BUSINESS CONFIDENCE INDEX

34.7

INCREASE

Full Speed Ahead to Economic Recovery

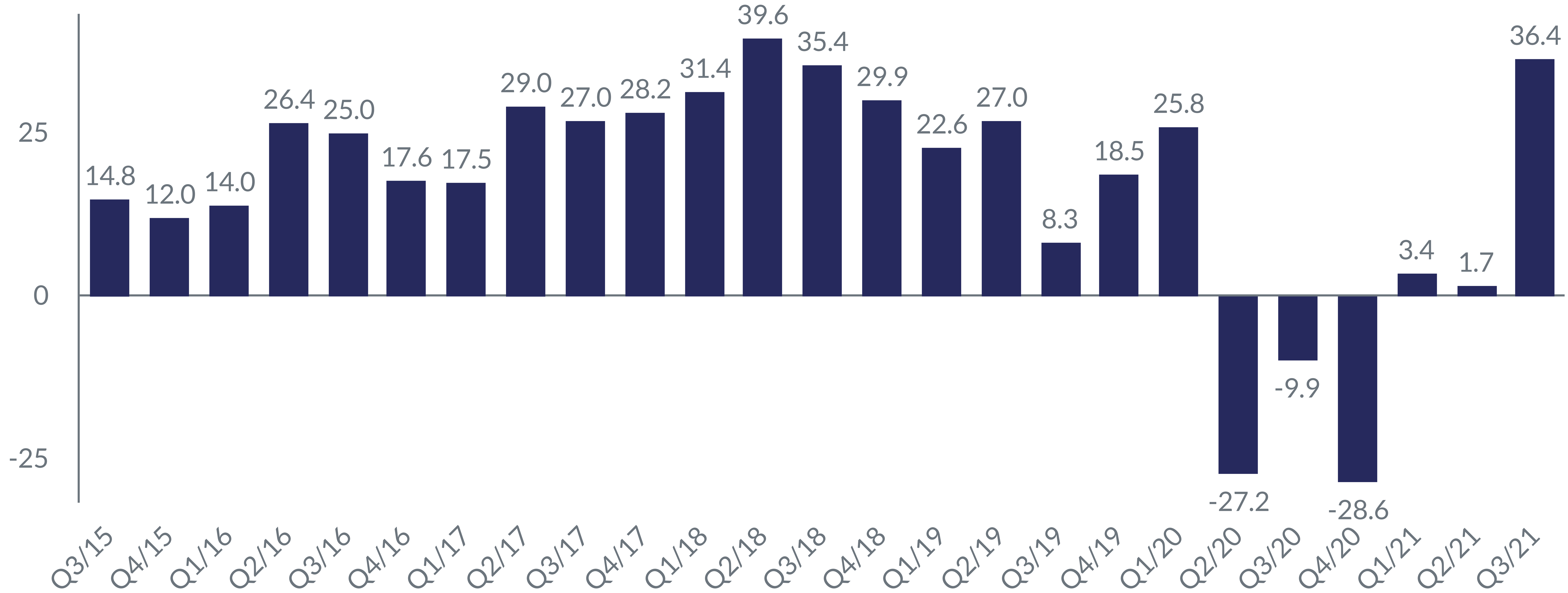
Q3 2021

Participating Companies

Large	SMEs
	
31	**97**

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the third quarter of 2021, business confidence in Georgia improved significantly (by 34.7 index points) and reached 36.4. The increase in business confidence is observed in all sectors and is driven by optimistic future expectations and improved past performance in light of economic recovery and relaxed pandemic restrictions.

- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, increased by 50.7 points compared to Q2 2021 and reached 46.6 in Q3 2021 with the agricultural sector showing the greatest improvement in past performance.

- Expectations Index, which reflects business optimism, sharply improved after a slight decrease in Q2 2021, amounting to 45.2 index points. Expectations for Q3 2021 remained the same for the financial sector and increased for all other sectors.

- The Sales Price Expectations Index increased by 1.2 index points and reached 18.4 points, indicating a slight increase in the share of businesses that anticipate charging higher prices on their products. The increase in Sales Price Expectations Index is driven solely by the manufacturing sector.

- Limited access to financing and a lack of demand continues to be one of the key obstacles for both large companies and SMEs. Also, the lack of qualified labor became an important problem for large companies for Q3 2021.

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* 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).

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BCI has increased by 34.7 index points for Q3 2021 compared to Q2 2021 and reached 36.4. Expectations in the Georgian private sector have increased by 36.2 index points, reaching 45.2. As for business performance over the past three months, it has increased significantly, reaching 46.6 points, indicating an upturn in production, turnover, and sales. Compared to the previous quarter, the Sales Price Expectation Index has increased, showing growth in the market share of business owners who expect higher sales prices.

Compared to Q2 2021, BCI increased in all sectors. The biggest improvements are seen in retail trade (75.5), agriculture (55.9), and service (30.8) sectors.

BCI QoQ change by sector

Sectors	Q3/21	Change
Manufacturing	13.6	12.5
Construction	14.2	17.0
Retail Trade	24.0	75.5
Service	49.7	30.8
Agriculture	42.2	55.9
Financial	20.6	2.9
Other	64.8	32.3

