

BUSINESS CONFIDENCE INDEX

-2

DECREASE

**Business Optimism
Turns to Realism**

Q3 2017

Participating Companies

Large



73

SMEs



154

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- The Georgian Business Confidence Index (BCI)* has decreased slightly, reaching 27.0 index points, which is a -2.0 index point loss over the previous quarter. The third quarter drop in the BCI was mostly driven by the notable decline of the Expectations Index, which judging from the previous quarter's findings, may be explained by private sector realignment with reality rather than by worsened economic conditions.
- After a significant increase of 12.3 index points in Q2, the Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, increased by 11.2 points. Compared to other sectors, the construction sector assessed their past performance most positively.
- Business optimism about the overall economy dropped to below the Q2 2017 (-18.8, QoQ) level, but remained higher than Q3 2016 at 44.3 index points. Manufacturing and Retail Trade sector SMEs have contributed the most to the drop in business optimism.
- The Sales Price Expectation Index decreased marginally. Businesses in the service sector predict the highest price drop in the next quarter, while the highest price increase is predicted in the agricultural sector. No significant overall price increases should be expected in the coming months.
- Compared to SMEs, large businesses demonstrated a slightly higher drop in expectations, but much better past performance, leading to increasing gap between large businesses and SMEs in the overall Index.
- Irrespective of their size, the main factors that continue to limit business activities are lack of demand and 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).

Overall, the BCI lost 2.0 points compared to Q2 2017. Expectation in the private sector in Georgia declined by 18.8 percentage points, and reached 44.3 index points (down from 63.1 points in Q2). Business performance over the past three months increased significantly, reaching nearly 33.5 points (increasing from 22.3), indicating an improvement in production/turnover/sales. However, the improved performance of the past three months could not outweigh decreased expectations, which led to insignificant drop in overall BCI.

The BCI index worsened in all sectors except retail trade (+6.1), agriculture (+ 9.3) and Other (+3.7) sectors. The highest drop was recorded in the construction (-9.1) sector.

BCI QoQ change by sector

Sectors	Q3/17		Change
Manufacturing	40.9	▼	-5.6
Construction	8.8	▼	-9.1
Retail Trade	25.9	▲	6.1
Service	23.1	▼	-4.9
Agriculture	32.7	▲	9.3
Financial	48.0	▼	-1.7
Other	22.8	▲	3.7

SME



Large



Q3/17	Change	Q3/17	Change
11.09	▼ -6.1	29.6	▼ -1.6

Business confidence in the second quarter of 2017 slightly decreased both for large size firms and SMEs. The gap between large firms and SMEs continues to widen after Q4 2016, the only quarter in recent history with higher level of BCI 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 still in operation are more likely to have a negative outlook to some extent.

Production/Turnover/Sales Past 3 Months



The actual performance of businesses significantly increased compared to the second quarter of 2017. In the Q3 2017** reporting period, sales (production or turnover) of the 227 firms surveyed increased from 22.3 (Q2 2017) to 33.5 (Q3 2017).

Past 3 Months QoQ change by sector

Sectors	Q3/17	Change
Manufacturing	68.0	-4.1
Construction	41.1	61.1
Retail Trade	41.1	33.6
Service	18.7	2.3
Agriculture	50.9	-0.3
Financial	43.0	-4.7
Other	18.8	18.8

The current situation for firms operating in the construction and retail trade sectors has improved significantly, meaning that in these sectors, the weighted balance between positive and negative responses increased compared to previous quarter (for more information, see Appendix 1). Service and other sectors have also experienced positive developments. In all other sectors, production/turnover/sales for the past three months worsened, albeit only slightly, with the highest drop recorded for the financial sector (-4.7).

The significant positive developments in some sectors outweighed the sluggish performance of others, and led to a significant overall increase in business performance.

