

BUSINESS CONFIDENCE INDEX

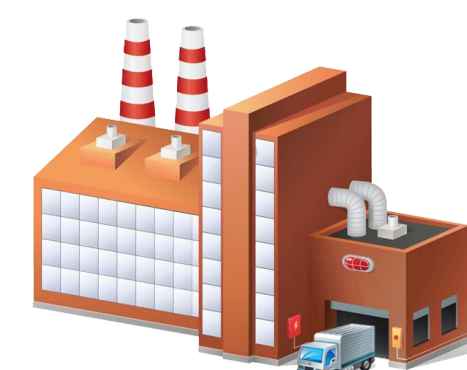
18.7
DECREASE

**Summertime
Sadness!**

Q3 2019

Participating Companies

Large



32

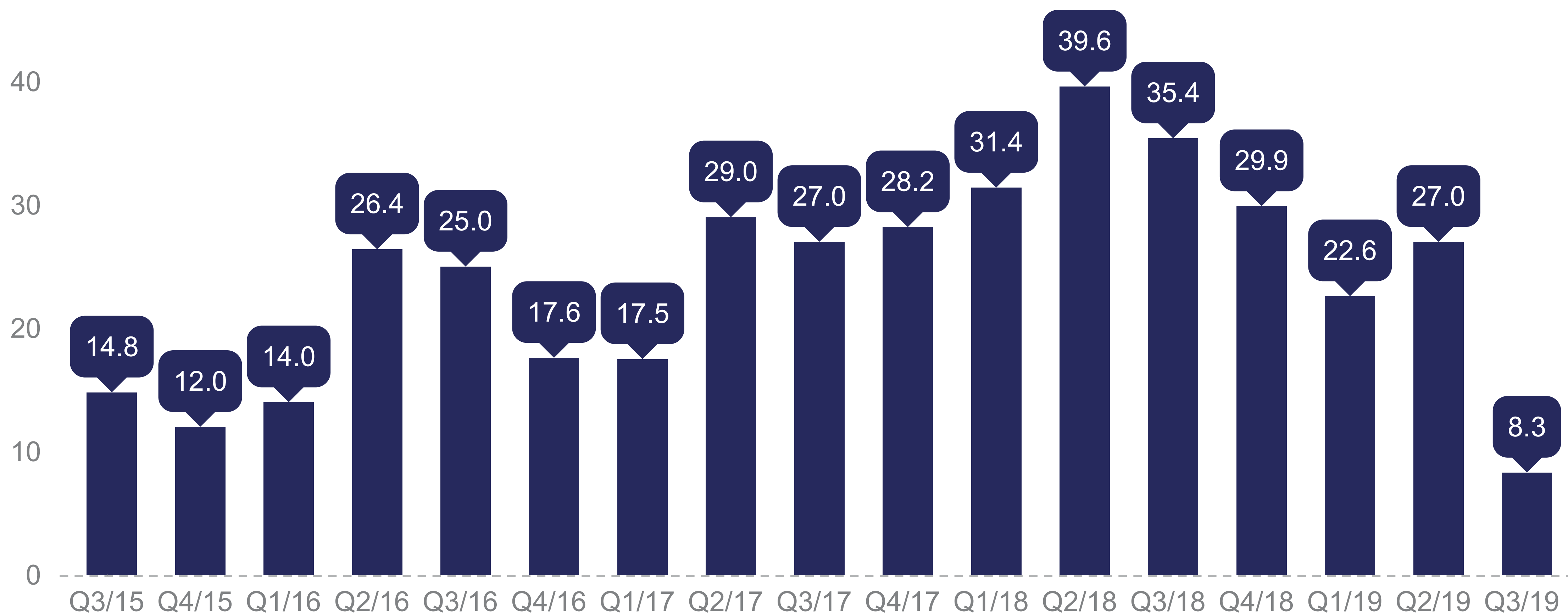
SMEs



117

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- BCI in the third quarter of 2019 has deteriorated, dropping to 8.3 index points, which is 18.7 index points below the previous quarter. The largest reduction in BCI was observed in retail trade followed by the financial and construction industries. In these sectors, the decrease in BCI is driven by both decline in past performance and reduced expectations. On the contrary, agriculture is the sole industry where BCI increased.

- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing by 23.5 points in Q3 2019.

- Business optimism decreased significantly after a recent improvement in the previous quarter and dropped to 21.7 index points. Other than retail trade, service and construction have contributed the most to this reduction in business optimism. Expectations have increased only in agriculture.

- The Sales Price Expectation Index decreased moderately. Businesses in service and manufacturing predict lower prices compared to the previous quarter, while other sectors expect higher prices.

- Expectations worsened for large businesses as well as for SMEs, while past performance decreased for large businesses and moderately improved for SMEs.

- The main factor that continues to limit business activities for large businesses is lack of demand, while for SMEs the limiting factor is access to finance.

* The Business Confidence Index is measured on a scale of [-100; 100] points. The size of the index indicates a weighted balance between the respondents giving positive and negative replies. 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).

ISET

International School of Economics at TSU
Policy Institute



Overall, BCI has declined by 18.7 points compared to Q2 2019. Expectations in the private sector in Georgia decreased significantly by 23.7 index points, dropping to 21.7 index points. Business performance over the past three months decreased as well, reaching nearly 0 points (down from 23.0), indicating a downturn in production/turnover/sales. Thus, reductions in both business expectations and past performance have led to a fall in the overall BCI.

BCI decreased in almost all economic sectors, namely in the retail trade (-45.5), financial (-24.4), construction (-21.5), manufacturing (-19.0) and service (-16.6) sectors. The exception was in agriculture, in which the BCI improved by 41.8 index points.

