

BUSINESS CONFIDENCE INDEX

7.3

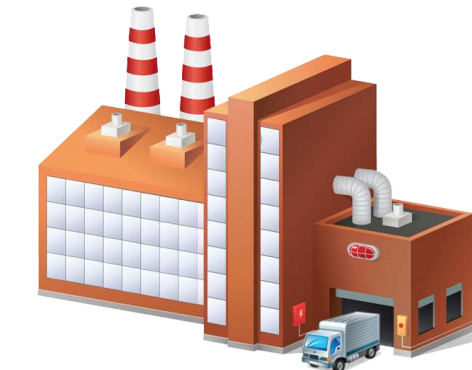
INCREASE

Signs of Optimism Coming from Agriculture and Manufacturing Industries

Q1 2020

Participating Companies

Large



36

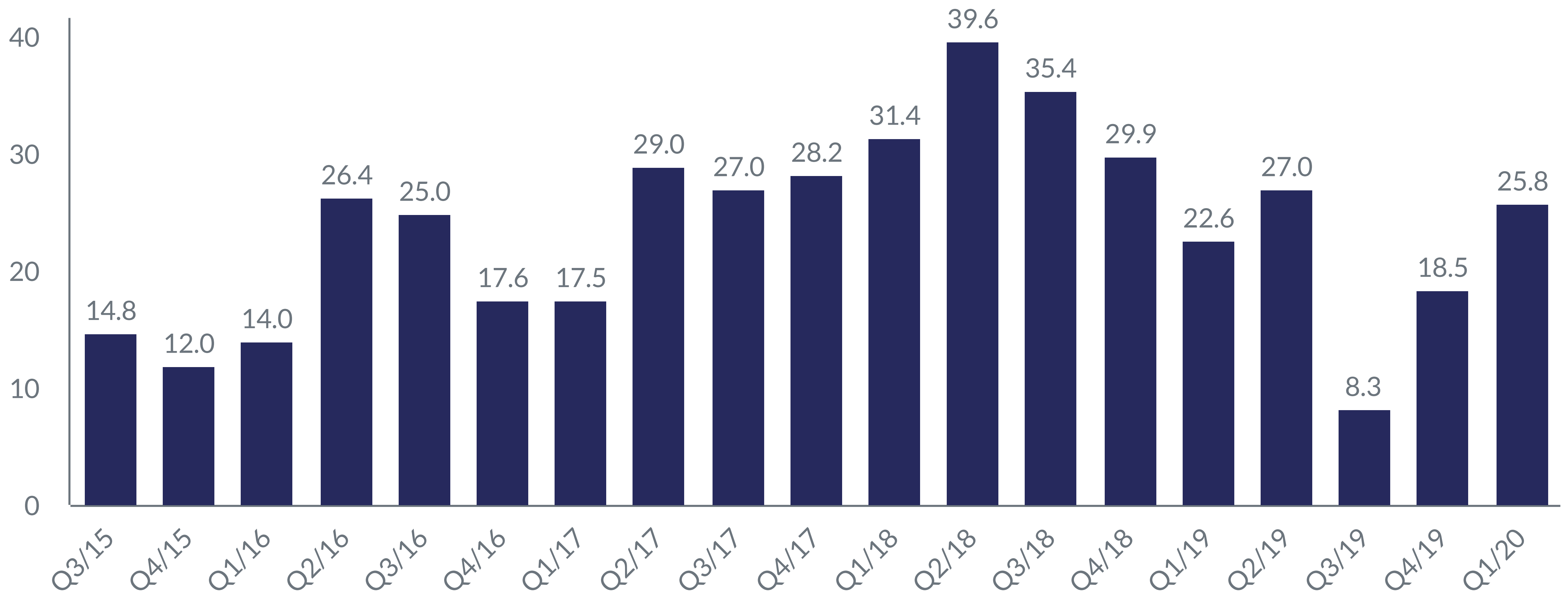
SMEs



125

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- In the first quarter of 2020, BCI increased by 7.3 index points reaching 25.8. Business confidence improved across all sectors with the exception of the service industry. The largest growth was observed in agriculture, followed by the manufacturing industry. In both sectors, the increase in BCI was driven by improved past performance as well as more optimistic future expectations.

- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, showed an upward trend, increasing by 2.4 points in Q1 2020. Manufacturing and agriculture industries were the lead performers in this regard.

- After a sharp drop in Q3 2019, the Expectations Index, which reflects business optimism, has almost fully recovered in the last two quarters reaching 42.7 index points. In Q1 2020 all sectors, except the service industry, have demonstrated heightened expectations.

- The biggest upswing was observed in the Sales Price Expectations Index, which reached its highest value (18.6) since Q1 2017 (24.3). This comes after a decreasing trend observed during the past two quarters.

- Analysis of indices by firm size shows that overall Business Confidence, Past Performance, and Expectations indices have increased for both large companies and SMEs. As for the Sales Price Expectations index, it has improved for large firms but slightly deteriorated for SMEs.

- The main factors that limit business activities for firms of all sizes remain the lack of demand and limited 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

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After significant recovery in the previous quarter, the BCI increased further by 7.3 points compared to Q4 2019 and reached 25.8. Expectations in the Georgian private sector improved by 11.5 index points, rising to 42.7. Moreover, business performance over the past three months has increased, reaching 29.3 points, indicating an upturn in production, turnover, and sales. Thus, the rise in both business expectations and past performance has led to an improvement in the overall BCI. 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.

The BCI increased in most economic sectors, namely in agriculture (27.6), manufacturing (25.5), retail trade (15.2), construction (12.5) and financial (8.7) sectors. The only exception was the service industry, where BCI declined by 5.1 index points.