SME



Q3/17	Change	Q3/17	Change
6.09	▲ 1.0	38.63	▲ 13.1

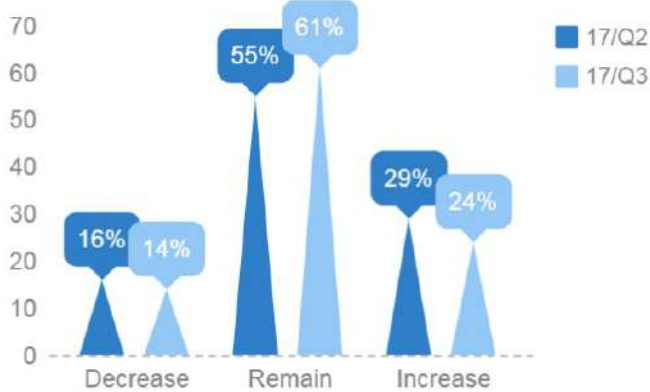
Large



Business activities improved for both large businesses and SMEs. For large firms, business activity indicators increased from 25.5 points in Q2 2017, to 38.6 in Q3 2017; for SMEs, the same indicators increased from 5.1 to 6.09 over the same period.

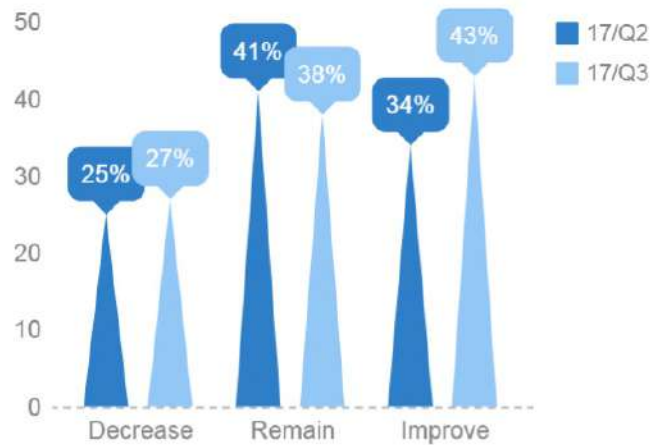
** This indicator describes the activities of businesses in April, May and June

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



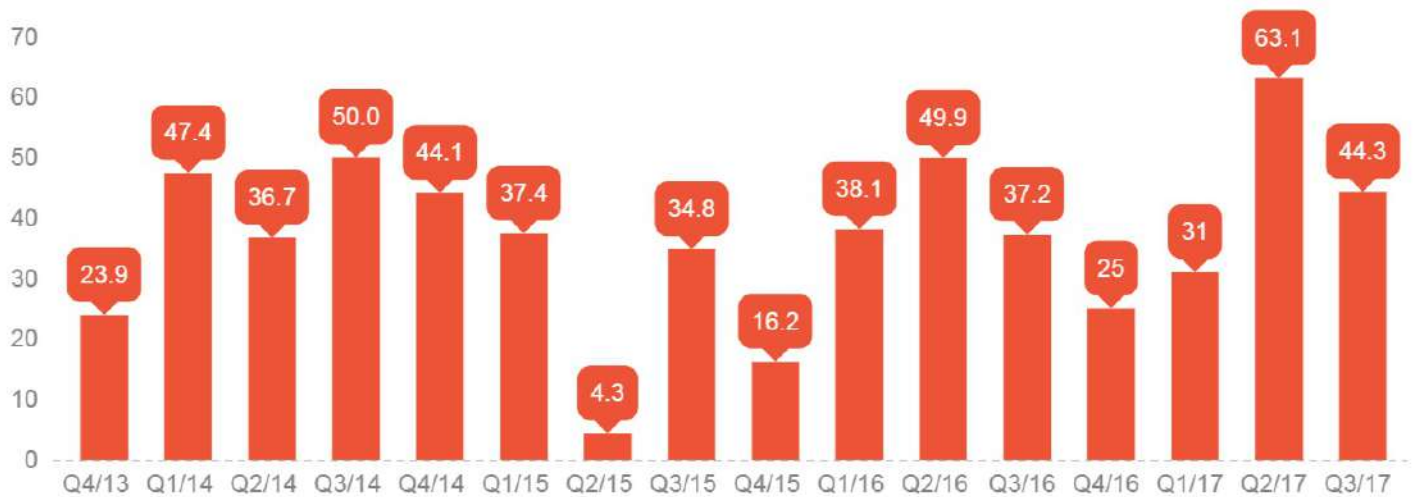
Compared to the previous quarter, a higher share of surveyed firms (61%) stated that employment remained the same over the past three months. Fewer businesses reported either decreases or increases in employment.

