

# BUSINESS CONFIDENCE INDEX

**18.7**  
DECREASE

**Back to Despair**

## Q4 2020

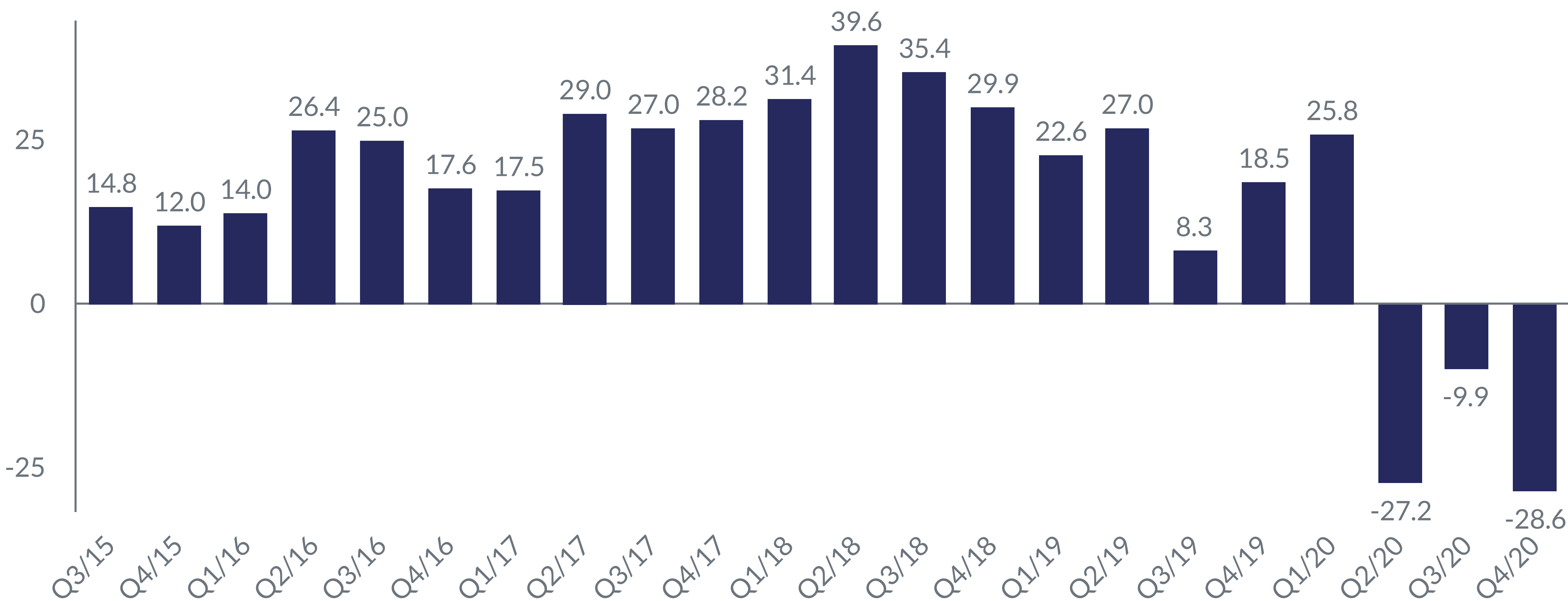
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**Participating Companies**

<b>Large</b>	<b>SMEs</b>
	
<b>21</b>	<b>110</b>

## SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the fourth quarter of 2020, BCI decreased by 18.7 index points and reached -28.6 after a significant improvement in the previous quarter. Business confidence deteriorated across all sectors, except retail trade and financial. The largest decrease is observed in the construction sector. The negative change in BCI, for Q4 2020, is driven by significantly pessimistic future expectations.
- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, did not change much, increased slightly by 0.2 points compared to Q3 2020, and reached -40.4 in Q4 2020. The construction sector has the greatest decline in past performance.
- Expectations Index, which reflects business optimism, deteriorated significantly after the recovery in Q3 2020, reaching new historic low, -41.7 points. For Q4 2020 all sectors, except retail trade have demonstrated decreased expectations.
- The Sales Price Expectations Index increased and reached 2.7 points, indicating a higher share of businesses that anticipate increasing prices on their products. Service and agriculture are the only sectors where a higher share of businesses predict decreasing prices in the future.
- For Q4 2020 access to finances and lack of demand became more important limiting factors for both types of firms, especially for large companies, which, together with an increased share of "other" factors, could reflect the post-Covid-19 situation that business sector is currently facing.