BCI QoQ change by sector

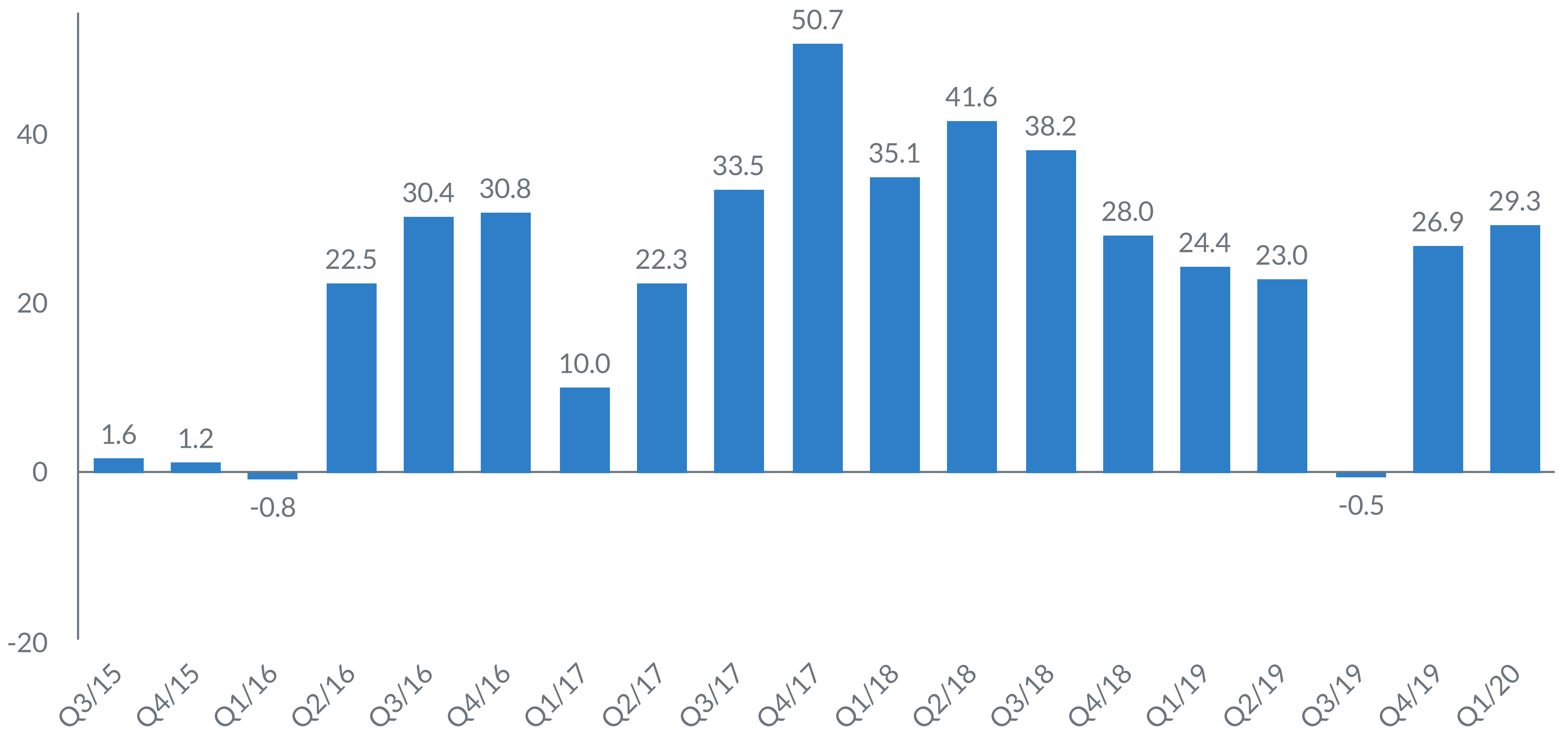
Sectors	Q1/20		Change
Manufacturing	25.5	▲	25.5
Construction	15.9	▲	12.5
Retail Trade	39.0	▲	15.2
Service	22.6	▼	-5.1
Agriculture	50.1	▲	27.6
Financial	6.4	▲	8.7
Other	33.2	■	



Business confidence in the first quarter of 2020 has increased both for SMEs (9.2), and large firms (7.7).

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 that shows the development of businesses' production, turnover and sales in the past 3 months, increased by 2.4 points compared to Q4 of 2019 and reached 29.3 in Q1 2020. A significant upsurge in performance was observed in the manufacturing (61.2) and agriculture (50.2) sectors, followed by retail trade (13.2), and finance (7.2). The substantial increase in these sectors highlights that the weighted balance between positive and negative responses increased compared to the previous quarter. In the remaining sectors, Past Performance Index decreased: in service (-20.8) and construction (-0.9).