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, while 43% of participants stated that they had improved their performance (which was an increase of 9 percentage points over the previous quarter).

Expectations Index



Expectations QoQ change by sector

The Expectations Index decreased by 18.8 index points in the third quarter of 2017. Expectations about the next three months worsened in all sectors. The highest decrease was reported in the agriculture and other sectors (for more information, see Appendix 1).

The pessimism of all sectors might have been driven by the end of the summer season, because economic agents generally revert to their normal spending behavior once their vacations are over.

Sectors	17/Q3	Change
Manufacturing	81,0	▼ -13.6
Construction	18,4	▼ -61
Retail Trade	44,0	▼ -8.6
Service	36,1	▼ -15.3
Agriculture	54,6	▼ -33.4
Financial	67,1	▼ -11.7
Other	28,4	▼ -27.7

SME



Q3/17 **Change**
34,61 ▼ **-16,4**

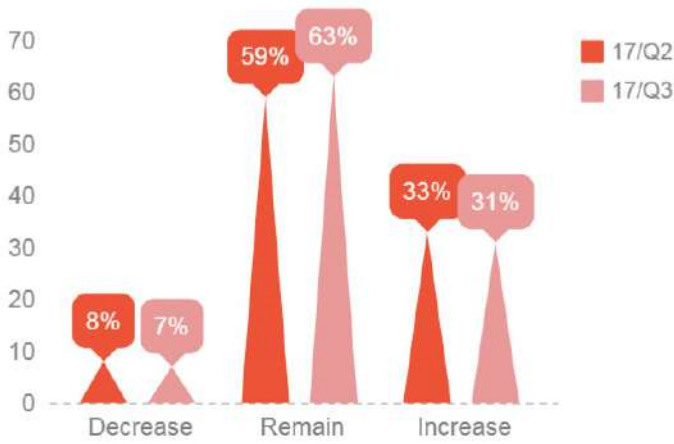
Large



Q3/17 **Change**
46,5 ▼ **-19,5**

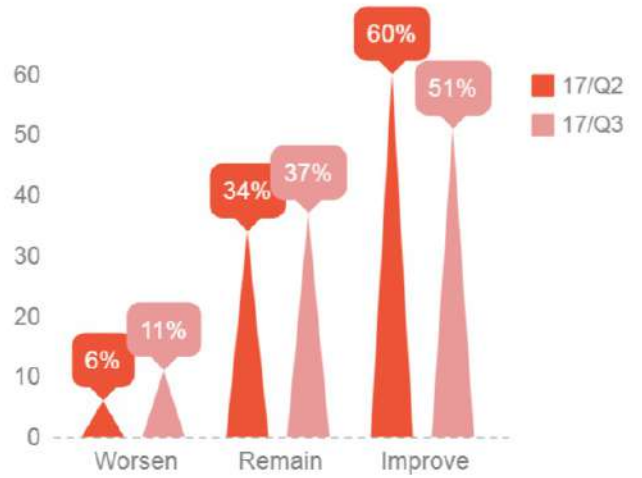
As one can see from the table, business expectations for the three-month period July through September 2017 decreased for both SMEs and large size firms.