BCI QoQ change by sector

Sectors	Q3/19		Change
Manufacturing	-3.8	▼	-19.0
Construction	-24.7	▼	-21.5
Retail Trade	-9.4	▼	-45.4
Service	19.3	▼	-16.6
Agriculture	55.9	▲	41.8
Financial	-7.0	▼	-24.4
Other	0.0	▼	-8.9

SME



Q3/19 **Change**
4.7 ▼ **-1.9**

Large

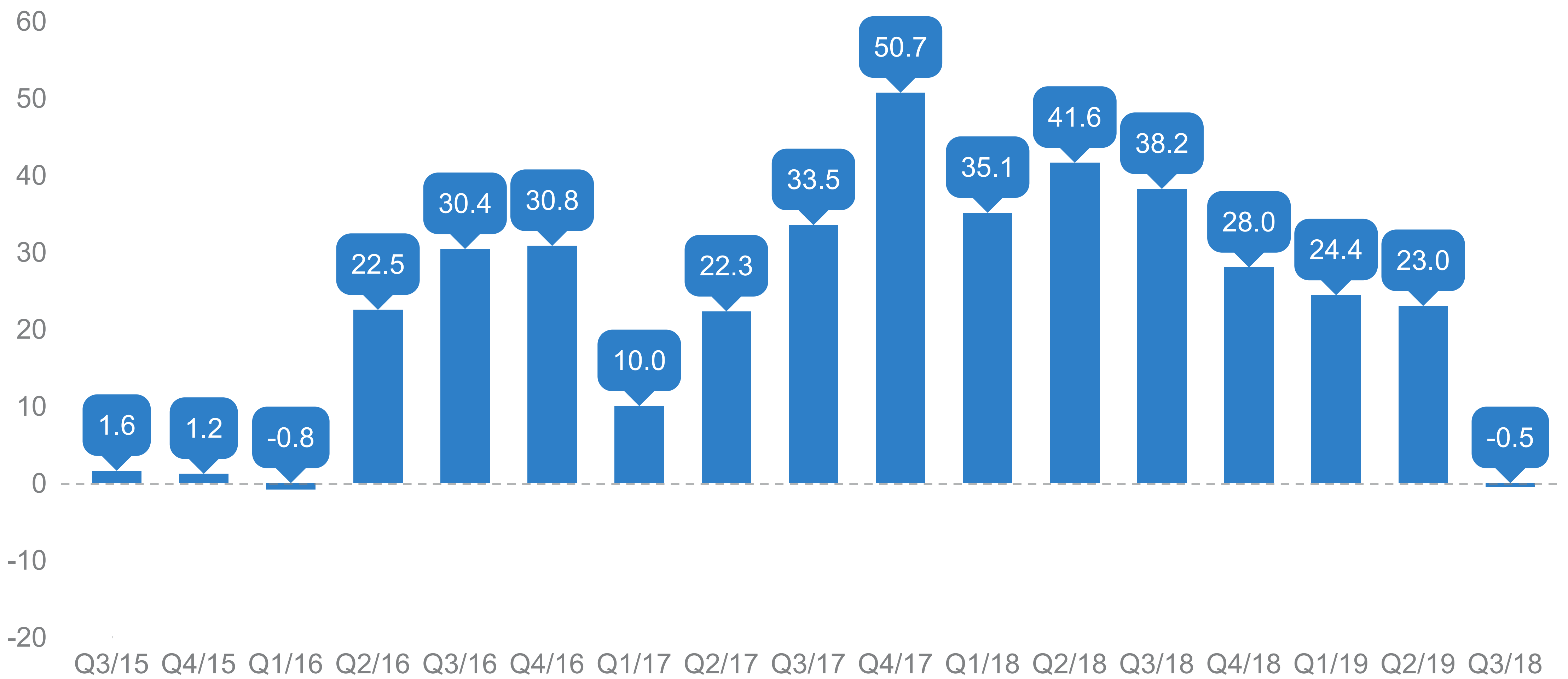


Q3/19 **Change**
9.1 ▼ **-20.2**

Business confidence in the third quarter of 2019 dropped for both large firms (-20.2) and for SMEs (-1.9).

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, to some extent, more likely to have a negative outlook.

Production/Turnover/Sales Past 3 Months



Businesses' actual performance decreased by 23.5 points compared to Q2 of 2019. In Q3 2019, sales (production or turnover) of the 149 firms surveyed decreased from 23.0 (Q2 2019) to -0.5 (Q3 2019).

A significant drop in performance was observed in retail trade (-91.7), construction (-28.3), finance (-23.8) and service (-17.6). A significant decrease means that in these sectors, the weighted balance between positive and negative responses decreased compared to the previous quarter. In the remaining sectors, production/turnover/sales for the past three months improved: agriculture (57.0) and manufacturing (6.7).

Past 3 Months QoQ change by sector

Sectors	Q3/19		Change
Manufacturing	0.0	▲	6.7
Construction	-35.3	▼	-28.3
Retail Trade	-37.9	▼	-91.7
Service	12.7	▼	-17.6
Agriculture	72.6	▲	57.0
Financial	-24.5	▼	-23.8
Other	0.0	■	0.0

