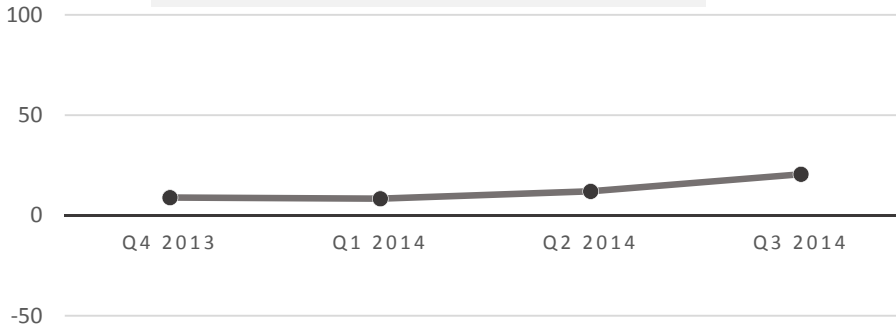


Once again, expectations of the future are overall slightly more positive for larger firms than for SMEs.

## Expectations index by sector, for large and small&medium firms

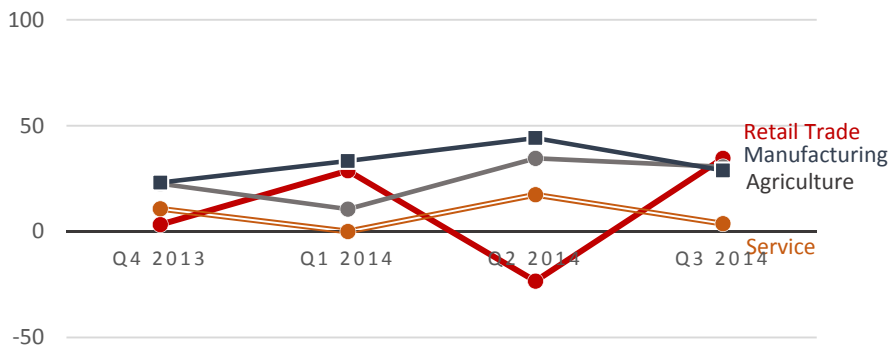


## SALES PRICE EXPECTATION



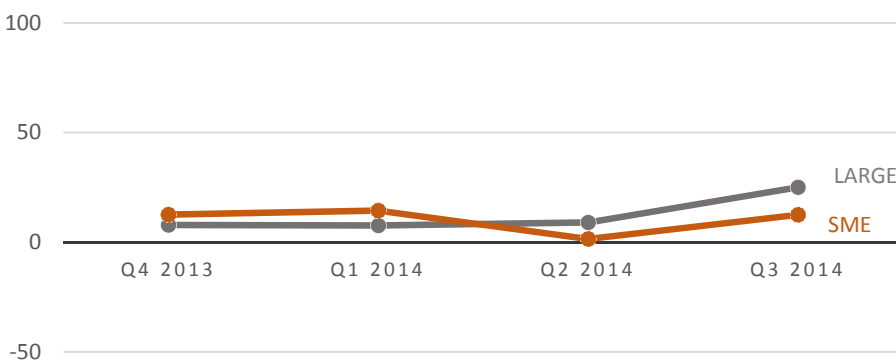
Sales price expectations have remained roughly the same as in the previous quarter, with more firms reporting an expected increase in their sales prices.

## SALES PRICE EXPECTATIONS BY SECTOR



The notable outlier is the retail trade sector, where large firms as well as SMEs are reporting the expected increase in sales prices. **The outstanding increase in price expectations is difficult to explain, but it seems that retailers (importers in particular) are finally facing the reality of inevitable price increases following lari depreciation earlier this year. After the FX deterioration in late 2013, importers and distributors tried to avoid being the first to increase retail prices. Many were sitting on the fence, waiting either for FX appreciation or for the competitors to lead the way in price increases.** The current sharp rise in price expectation index may be due to the realization that prices will have to start changing in the coming months.