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



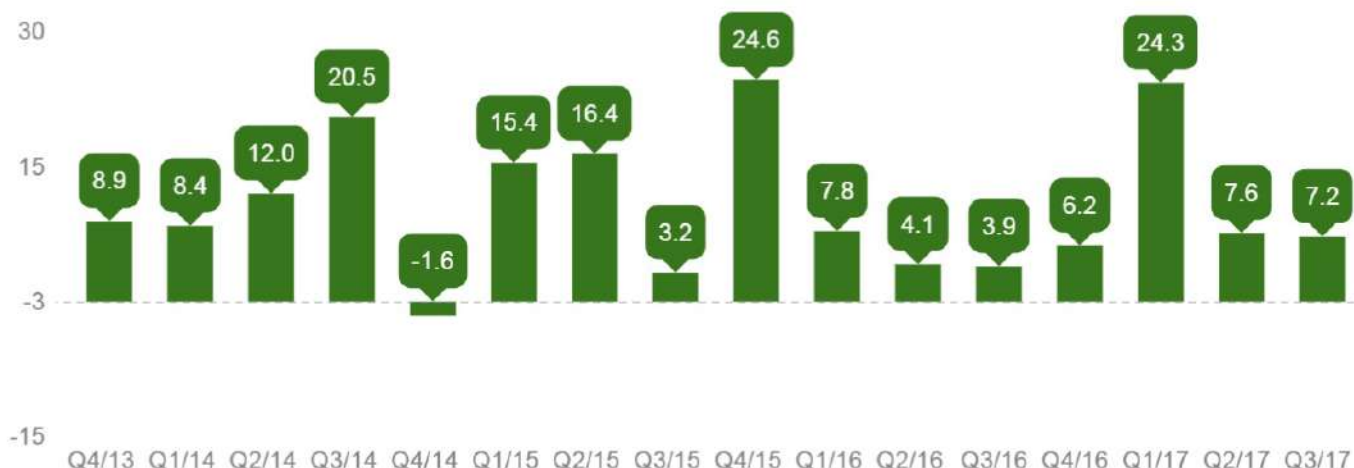
The majority (63%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 31% of firms stated that they would employ more employees in the future (which is lower compared to the previous quarter, by 2%).

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



51% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 37% did not expect any changes in the future, while a slightly higher share of businesses expect their business conditions to worsen.

Sales Price Expectations



The Sales Price Expectation Index slightly decreased from 7.6 points (Q2 2017), to 7.2 points (Q3 2017). The Sales Price Expectations Index for Q1 2017 had predicted realized hikes in price level recorded by Geostat. No significant further increase in prices is expected in the coming months.

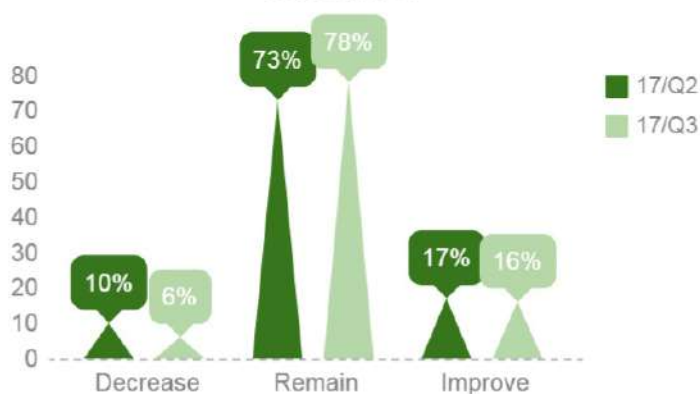
Sales price QoQ change by sector

Sectors	Q3/17	Change
Manufacturing	17.9	▲ 15.2
Construction	2.1	▲ 1.1
Retail Trade	7.4	▼ -2.5
Service	4.9	▼ -10.7
Agriculture	0.0	▲ 41.6
Other	57.2	▲ 22.8

The decrease in the index is driven by the Retail Trade and Service sectors. The Agriculture sector's sales price expectations have increased the most. The manufacturing, construction, and other sectors each expect a noticeable increase in prices in the next three months (for more information, see Appendix 1).

The overall sales price expectations index decreased for both, large companies and SMEs.