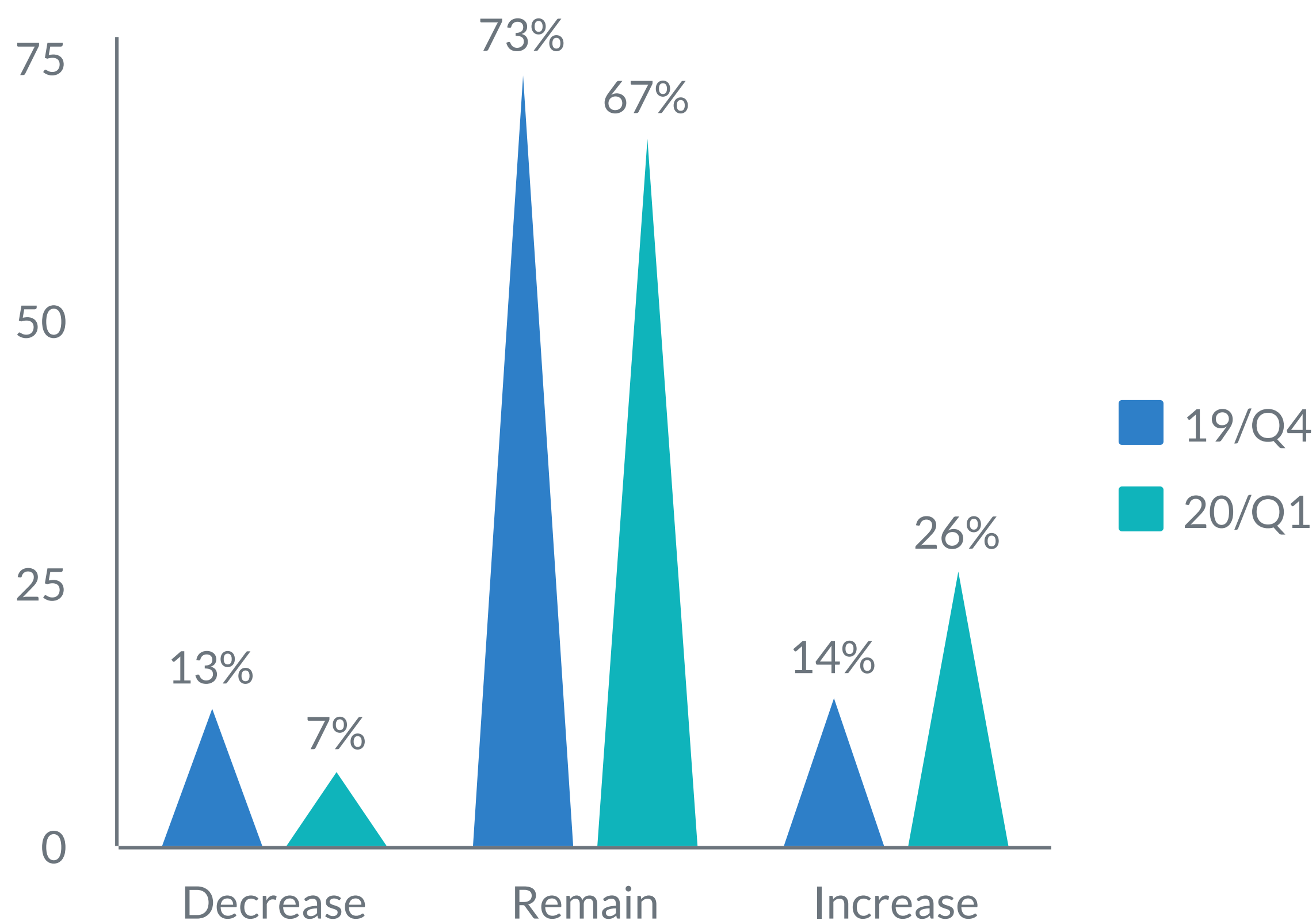
Past 3 Months QoQ change by sector

Sectors	Q1/20		Change
Manufacturing	15.3	▲	61.2
Construction	-4.4	▼	-0.9
Retail Trade	61.0	▲	13.2
Service	28.0	▼	-20.8
Agriculture	76.5	▲	50.2
Financial	-3.8	▲	7.2
Other	0.0	■	



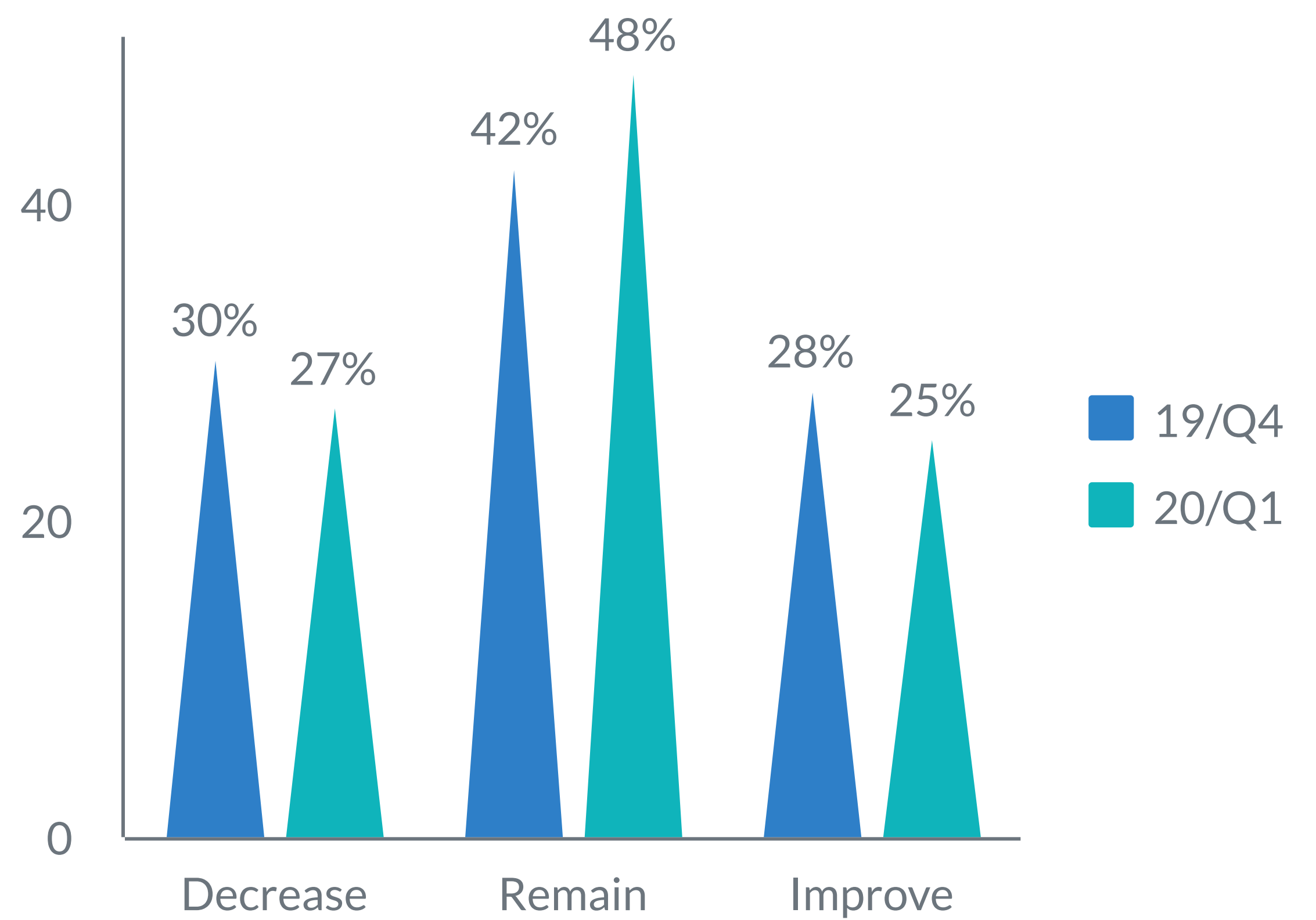
Business activities in past 3 months have improved for both SMEs and large businesses. For large firms index increased by 3.4 points and raised to 36.8 in Q1 2020; for SMEs, the same indicator increased by 3.6 and stopped at -1.3 index points.