SME



Q3/19 **Change**
-6.6 ▲ **2.5**

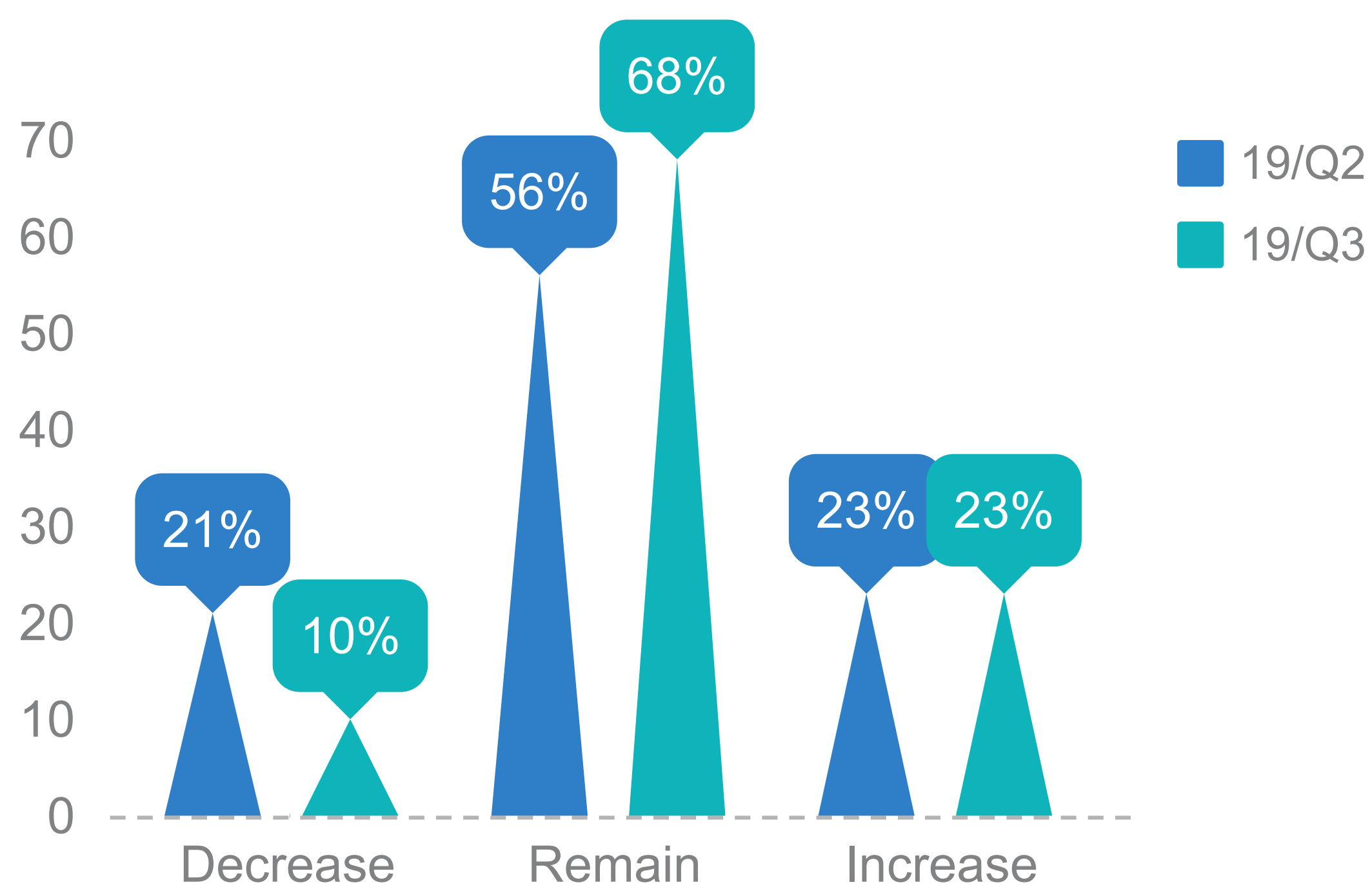
Large



Q3/19 **Change**
1.2 ▼ **-26.6**

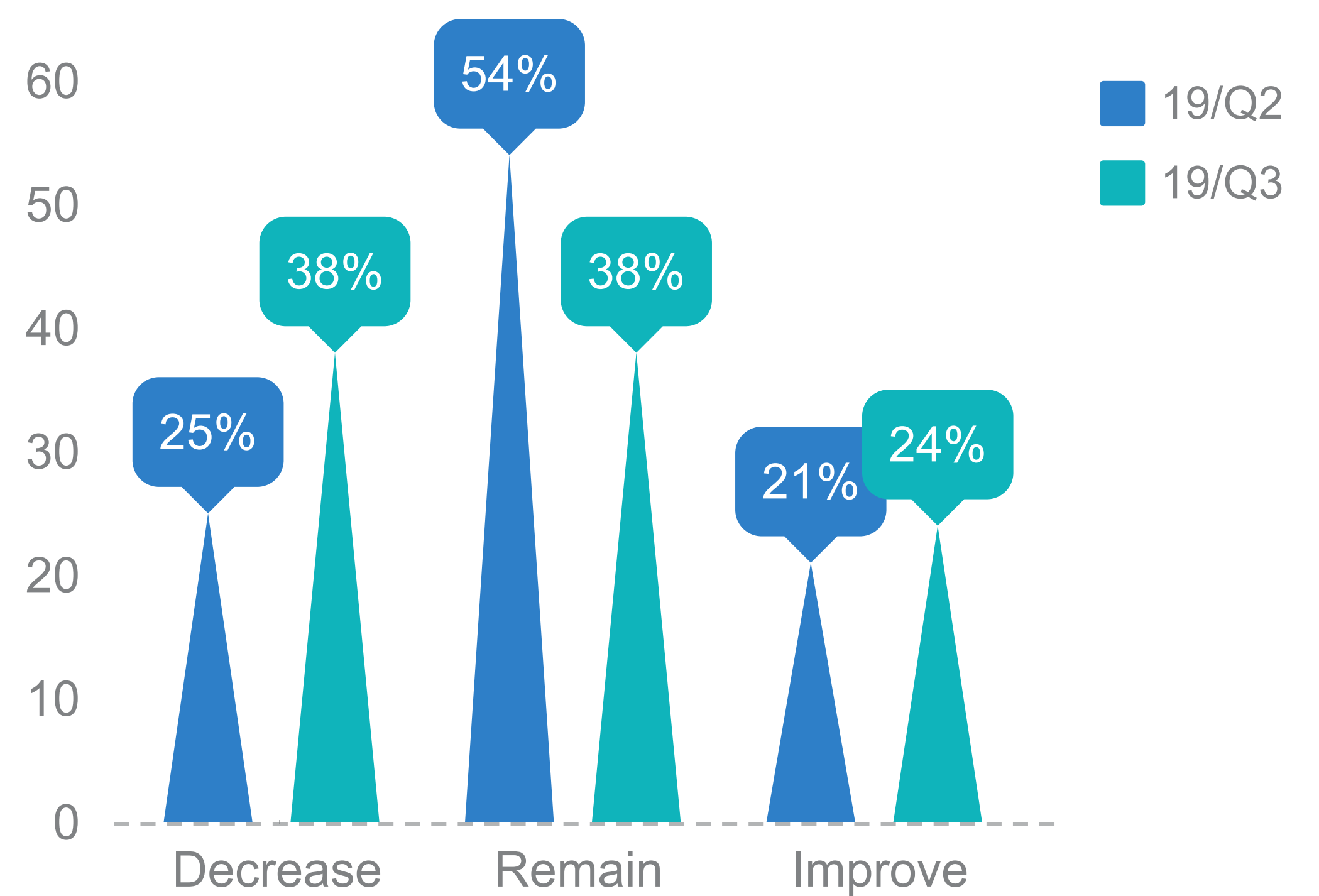
Business activities improved for SMEs and declined for large businesses. For large firms, the business activity indicator decreased by 26.6 points and dropped to 1.2 in Q3 2019; for SMEs, the same indicator increased by 2.5 and stopped at -6.6 index points.