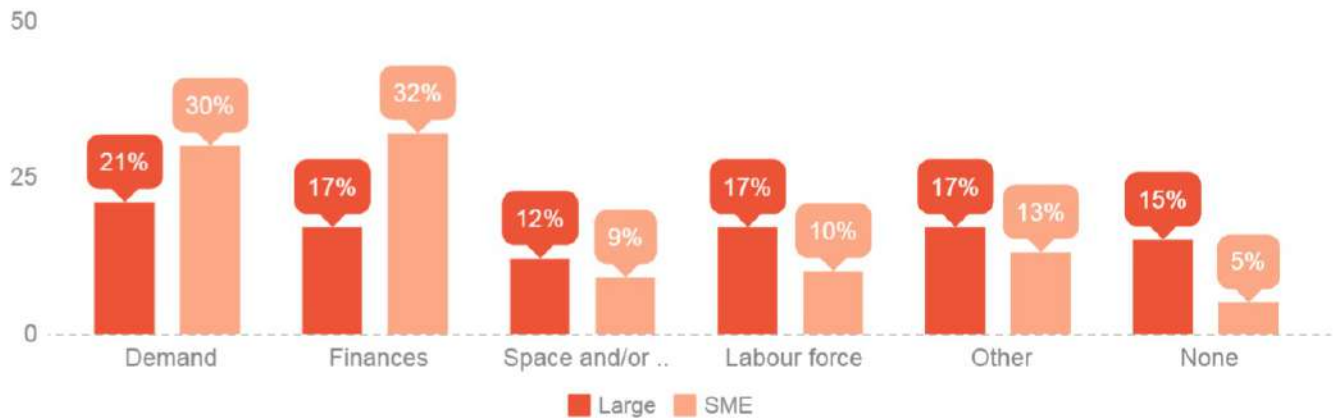
How do you expect the prices you charge to change over the next 3 months?



Q3/17	Change	Q3/17	Change
5.9	▼ -0.3	7.51	▼ -0.4

The majority (78%) of all surveyed firms are not going to change the prices they charge over the next three months. Only 6% of firms expect to decrease prices, and 16% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 3, 2017



Lower consumption activities and lack of access to financing are two of the most significant problems for businesses. One of the most limiting factors in doing business for both large firms and SMEs in Q3 2017 was lack of demand. Moreover, a total of 17% of large companies and 32% of SMEs noted that lack of access to finance was their main obstacle.

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	17/Q3	17/Q3	17/Q2	17/Q2
Manufacturing	19	8%	8	4%
Construction	19	8%	17	8%
Retail Trade	44	19%	50	24%
Service	90	40%	97	46%
Agriculture	21	9%	15	7%
Financial	17	7%	15	7%
Other	17	7%	9	4%

Source: BCI Survey Data **227** % share **211** % 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	Large	17/Q3	SME
Manufacturing	9		10
Construction	8		11
Retail Trade	15		29
Service	21		69
Agriculture	4		17
Financial	10		7
Other	6		11

Source: BCI Survey Data **73** **154**

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 2017 was 227. This is an increase of nearly 7.5% 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 with the economy, 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.

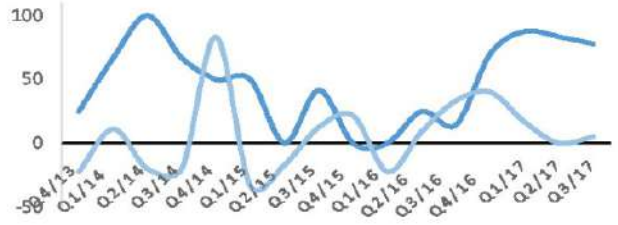
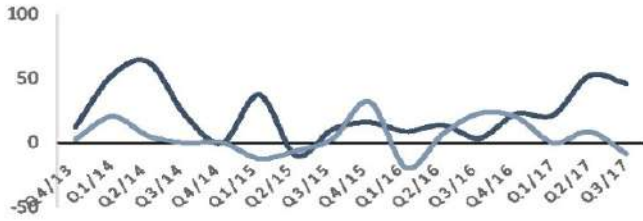
APPENDIX 1 – BCI, Production/Turnover/Sales, Expectations, Sales Expectations by Sectors and Sizes