SME

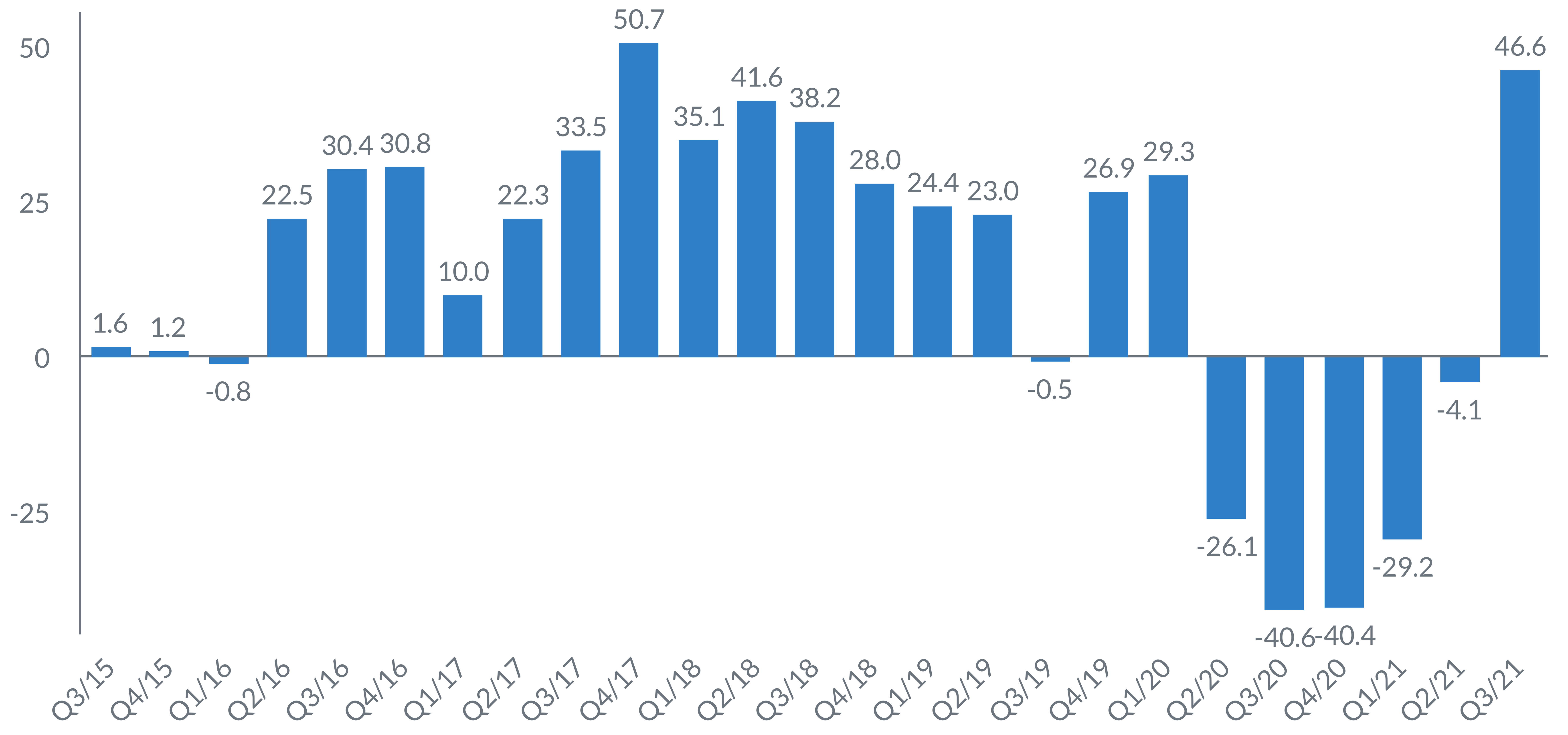
Large

	SME Q3/21	SME Change	Large Q3/21	Large Change
	8.2	17.9	42.1	39.7

Business confidence for the third quarter of 2021 has increased by 39.7 index points for large companies and by 17.9 for SMEs.

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, which exited the market are, to some extent, more likely to demonstrate a negative outlook.

Past Performance Index



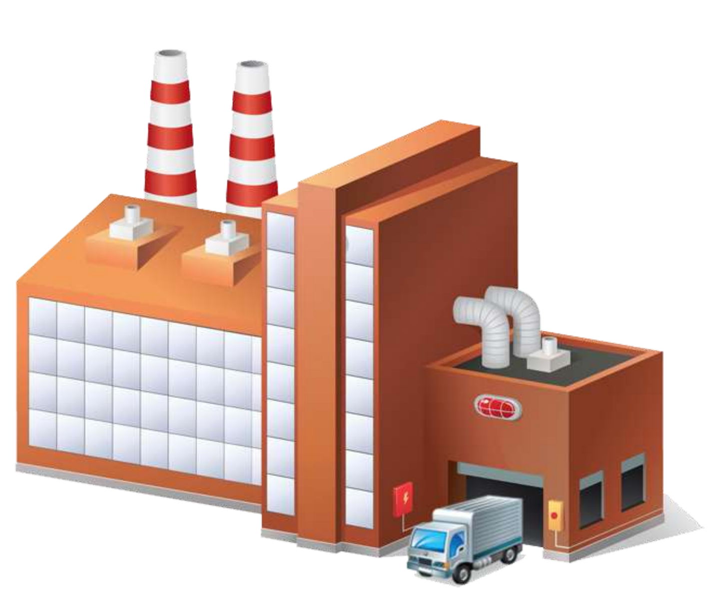
Businesses’ Past Performance Index, which shows the development of businesses' production, turnover, and sales in the past 3 months, increased significantly compared to Q2 of 2021 and reached 46.6 for Q3 2021. It should be noted that until Q3 2021, Past Performance Index remained in negative territory for 5 consecutive quarters. Significant improvements were observed observed in the agriculture (119.7), retail trade (108.7), service (56.0), and manufacturing (17.1) sectors.

Past 3 Months QoQ change by sector

Sectors	Q3/21		Change
Manufacturing	42.2	▲	17.1
Construction	-4.3	▲	5.4
Retail Trade	23.9	▲	108.7
Service	69.0	▲	56.0
Agriculture	45.8	▲	119.7
Financial	10.0	▼	-45.8
Other	76.0	▲	-0.3

SME

Large



SME Q3/21		SME Change	Large Q3/21		Large Change
-2.6	▲	39.5	56.2	▲	55.8

Business activities in the past 3 months have improved for both, large businesses and SMEs. For large firms, the index increased by 55.8 points and reached 56.2, for SMEs, the same indicator increased by 39.5 and settled at -2.6 index points.