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



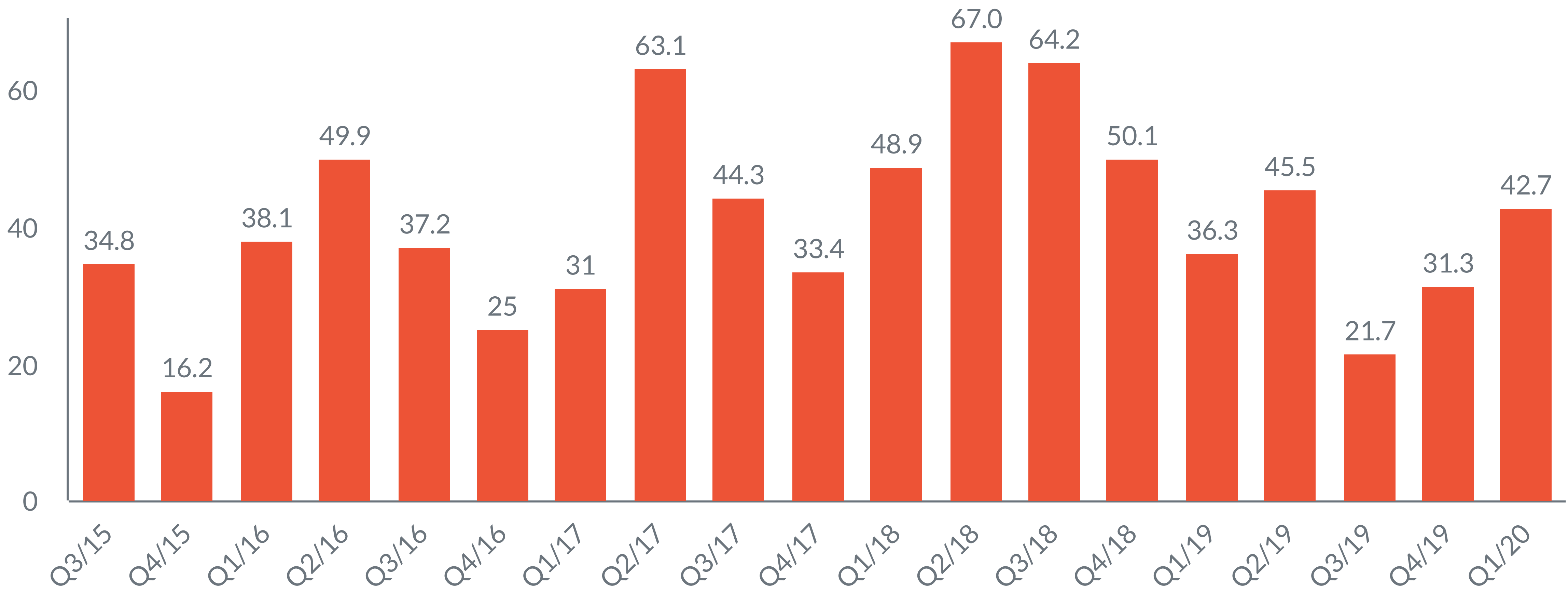
Compared to the previous quarter, a lower share of surveyed firms (67%) stated that employment remained the same over the past three months. Fewer businesses reported a decrease and more reported increases in employment.

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



Moreover, 48% of firms claimed that their business activities remained unchanged over the past three months, 27% of respondents stated that their performance had deteriorated, and only 25% stated an improvement.

Expectations Index



Expectations QoQ change by sector

Sectors	Q1/20	Change
Manufacturing	89.9	▲ 0.7
Construction	55.7	▲ 27.1
Retail Trade	56.1	▲ 24.1
Service	24.5	▼ -5.9
Agriculture	81.7	▲ 78.3
Financial	6.7	▲ 6.7
Other	83.1	■

The expectations index increased by 11.5 index points in Q1 2020. Prospects for the next three months improved for most business sectors; the one exception being service (-5.9). The greatest increase was reported in agriculture (78.3), followed by construction (27.1) and retail trade (24.1) sectors.