Overall BCI

Sales/Production/Turnover for past 3 months

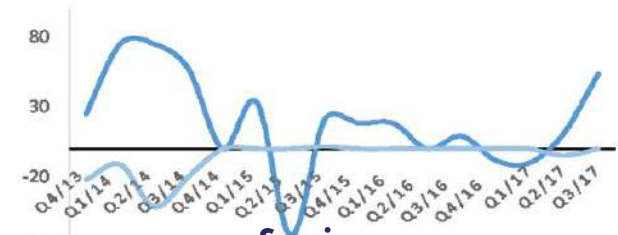
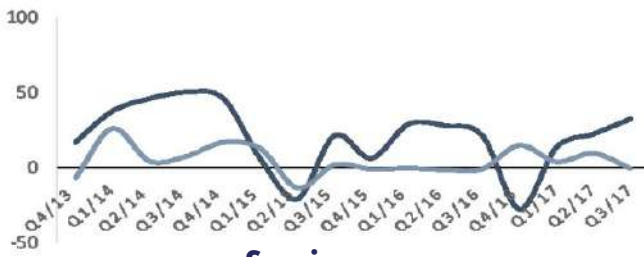
Manufacturing

Manufacturing



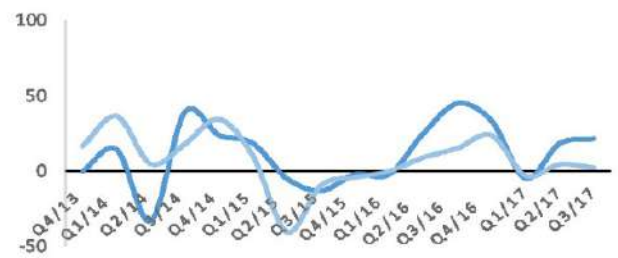
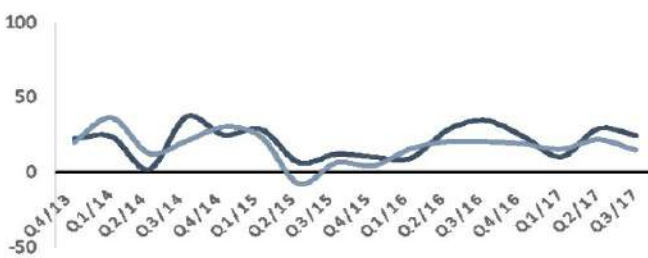
Retail Trade

Retail Trade



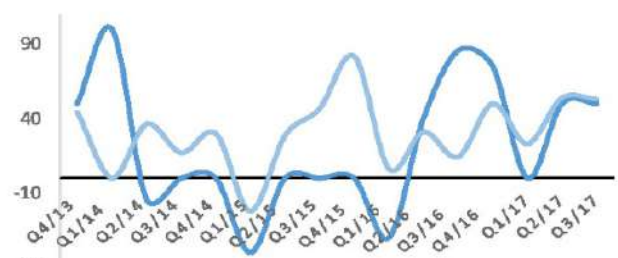
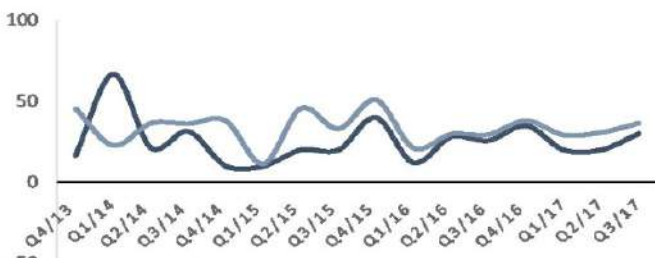
Service