How has your firm's total employment changed over the past 3 months?



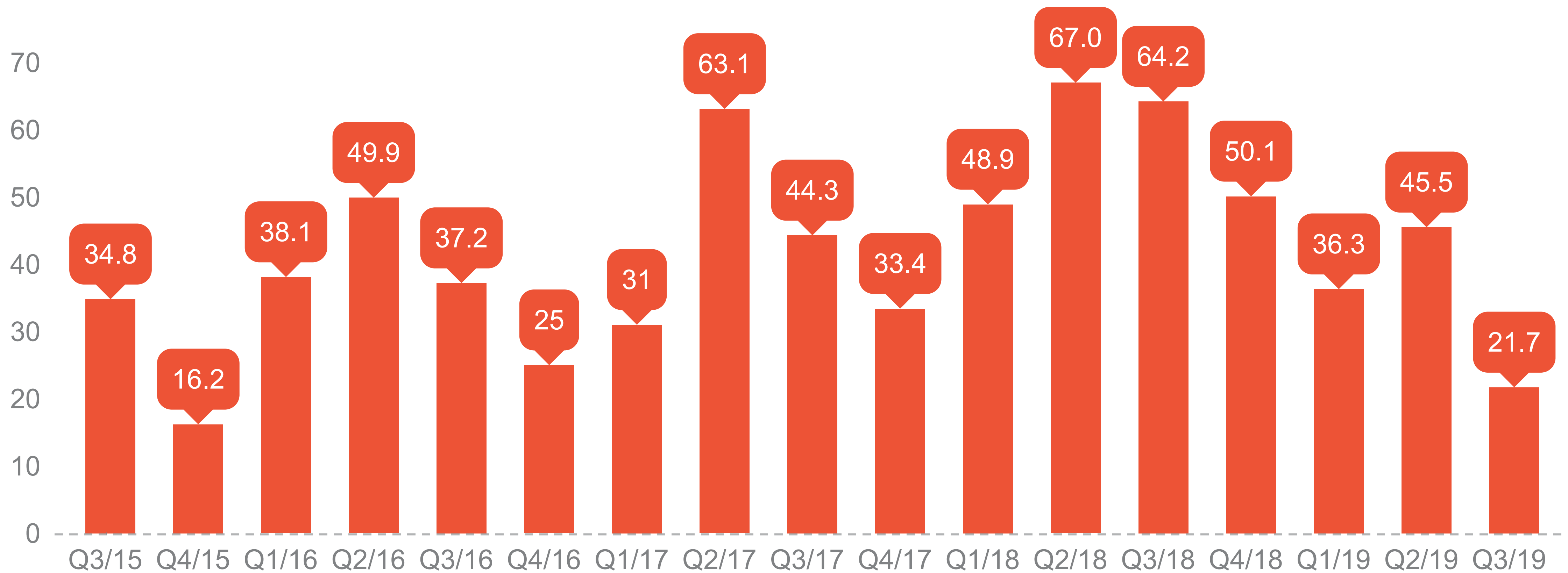
Compared to the previous quarter, a higher share of surveyed firms (68%) stated that employment remained the same over the past three months. More businesses reported an increase and fewer decreases in employment.

How has your business activity developed over the past 3 months?



Moreover, 38% of firms claimed that their business activities remained unchanged over the past three months, the same amount of respondents (38%) stated that their performance had deteriorated, and only 24% stated an improvement.

Expectations Index



Expectations QoQ change by sector

The Expectations Index decreased by 23.7 index points in Q3 2019. Expectations about the next three months worsened for all business sectors except agriculture (18.7). The greatest reduction was reported in retail trade (-63.0).

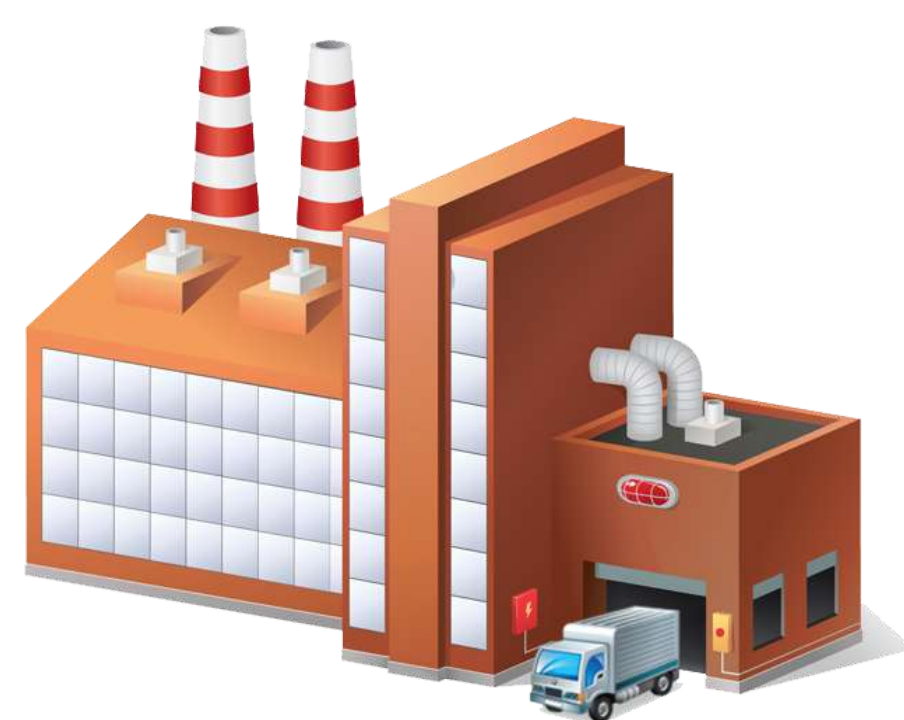
Sectors	Q3/19	Change
Manufacturing	61.1	-3.9
Construction	2.9	-19.2
Retail Trade	-8.3	-63.0
Service	30.9	-26.0
Agriculture	42.2	18.7
Financial	-8.0	-2.0
Other	0.0	0.0