SME



Q1/20

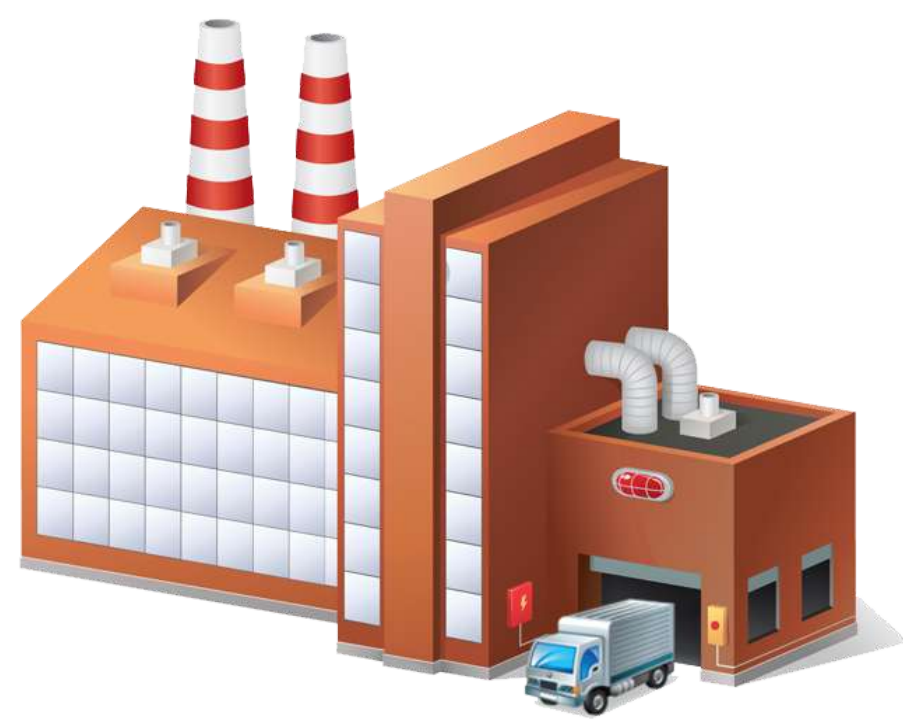
27.8



Change

17.3

Large



Q1/20

46.8

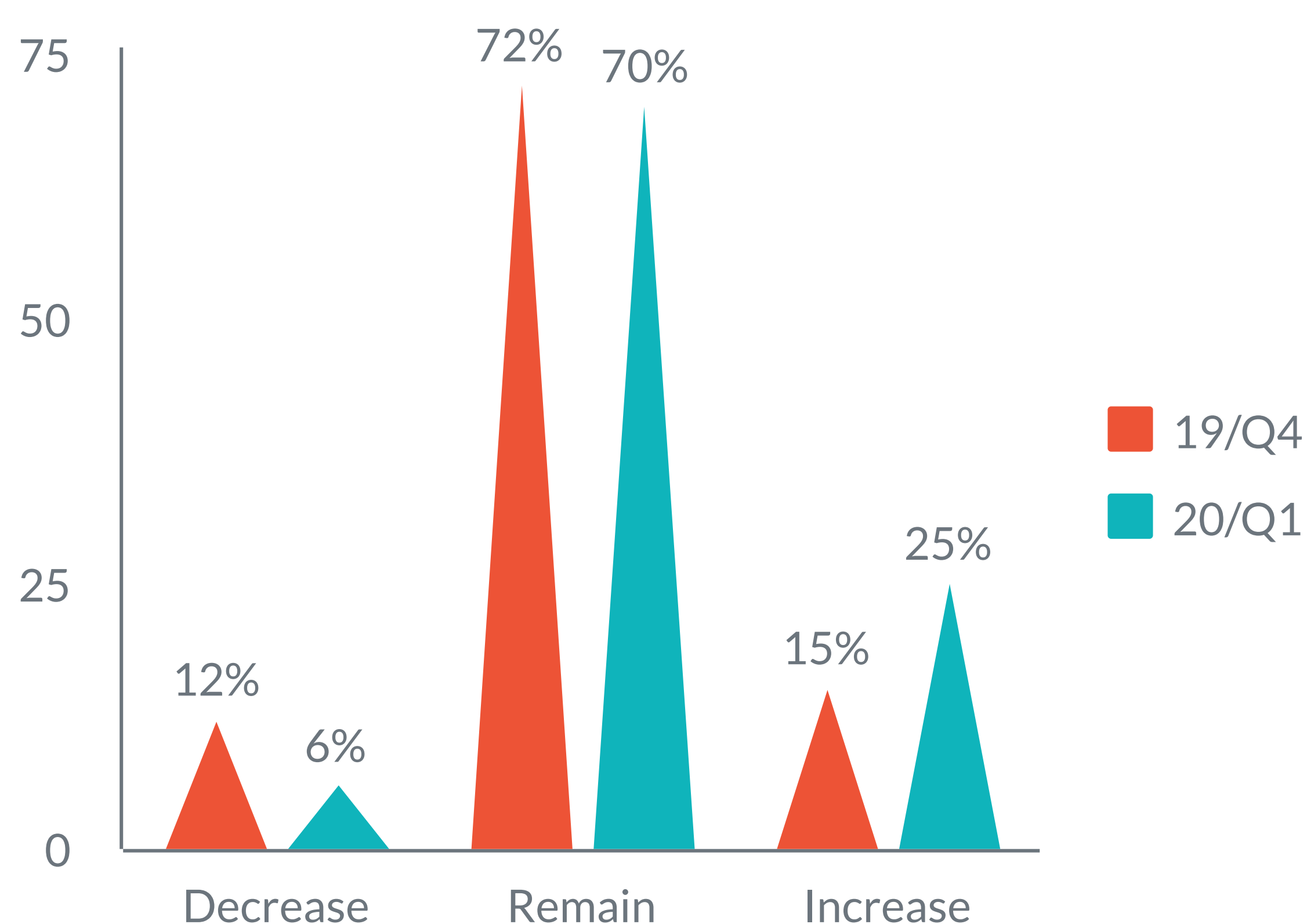


Change

11.9

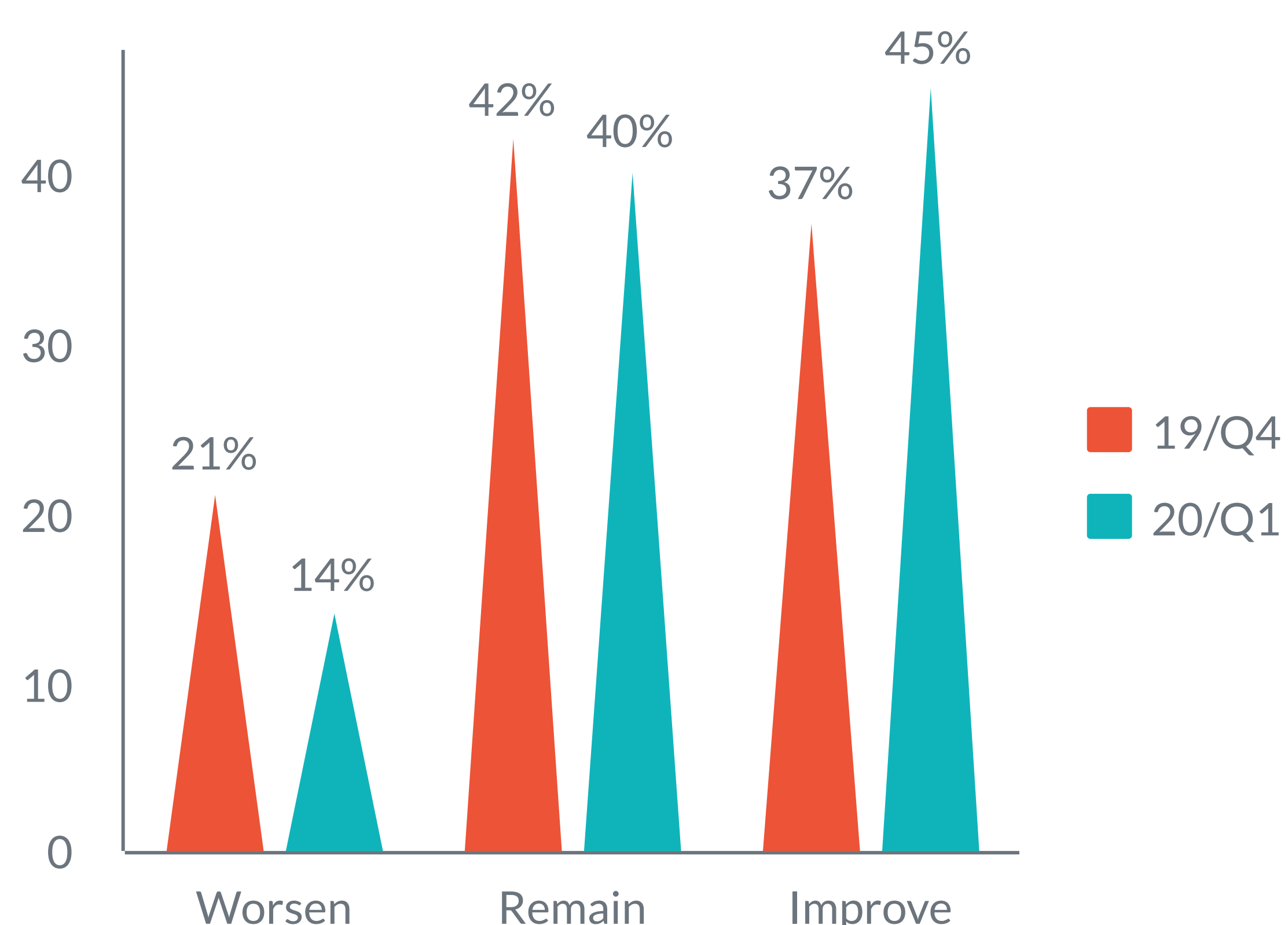
Business expectations have, on the whole, improved for both large firms and SMEs.

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



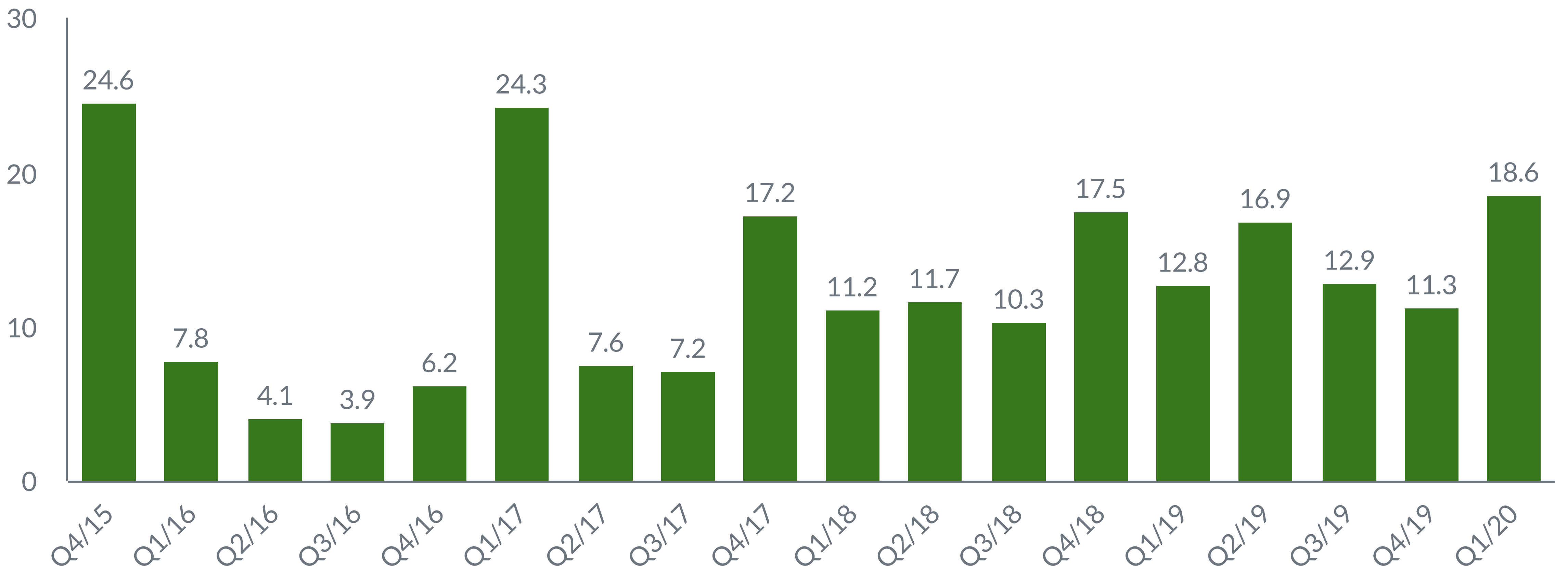
The majority (70%) of the surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 25% of firms stated that they would hire more employees in the future and only 6% think that they would hire fewer.

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



Around 45% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. While, 40% do not imagine any changes in the future, leaving a small proportion of businesses that believe their business conditions will worsen.