Service



Agriculture

Agriculture



Financial

Financial

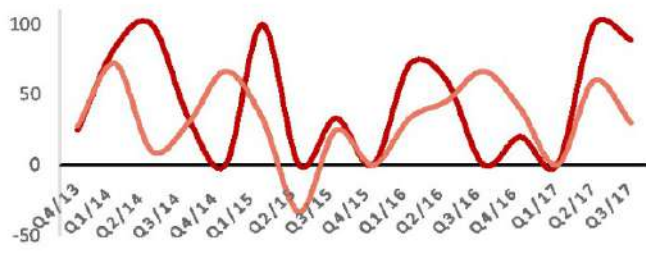


— LARGE — SME

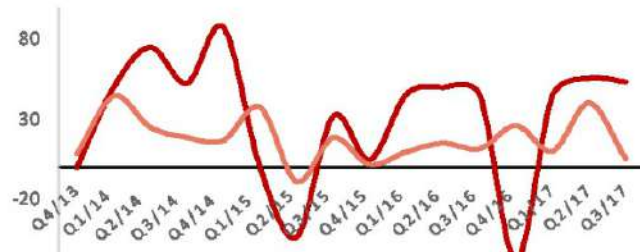
— LARGE — SME

Expectations Index

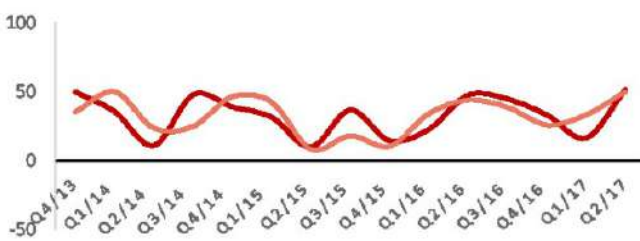
Manufacturing



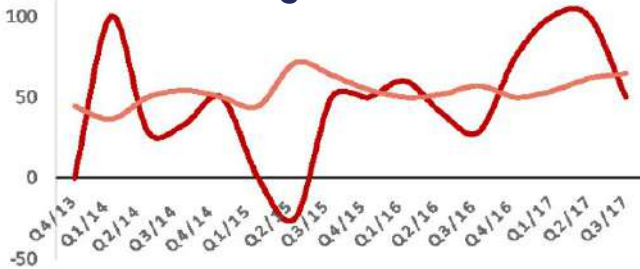
Retail Trade



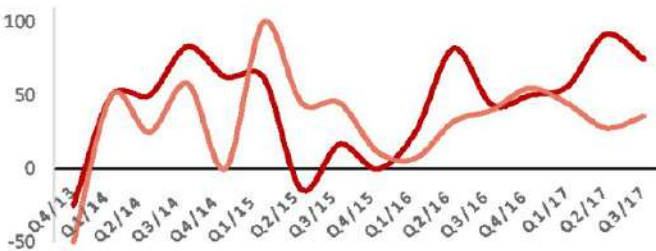
Service



Agriculture



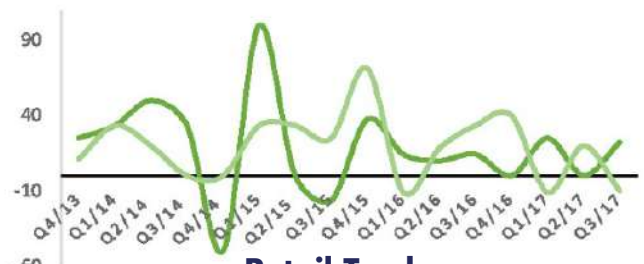
Financial



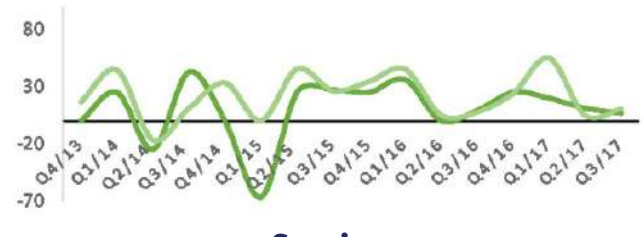
— LARGE — SME

Sales Price Expectations Index

Manufacturing



Retail Trade



Service



Agriculture



— LARGE — SME

Contact person:

Irakli Shalikashvili
 Research Assistant
 Private Sector Development Research Center
 ISET Policy Institute
 i.shalikashvili@iset.ge
 Tel: (995 32) 2507177 ext. 237

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