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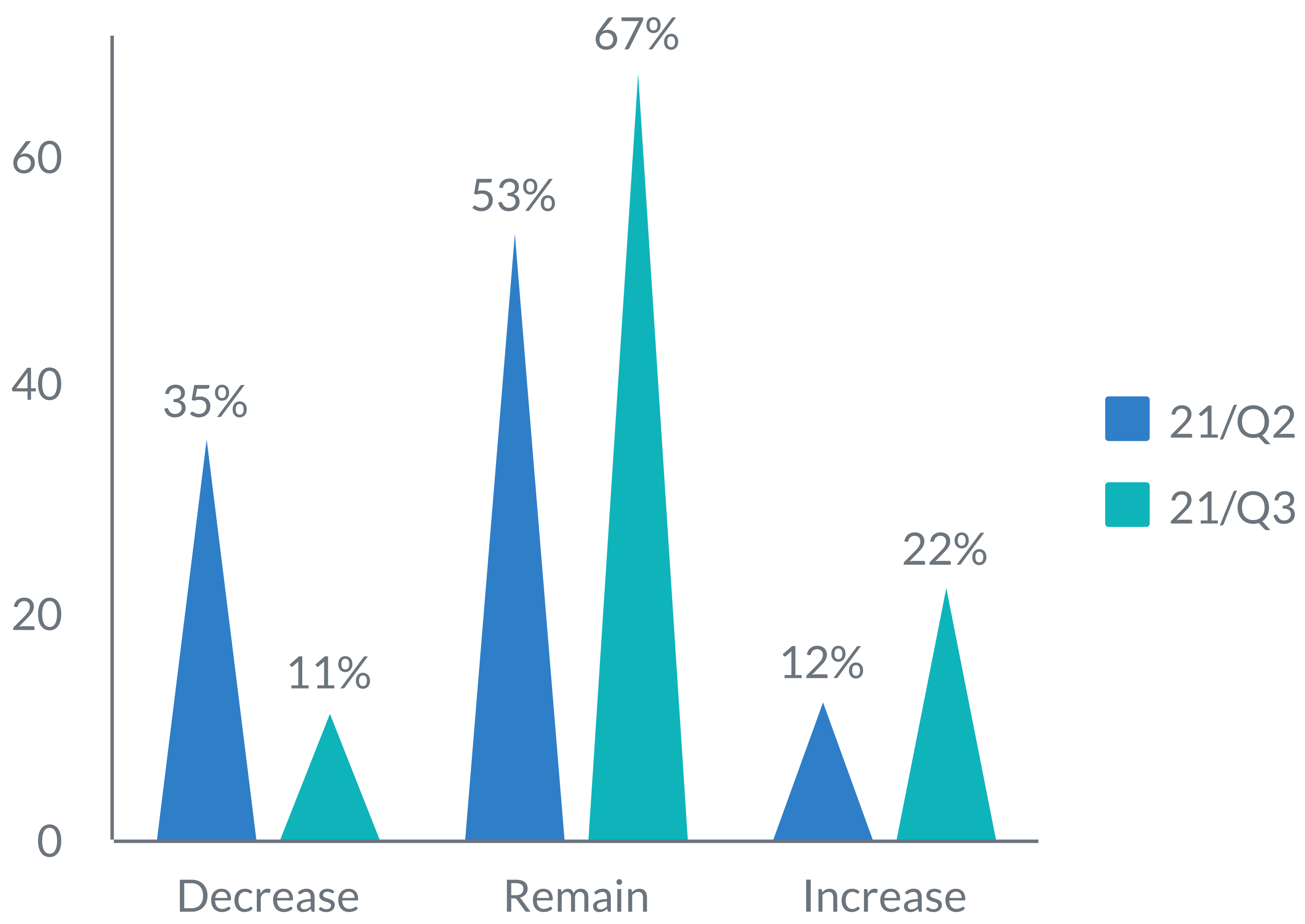
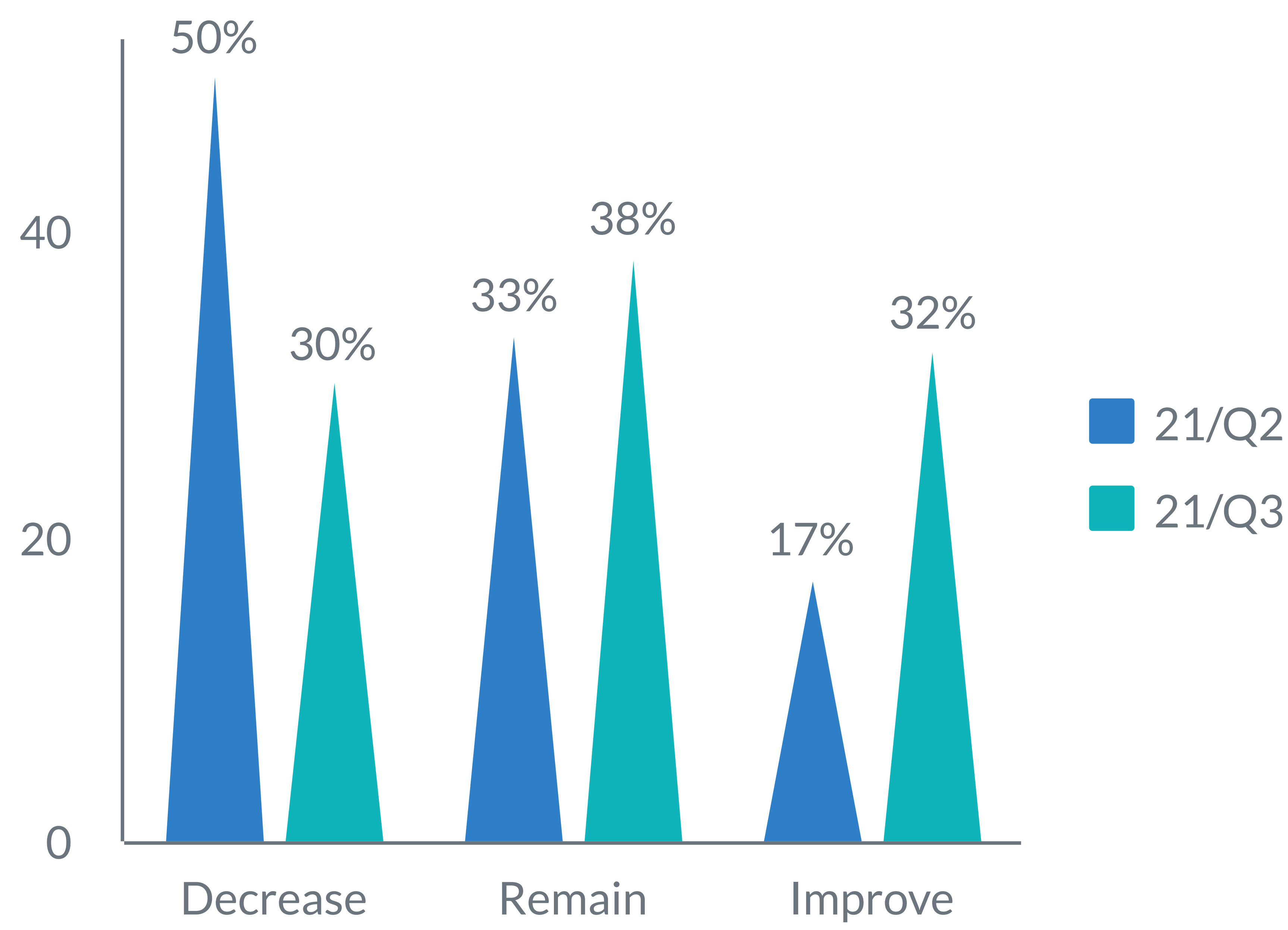
How has your firm's total employment changed over the past 3 months?