SME



Q3/19 **Change**
12.2 **-8.7**

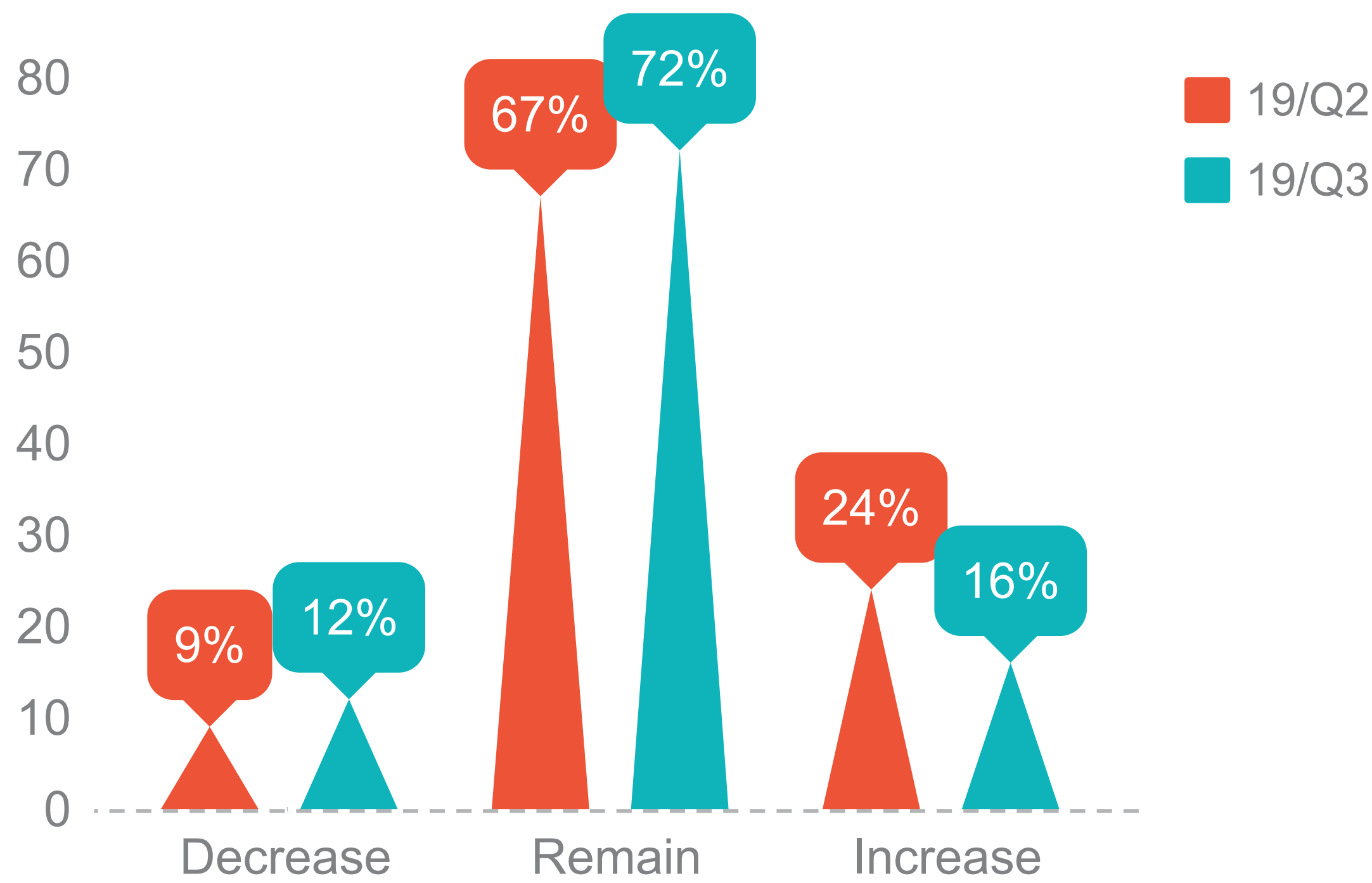
Large



Q3/19 **Change**
23.8 **-24.8**

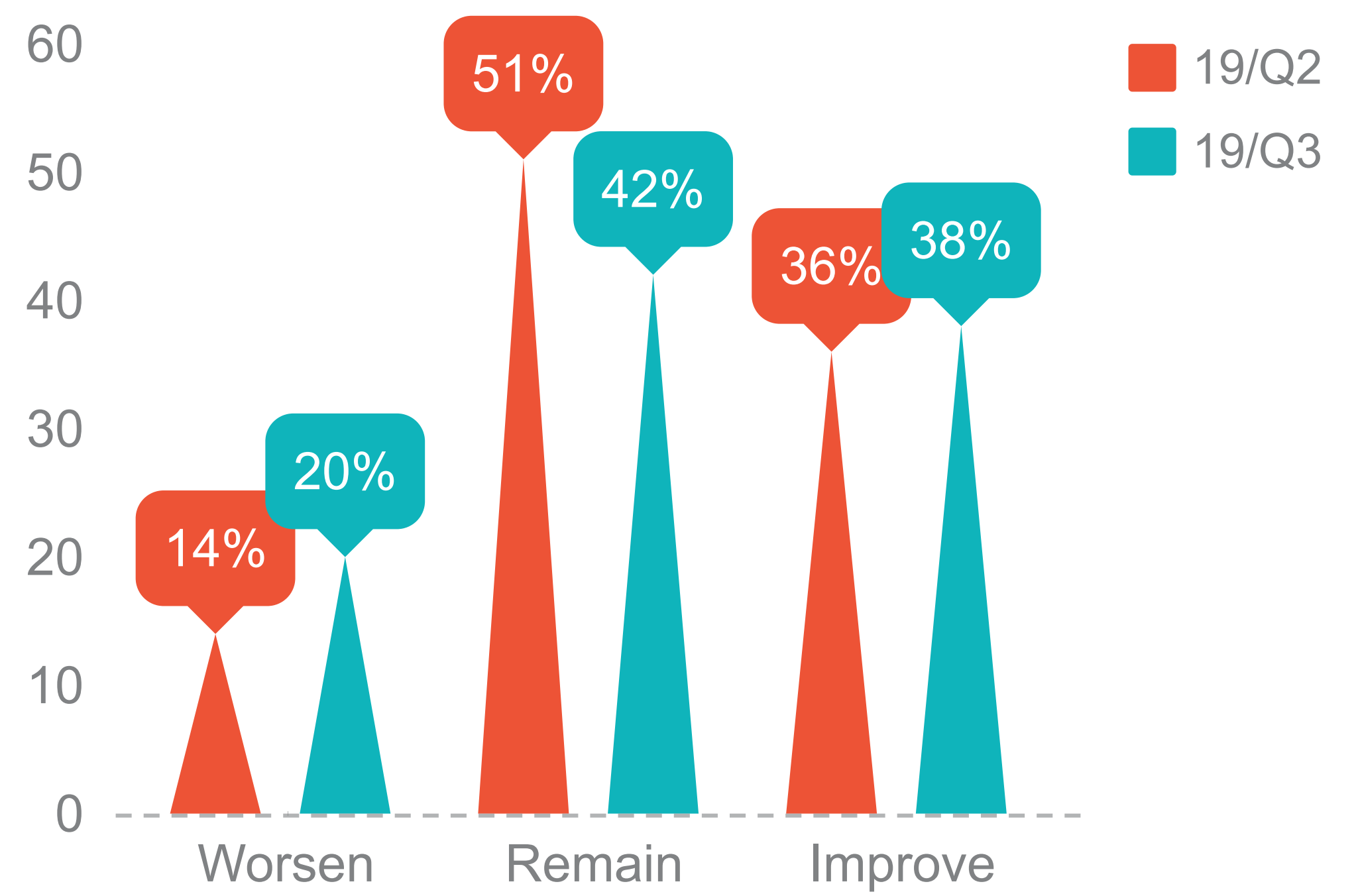
Business expectations worsened for both large firms and SMEs.

How do you expect your firm's total employment to change over the next 3 months?



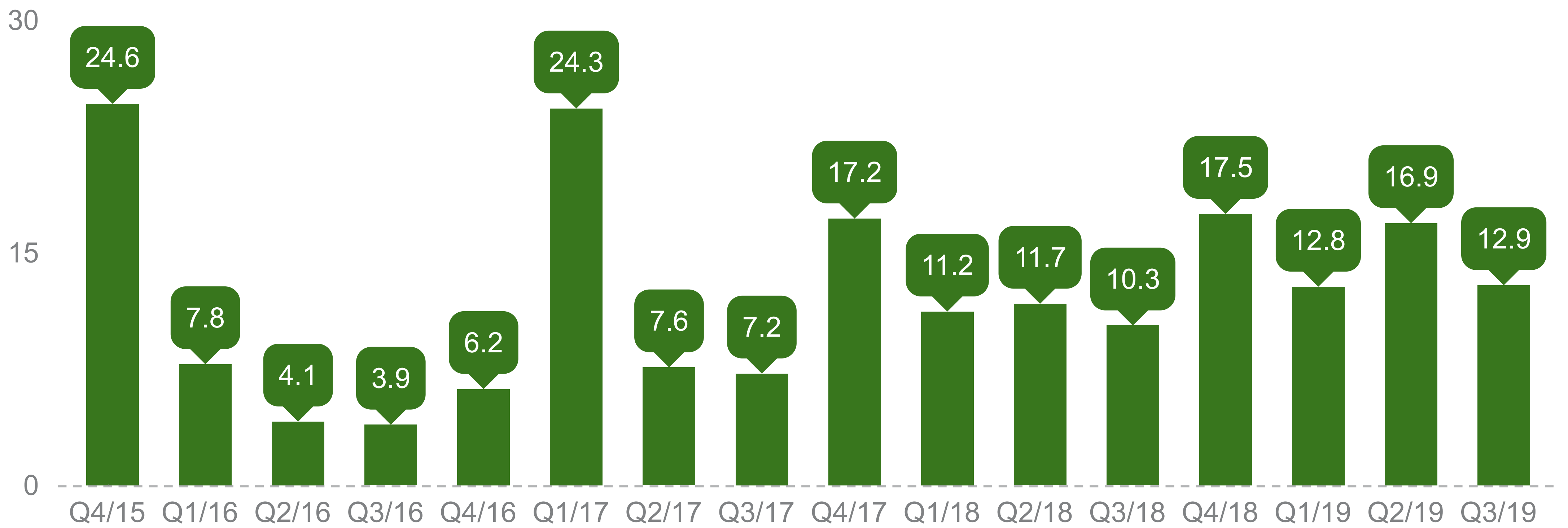
The majority (72%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, only 16% of firms stated that they would employ more employees in the future.

How do you expect your business condition to change over the next 3 months?



38% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 42% did not expect any changes in the future, while a smaller share of businesses expect their business conditions to worsen.