Sales Price Expectations Index

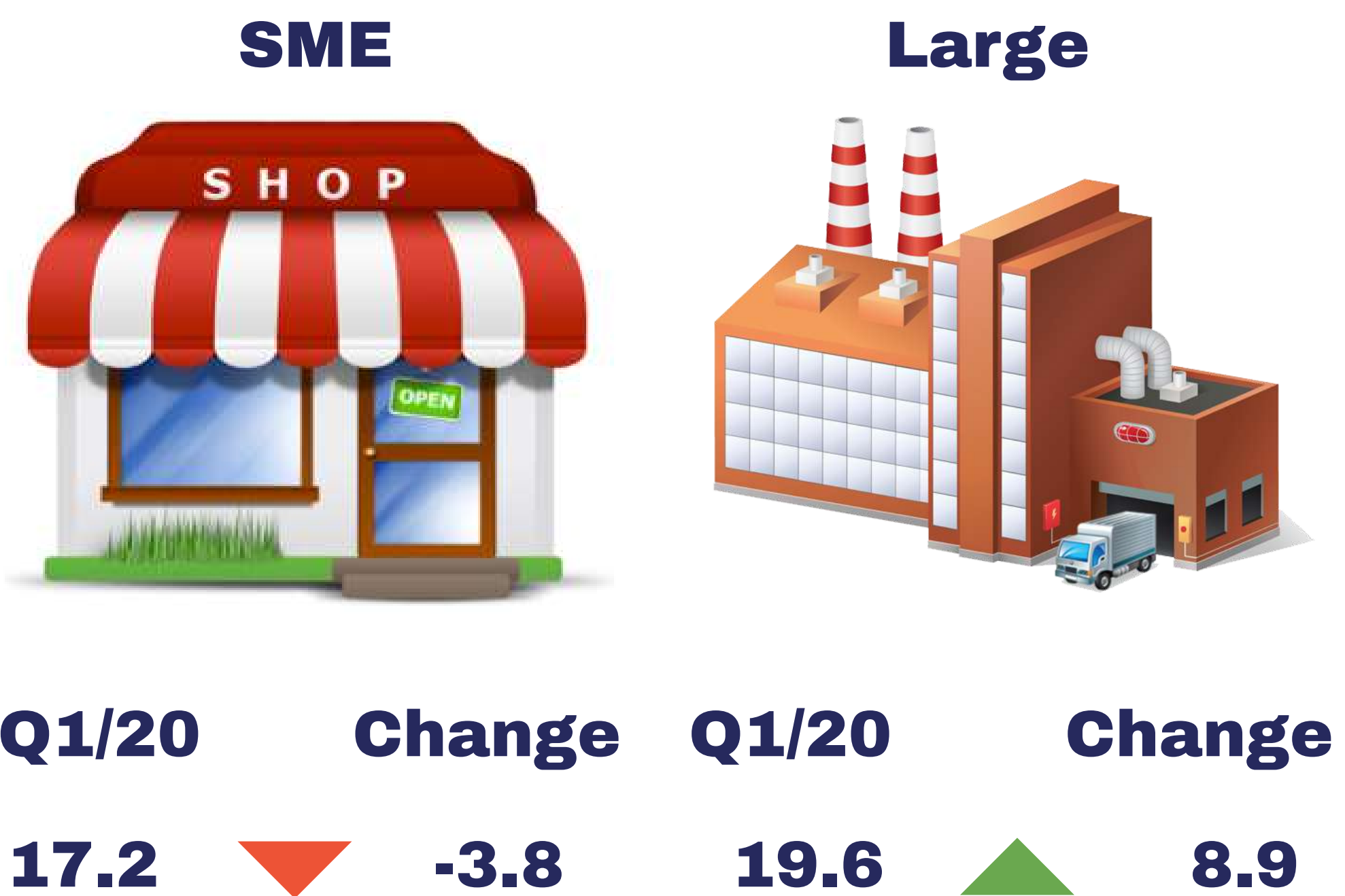
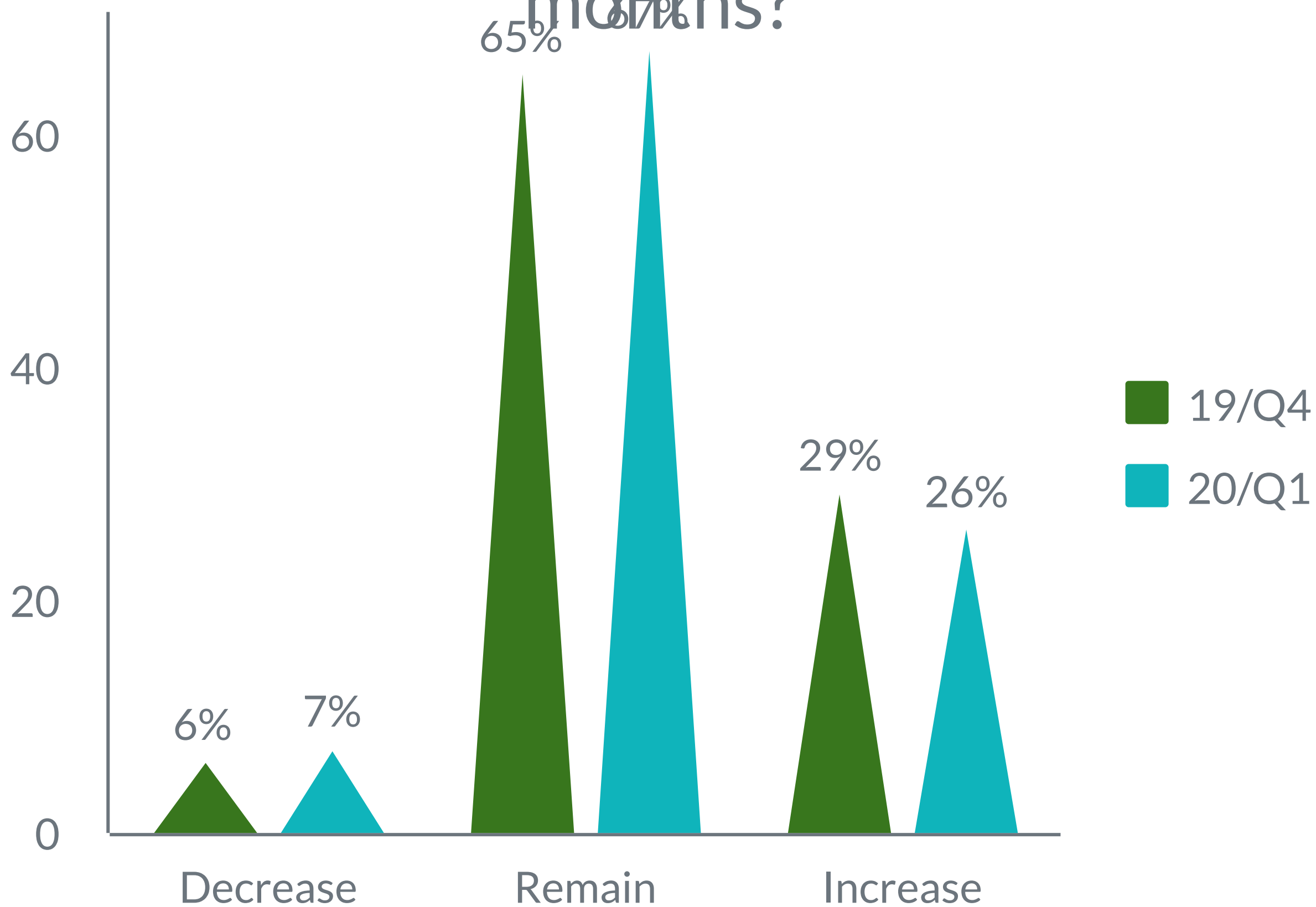