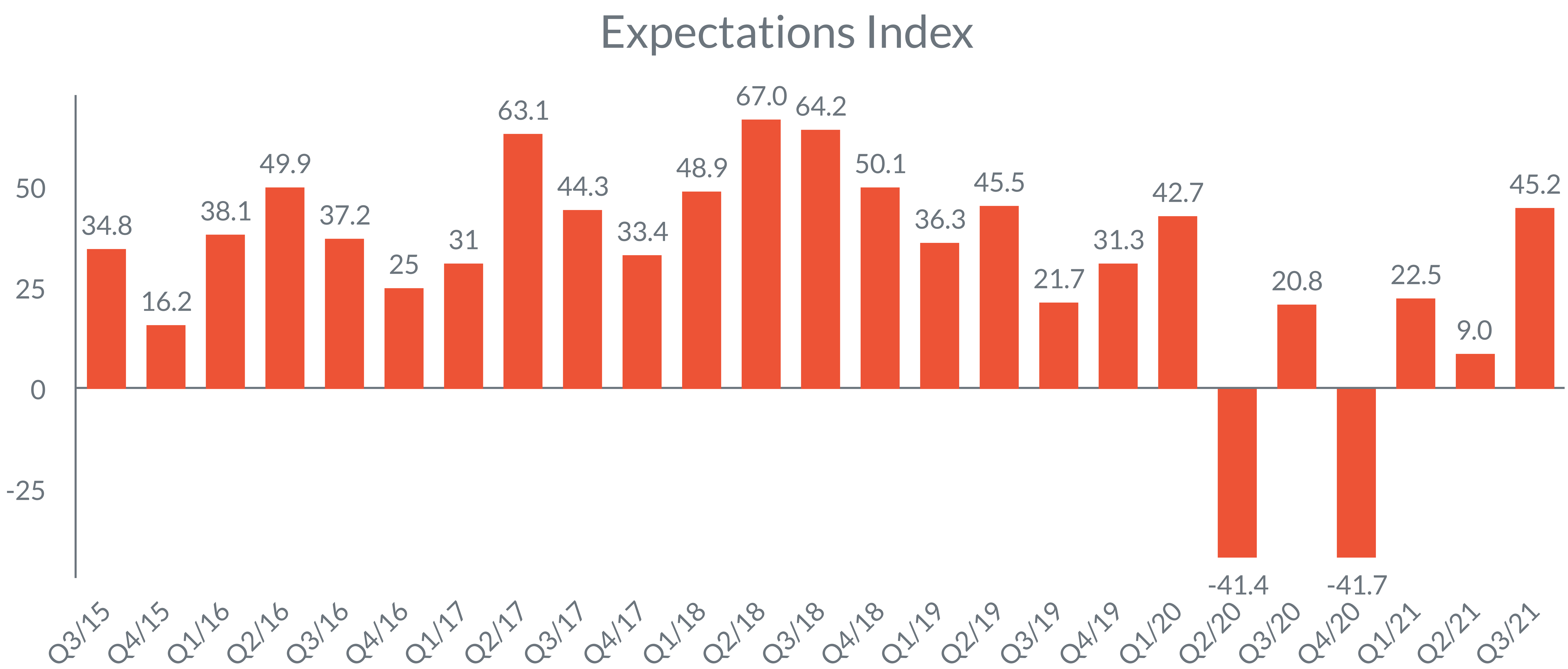


Compared to the previous quarter, a smaller share of firms (11%) surveyed stated that employment had decreased over the past three months; 22% reported an increase, and 67% no changes in employment.

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



Moreover, smaller share of firms (30%) claimed that their business activity worsened over the past three months; 38% of firms stated that their business activities remained unchanged and 32% reported an improvement.



Expectations QoQ change by sector

Sectors	Q3/21		Change
Manufacturing	47.8	▲	20.8
Construction	30.2	▲	30.2
Retail Trade	38.0	▲	114.5
Service	53.3	▲	15.4
Agriculture	59.7	▲	44.1
Financial	0	—	0
Other	88.9	▲	85.5

The Expectations Index increased sharply by 36.2 index points for Q3 2021 and settled at 45.2. Prospects for the next three months have improved for all sectors except for the financial sector, for which the index remains unchanged. The highest increase is observed in retail trade (114.5), followed by agriculture (44.1), construction (30.2), manufacturing (20.8), and service (15.4) sectors.