Sales Price Expectations

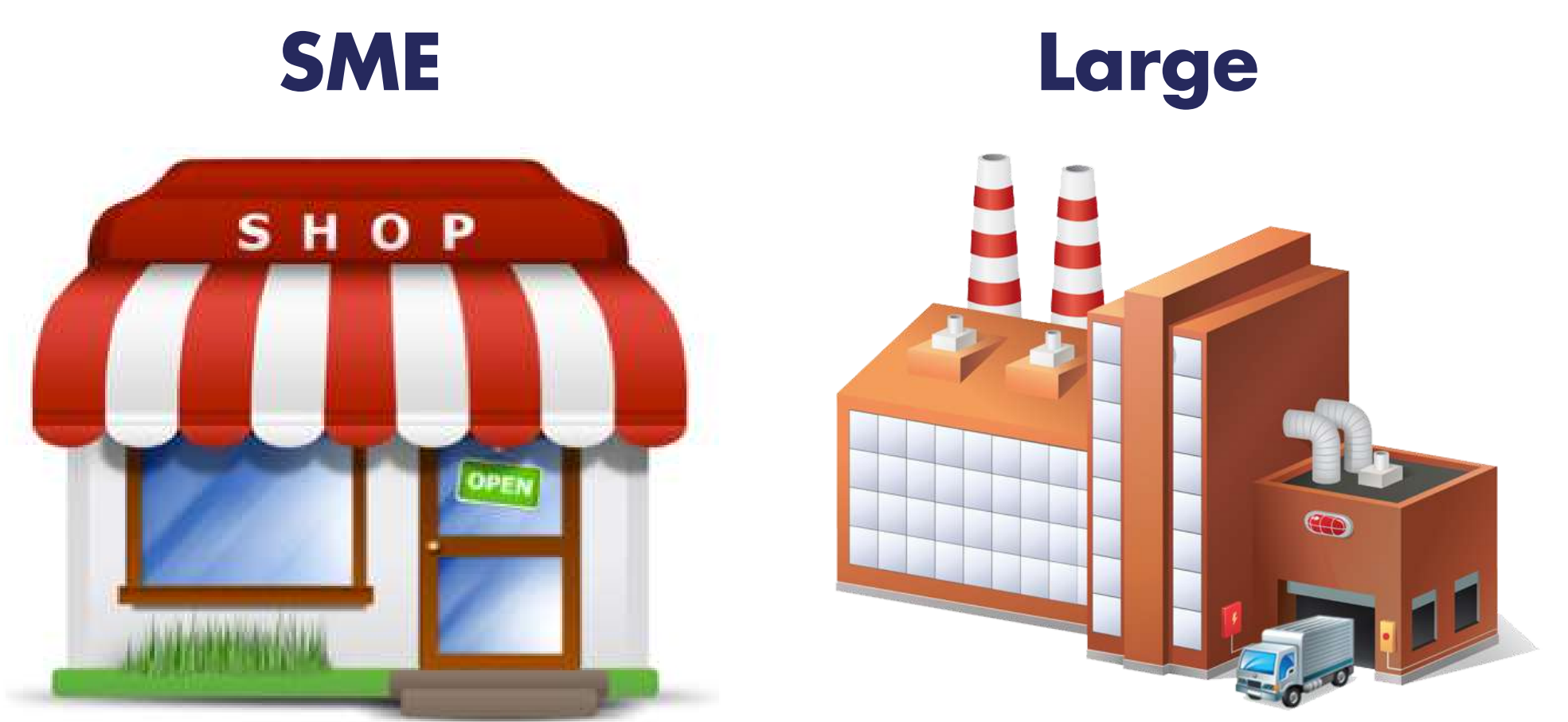
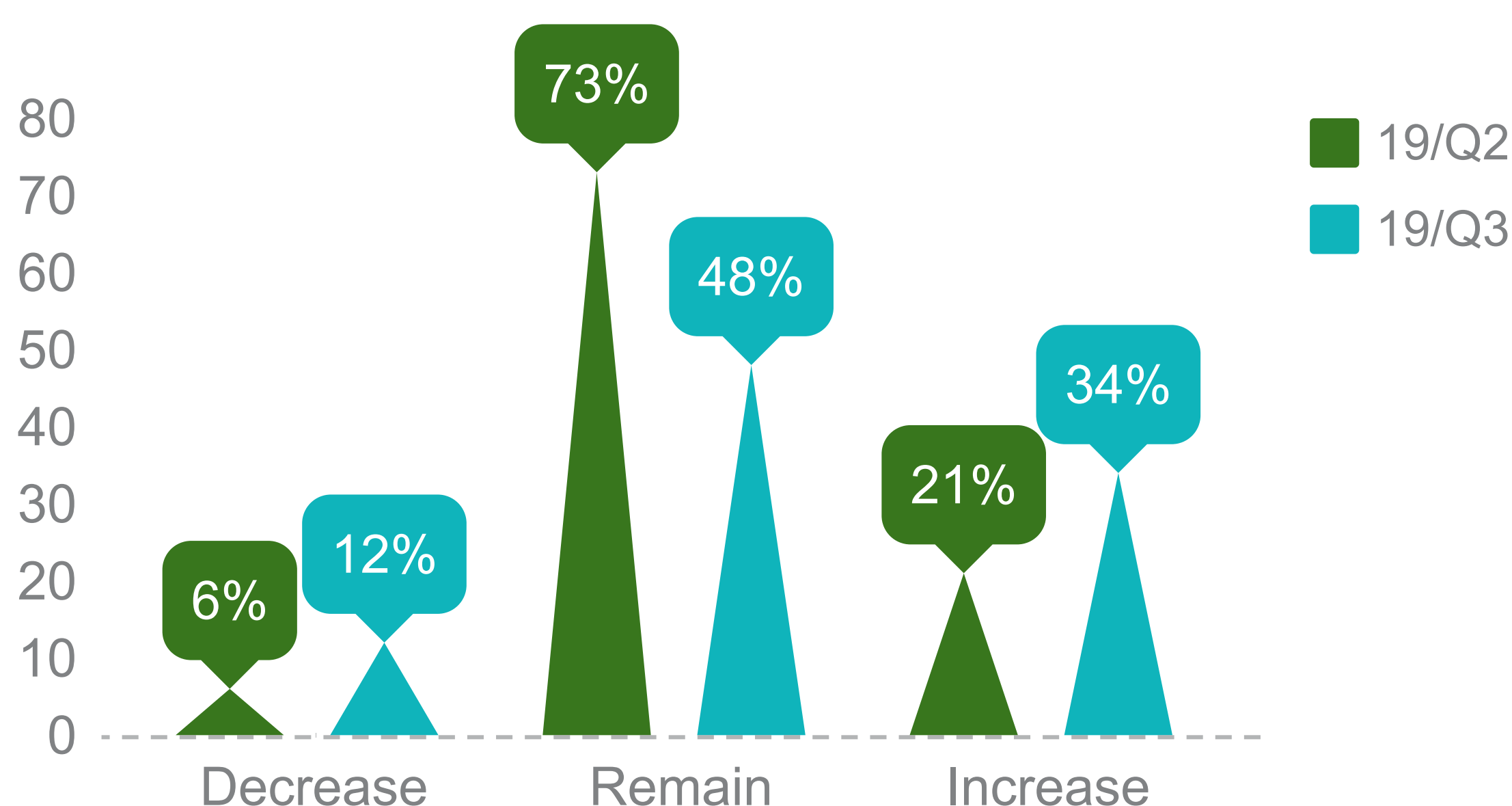


The Sales Price Expectations Index decreased from 16.9 points (Q2 2019) to 12.9 points (Q3 2019). This fall is mostly driven by a decrease in the manufacturing and service sectors. The overall Sales Price Expectations Index increased for SMEs while the index decreased for large companies.