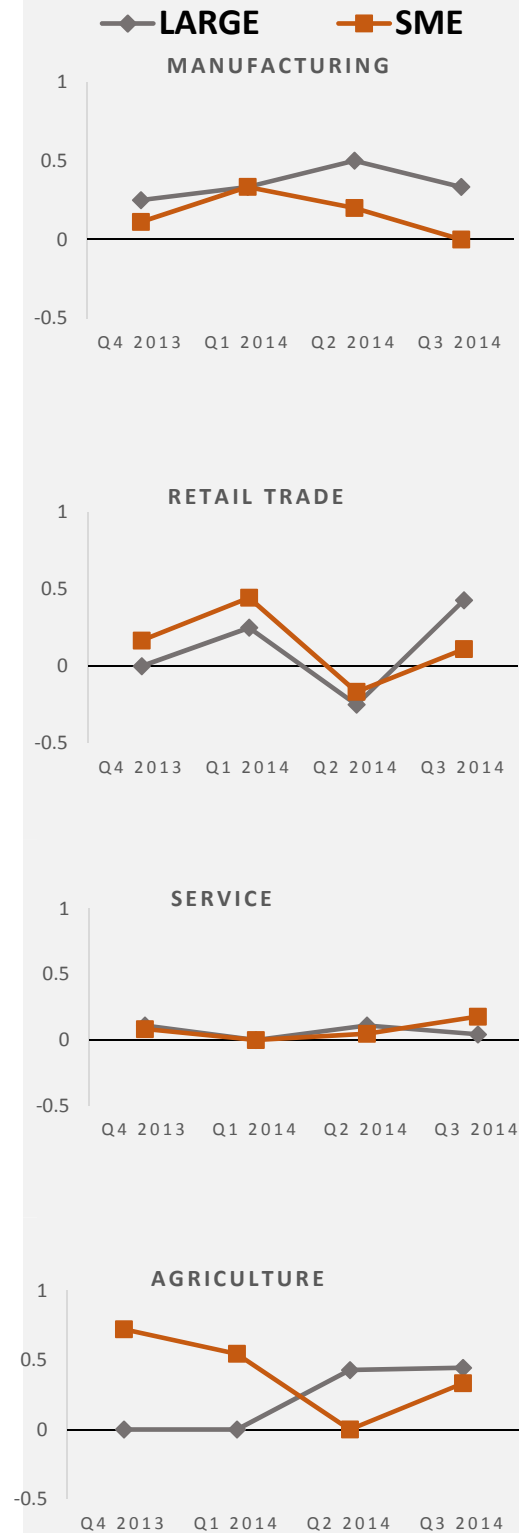
## SALES PRICE EXPECTATIONS: LARGE VS. SME



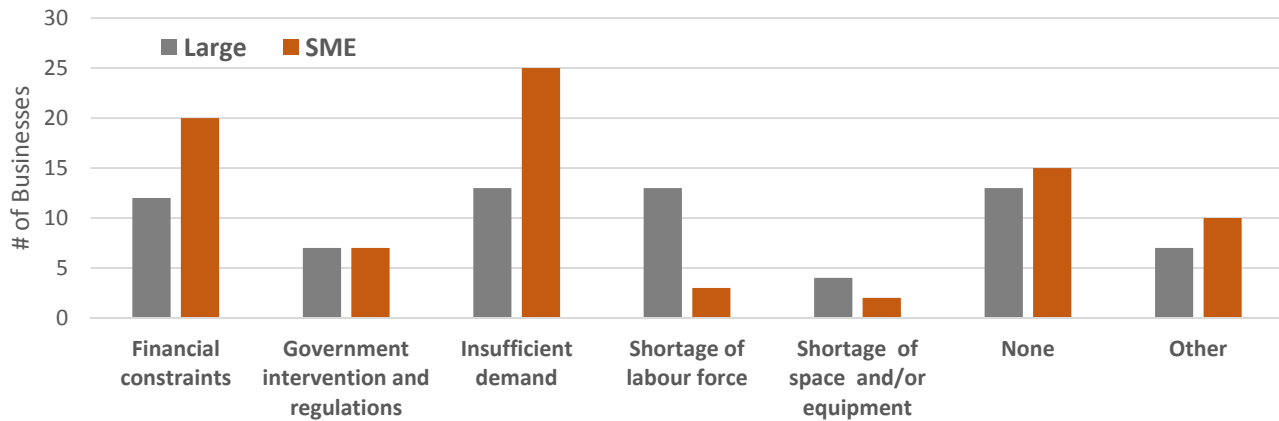
We may note, that agricultural SMEs' price expectations rose in the third quarter to match the expectations of large agri-firms. In the previous quarter we observed the divergence between the SMEs and large firms' price outlooks. As we noted at the time, the divergence in price expectations could have been explained by the fact that smaller firms are mostly selling their goods on the domestic market and directly to final consumers. Their view is therefore heavily influenced by the developments in CPI (consumer price index). At the same time, large firms may be either exporters or suppliers of inputs on the domestic market, whose expectations may be more influenced by the PPI (producer price index) developments.

In support of this hypothesis, we noted the monthly CPI has been largely decreasing (annual inflation rate was tempering from March to June 2014), while PPI was slightly increasing in the recent months.

## Expectations index by sector, for large and small&medium firms



## WHAT MAIN FACTORS ARE CURRENTLY LIMITING YOUR BUSINESS?



The stated most limiting factor to doing business appears to be *insufficient demand*. SMEs in particular find it hard to operate on the market with unstable demand. In contrast to large firms, SMEs also have trouble attracting financial resources. On the other hand, shortage of labor force seems to be more of a large enterprise problem. This is because large enterprises are typically looking to attract qualified workers, while SMEs may rely more on the unqualified labor force.

### SAMPLE SIZE BY SECTOR (see methodology)

Interviews were conducted during 7-25 July, 2014.

	Sector	Firm Size		Total
		Large	SME	
Q3 2014	Construction	1	2	2
	Financial Service	8	4	12
	Manufacturing Industry	3	5	8
	Retail Trade	7	9	16
	Service	23	28	51
	Agriculture	9	12	21
	Other	5	3	8
	<b>Total</b>	<b>56</b>	<b>63</b>	<b>119</b>

## \*Methodology

ISET Policy Institute, working in partnership with International Chamber of Commerce in Georgia (ICC), started to implement the Business Confidence Survey from December 2013 and will publish the Business Confidence Index (BCI) on quarterly bases.

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

### DEFINITIONS

- **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;
- **Expectations index** calculated based on the two questions: production/sales/turnover for the next three months and employment plans for the next three months;
- **Large**<sup>1</sup> firm is If yearly average of employed people is more than 100 or yearly average turnover exceeds 1.5 million GEL;
- **Small** firms is if average of employed people is less than 20 and at the same time, the yearly average turnover is less than 0.5 million GEL);
- **Medium** is if it is neither large nor small;

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<sup>1</sup> The size of the company is defined accordingly 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))