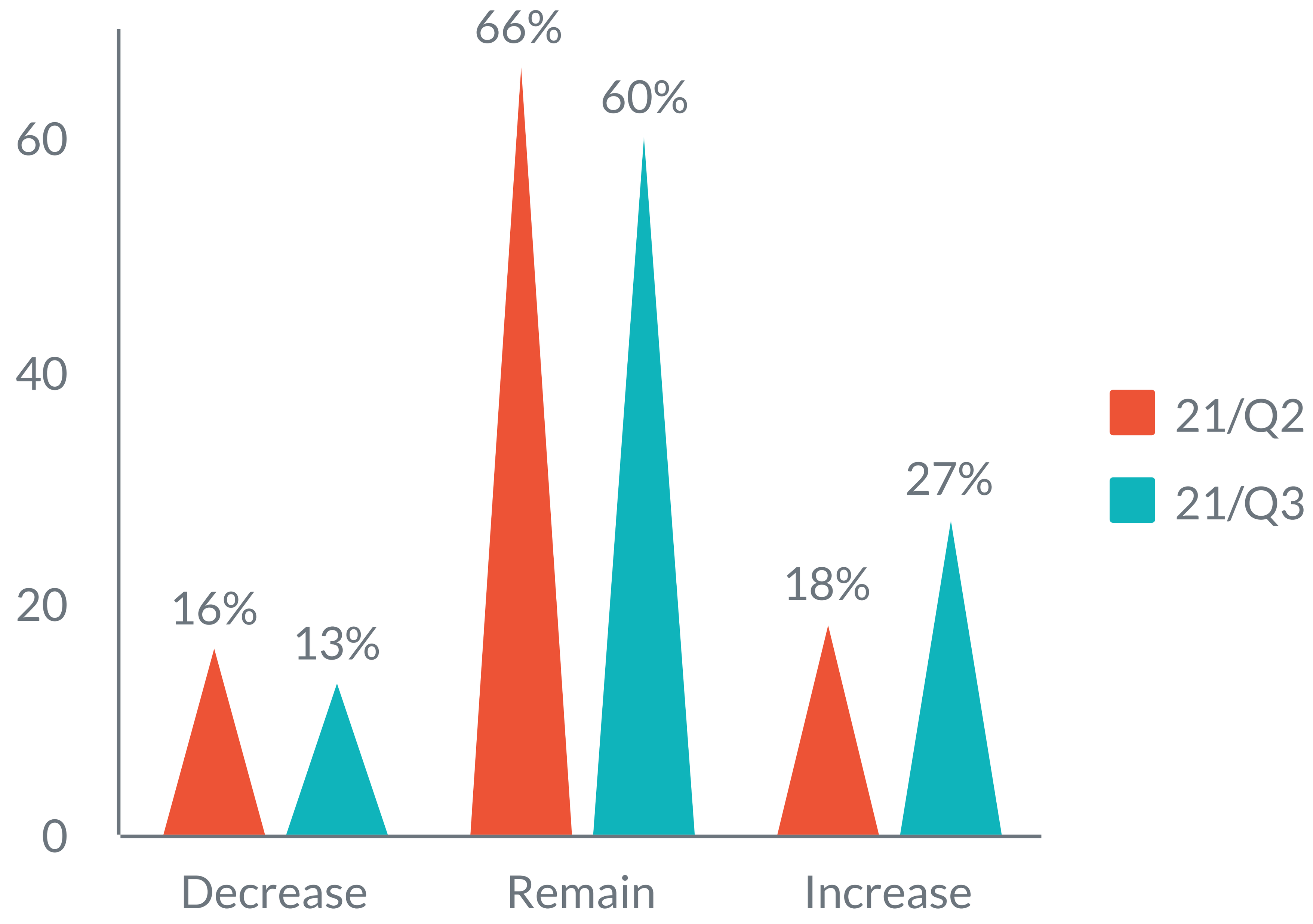
SME

Large

SME Q3/21		SME Change	Large Q3/21		Large Change
16.9	▲	10.2	51.0	▲	43.7

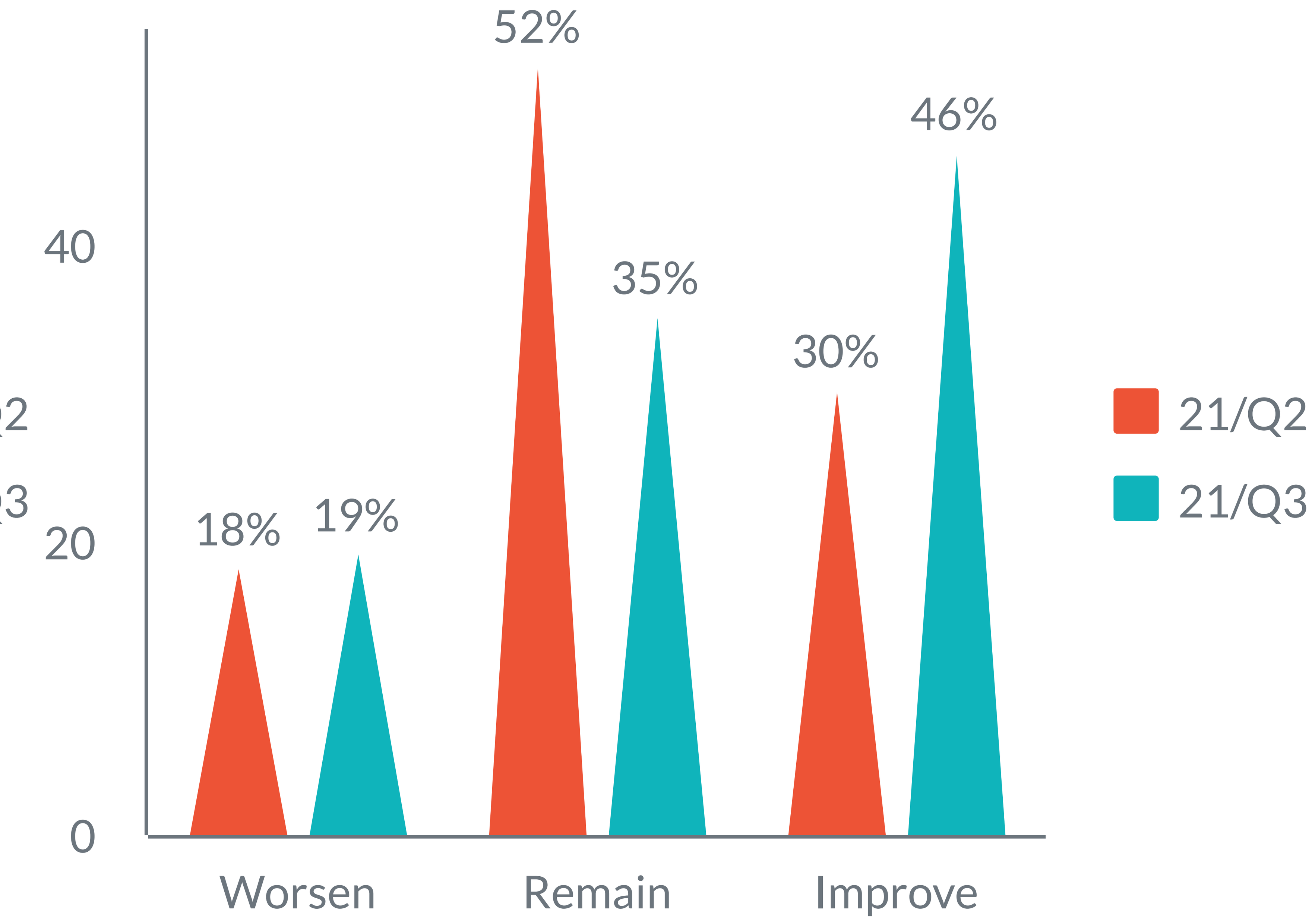
Business expectations have increased for both, large firms (10.2) and SMEs (43.7).