Sales price QoQ change by sector

Sectors	Q3/19	Change
Manufacturing	-25.5	-25.5
Construction	2.9	2.9
Retail Trade	33.1	2.2
Service	8.3	-14.4
Agriculture	88.3	72.6
Other	0.0	0.0

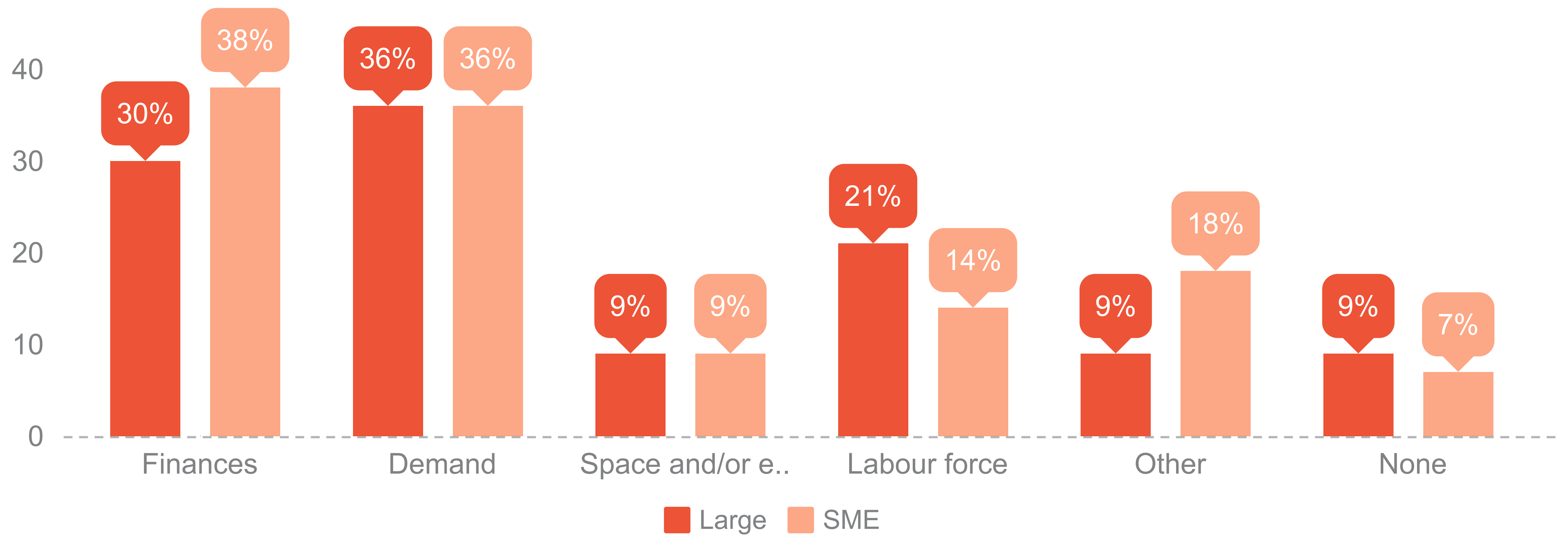
How do you expect the prices you charge to change over the next 3 months?



Q3/19	Change	Q3/19	Change
21.5	▲ 10.7	11.9	▼ -5.6

48% of all surveyed firms are not going to change the prices they charge over the next three months. Only 12% of firms expect to decrease prices, and 34% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 3, 2019



Lack of demand and limited access to finance continue to be two of the most significant obstacles for SMEs and large companies.

Methodology

The ISET Policy Institute, working in partnership with the BIA (Business Information Agency) and the International Chamber of Commerce in Georgia (ICC), implemented the Business Confidence Survey beginning in 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 services 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 **Value**

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 deduced from all 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*** 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 for 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.

For the BCI Methodology, click [here](#)

For the BCI Data, click [here](#)

*** 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_metodologia.pdf).

Distribution of Participating Firms by Sector and Size

Table 1 - Distribution of firms participating in the BCI survey

Sectors - Number of firms	19/Q2	19/Q2	19/Q3	19/Q3
Manufacturing	8	9%	11	7%
Construction	9	10%	15	10%
Retail Trade	22	25%	30	20%
Service	32	37%	62	42%
Agriculture	5	6%	10	7%
Financial	6	7%	13	9%
Other	5	6%	8	5%
Source: BCI Survey Data	87	% share	149	% share

Table 2 - Distribution of industries by turnover

Sectors	% in total turnover
Manufacturing	10%
Construction	8%
Retail Trade	17%
Service	47%
Agriculture	7%
Financial	9%
Other	3%
Source: GeoStat	

Sectors - Number of firms by size	19/Q3	
	Large	SME
Manufacturing	3	8
Construction	3	12
Retail Trade	7	23
Service	12	50
Agriculture	2	8
Financial	5	8
Other	0	8
Source: BCI Survey Data	32	117

Maximum number of firms participating in the survey

2016 Q2

Large	SME
104	266

The number of firms participating in the BCI survey in Q3 2019 was 149. This is an increase of 71% compared to the previous quarter's level of participation. Despite the increase in the number of participating firms, the distribution of the participating firms across sectors remained stable and was well-aligned with the distribution of firms in the economy (as depicted in Tables 1 & 2 above). Although the distribution of the firms in our sample are well-aligned, we still use turnover weights to correct for small differences between our shares (share of the number of participating firms) and economy turnover shares, even by company size.

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Business Confidence Index

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