Sales price QoQ change by sector

Sectors	Q1/20	Change
Manufacturing	27.2	▲ 19.1
Construction	1.8	▼ -1.8
Retail Trade	18.5	▼ -15.3
Service	16.0	▲ 14.1
Agriculture	44.8	▼ -11.5
Other	73.9	■

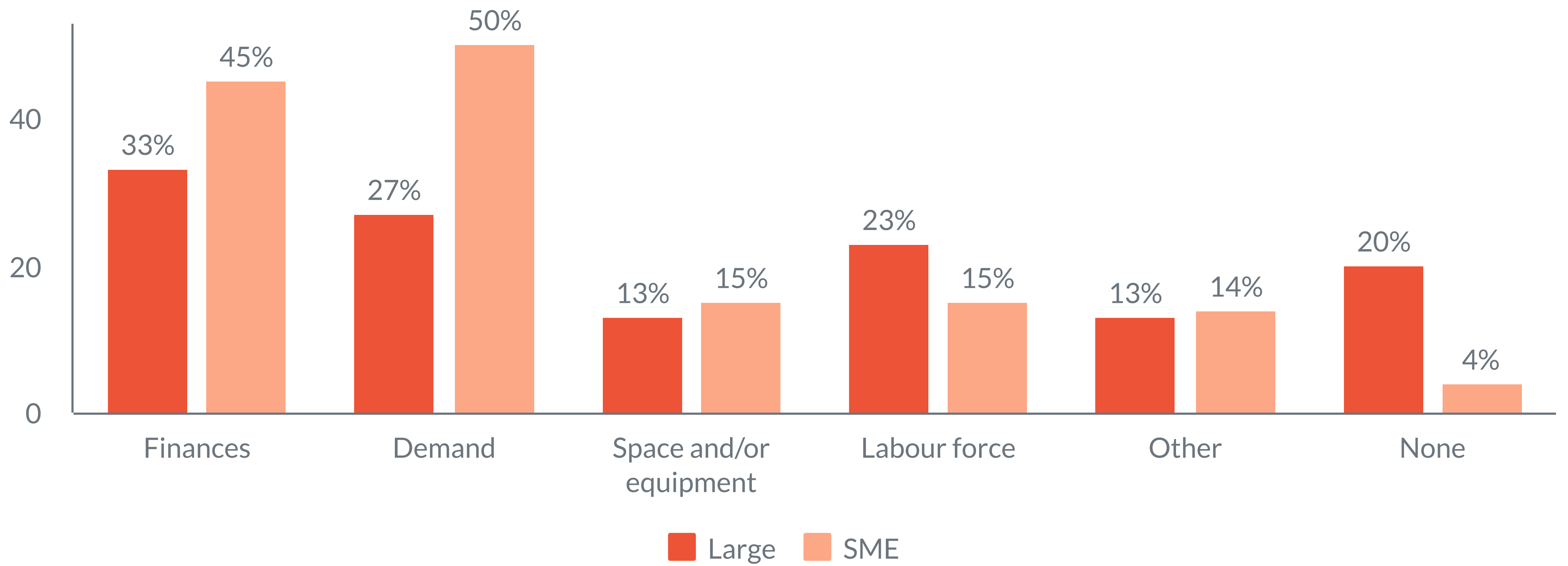
The Sales Price Expectations Index increased from 11.3 points (Q4 2020) to 18.6 points (Q1 2020). This improvement is driven by a rise in the manufacturing and service sectors. The overall Sales Price Expectations Index has decreased moderately for SMEs and increased for large companies.

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



Around 67% of all firms surveyed do not intend to change their prices over the next three months. Only 7% of firms expect to decrease their prices, and the remaining 26% will consider increasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q1, 2020



A lack of demand and limited access to financing continue to be the most significant obstacles for both large companies and SMEs. Large companies also mention a shortage in the labor force as a further hindrance.

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**

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/Q4	19/Q4	20/Q1	20/Q1
Manufacturing	6	5%	11	7%
Construction	16	13%	18	11%
Retail Trade	30	24%	38	24%
Service	44	36%	59	37%
Agriculture	12	10%	14	9%
Financial	11	9%	14	9%
Other	4	3%	7	4%
Source: BCI Survey Data	123	% share	161	% 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	20/Q1	
	Large	SME
Manufacturing	3	8
Construction	5	13
Retail Trade	5	33
Service	14	45
Agriculture	2	12
Financial	6	8
Other	1	6
Source: BCI Survey Data	36	125

Maximum number of firms participating in the survey

2016 Q2	
Large	SME
104	266

The number of firms participating in the BCI survey in Q1 2020 was 161. This is an increase of 31% 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 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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