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

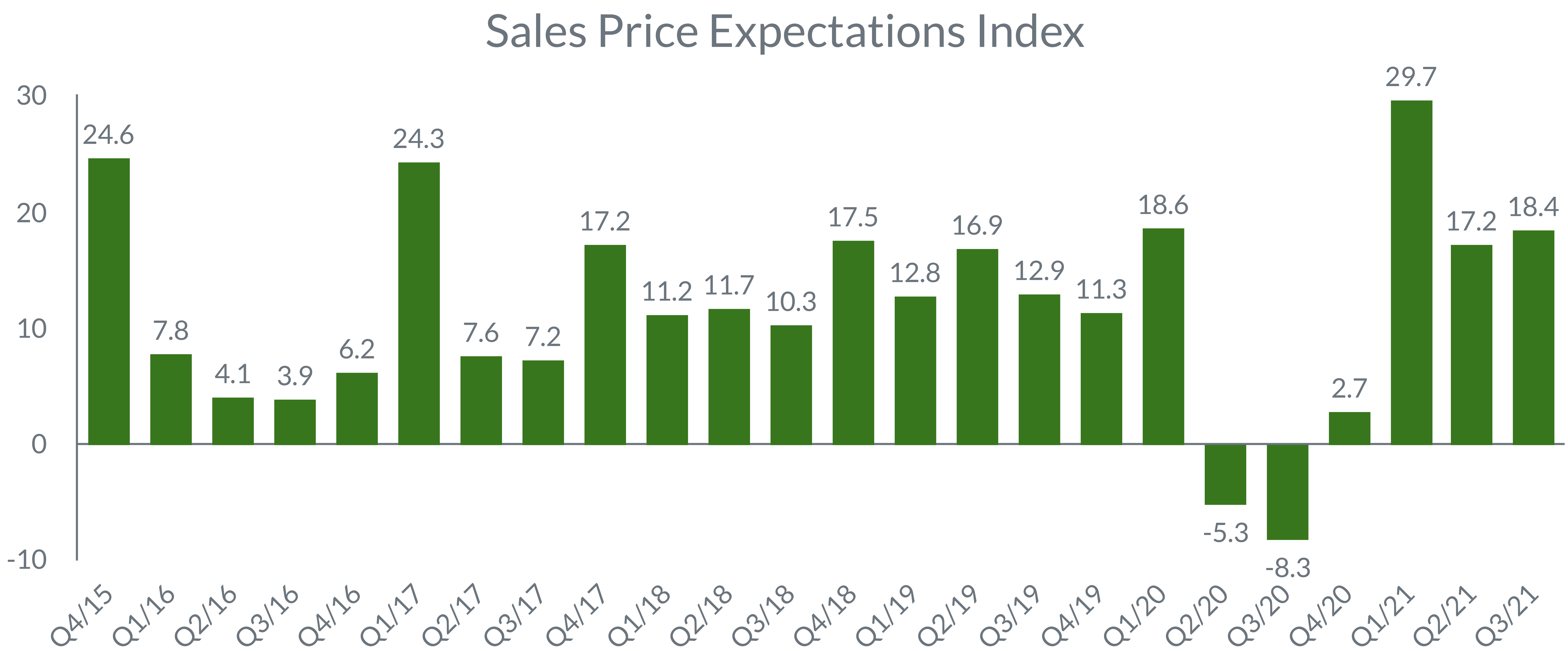


60% of the surveyed businesses do not expect any changes in employment over the next three months, 13% of firms stated that they would hire fewer employees in the future, and 27% think that they would hire more.

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



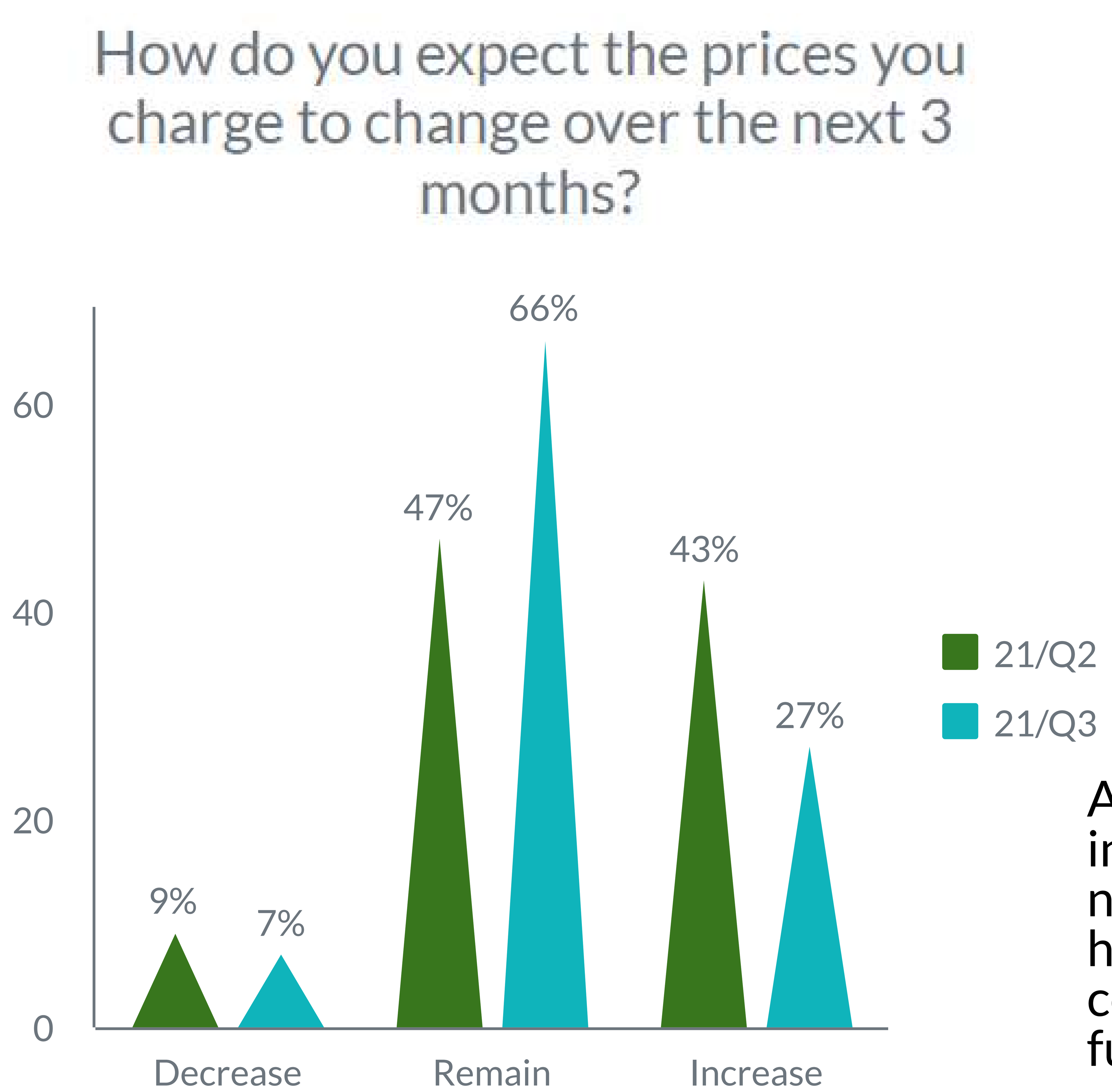
46% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 35% do not predict any changes, and 19% of businesses believe their business conditions will worsen.



The Sales Price Expectations Index increased slightly from 17.2 points (Q2 2021) to 18.4 points for Q3 2021. The manufacturing sector (79.2 points increase) is the sole driver of this change since the index decreased in all other sectors. The overall Sales Price Expectations Index has increased for large companies and decreased for SMEs.

Sales price QoQ change by sector

Sectors	Q3/21	Change
Manufacturing	52.2	79.2
Construction	31.6	-17.9
Retail Trade	11.6	-1.5
Service	13.1	-1.0
Agriculture	36.8	-42.3
Other	1.8	-71.0



SME

Large

SME Q3/21	SME Change	Large Q3/21	Large Change
17.9	-11.2	18.1	2.4

Around 66% of all firms surveyed do not intend to change their prices over the next three months. 27% of firms expect to higher prices, and the remaining 7% will consider decreasing their prices in the future.

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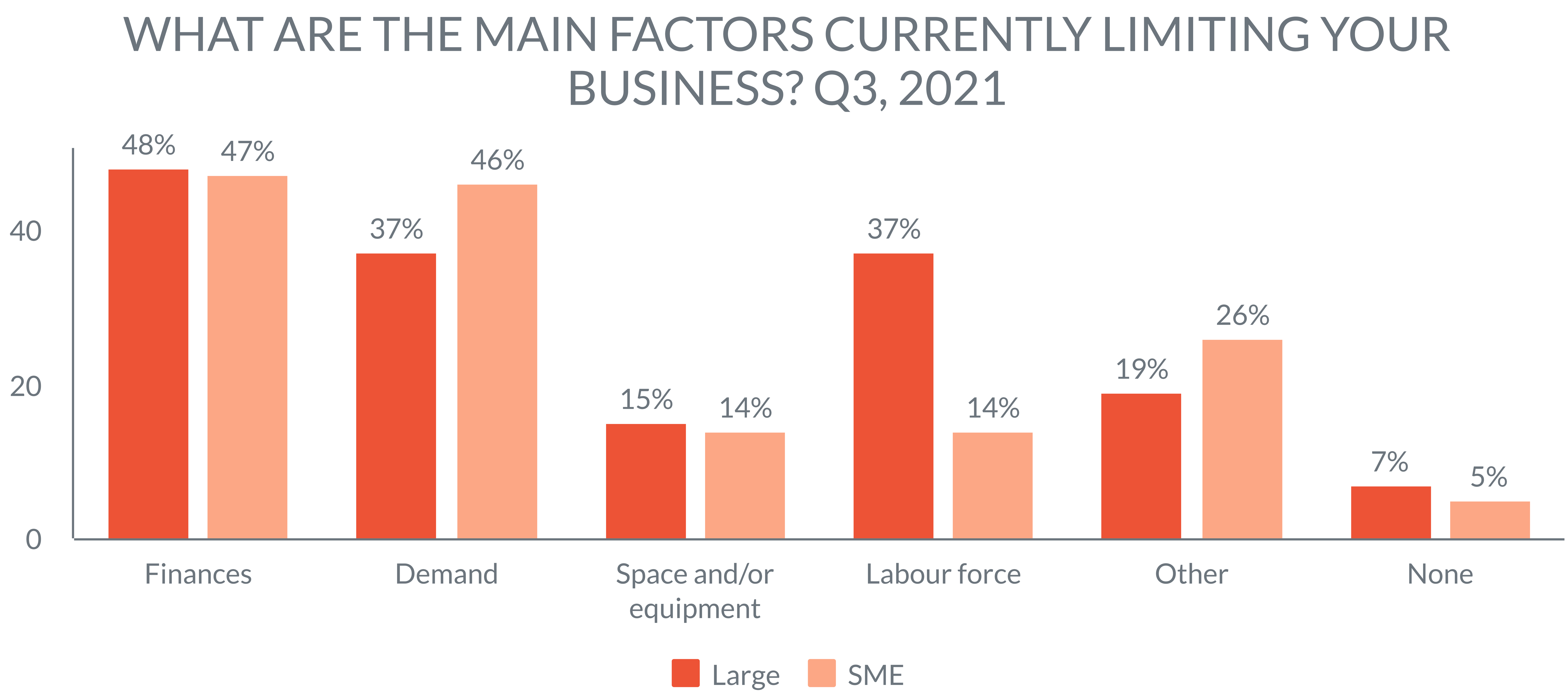
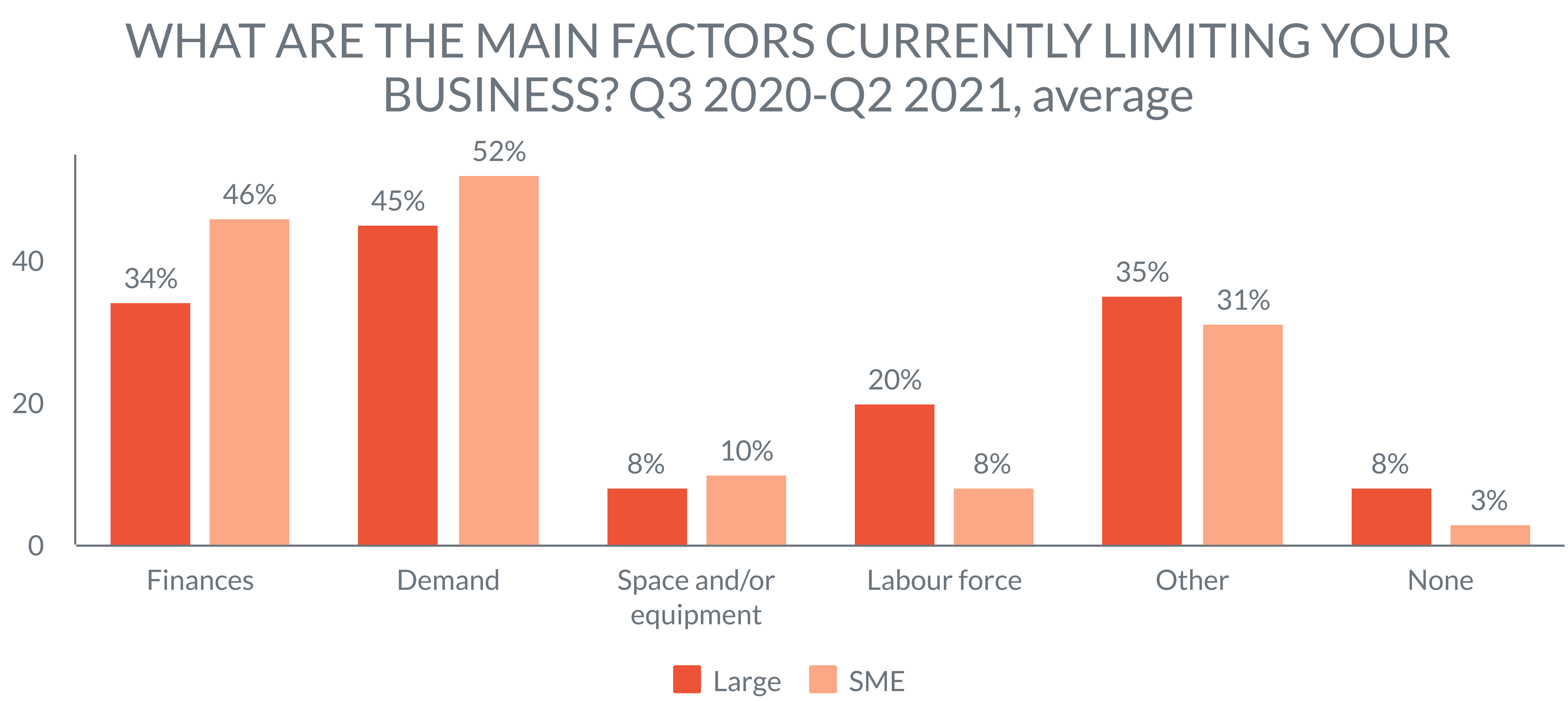


Limited access to financing and a lack of demand continues to be one of the most significant obstacles for both large companies and SMEs. A lack of demand turns out to be a more important problem for SMEs compared to large companies, while large enterprises indicate problems with finding qualified labor force. For Q3 2021 "other" factors became less important for both, large companies and SME's (average of the last four quarters was 35% and 31%, respectively), which could indicate relative mitigation of Covid-19 restrictions for businesses.



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	21/Q3	21/Q3	21/Q2	21/Q2
Manufacturing	8	6%	10	9%
Construction	19	15%	15	13%
Retail Trade	29	23%	30	27%
Service	41	32%	37	33%
Agriculture	12	9%	7	6%
Financial	7	5%	6	6%
Other	12	9%	7	5%
Source: BCI Survey Data	128	% share	112	% 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	21/Q3 Large	21/Q3 SME
Manufacturing	2	6
Construction	3	16
Retail Trade	11	18
Service	7	34
Agriculture	3	9
Financial	4	3
Other	1	11
Source: BCI Survey Data	31	97

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 2021 was 128. This is an increase of 14% compared to the previous quarter's level of participation. 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 is 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

Published: 14/07/2021

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