\* 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).

After a significant improvement in the previous quarter, BCI has decreased by 18.7 points compared to Q3 2020 and reached -28.6. Expectations in the Georgian private sector has deteriorated by 62.5 index points, reaching a new historic low of -41.7. As for business performance over the past three months, it has increased slightly, reaching -40.4 points, indicating a small 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.

The BCI decreased in most economic sectors, with the highest decline in construction (-81.8), followed by service (-24.9), manufacturing (-20.7), and agriculture (-9.5) sectors. Compared to Q3 2020 BCI increased in retail trade (27.7) and financial (0.3) sectors.

### BCI QoQ change by sector

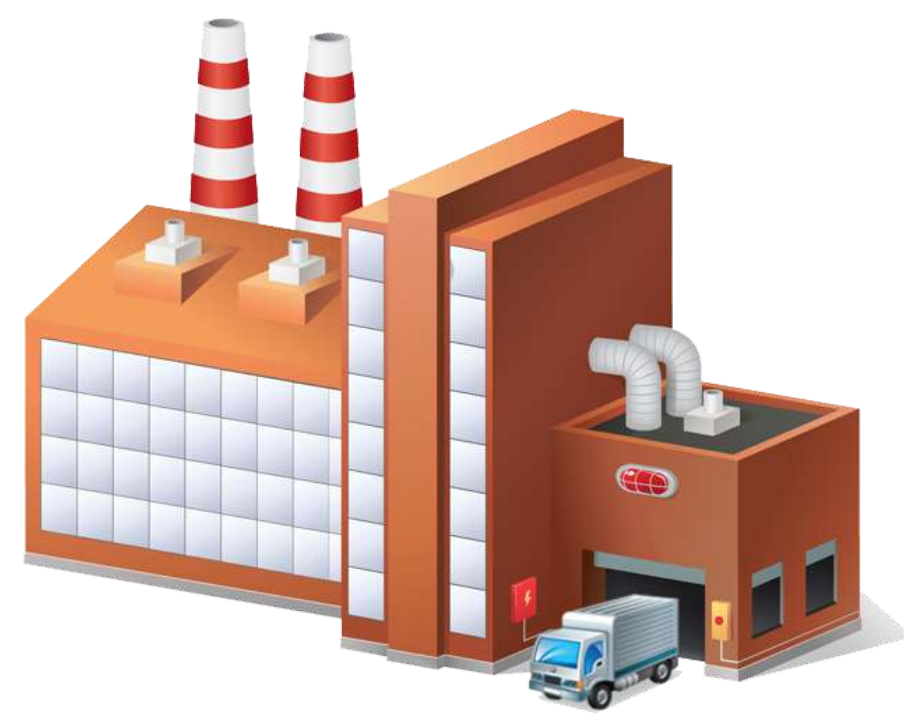
Sectors	Q4/20		Change
<b>Manufacturing</b>	<b>-18.6</b>	▼	<b>-20.7</b>
<b>Construction</b>	<b>-57.2</b>	▼	<b>-81.8</b>
<b>Retail Trade</b>	<b>15.3</b>	▲	<b>27.7</b>
<b>Service</b>	<b>-48.6</b>	▼	<b>-24.9</b>
<b>Agriculture</b>	<b>1.6</b>	▼	<b>-9.5</b>
<b>Financial</b>	<b>-8.9</b>	▲	<b>0.3</b>
<b>Other</b>	<b>-42.5</b>	▼	<b>-88.5</b>

#### SME



**Q4/20**  
**-16.6** ▼ **Change**  
**-3.6**

#### Large

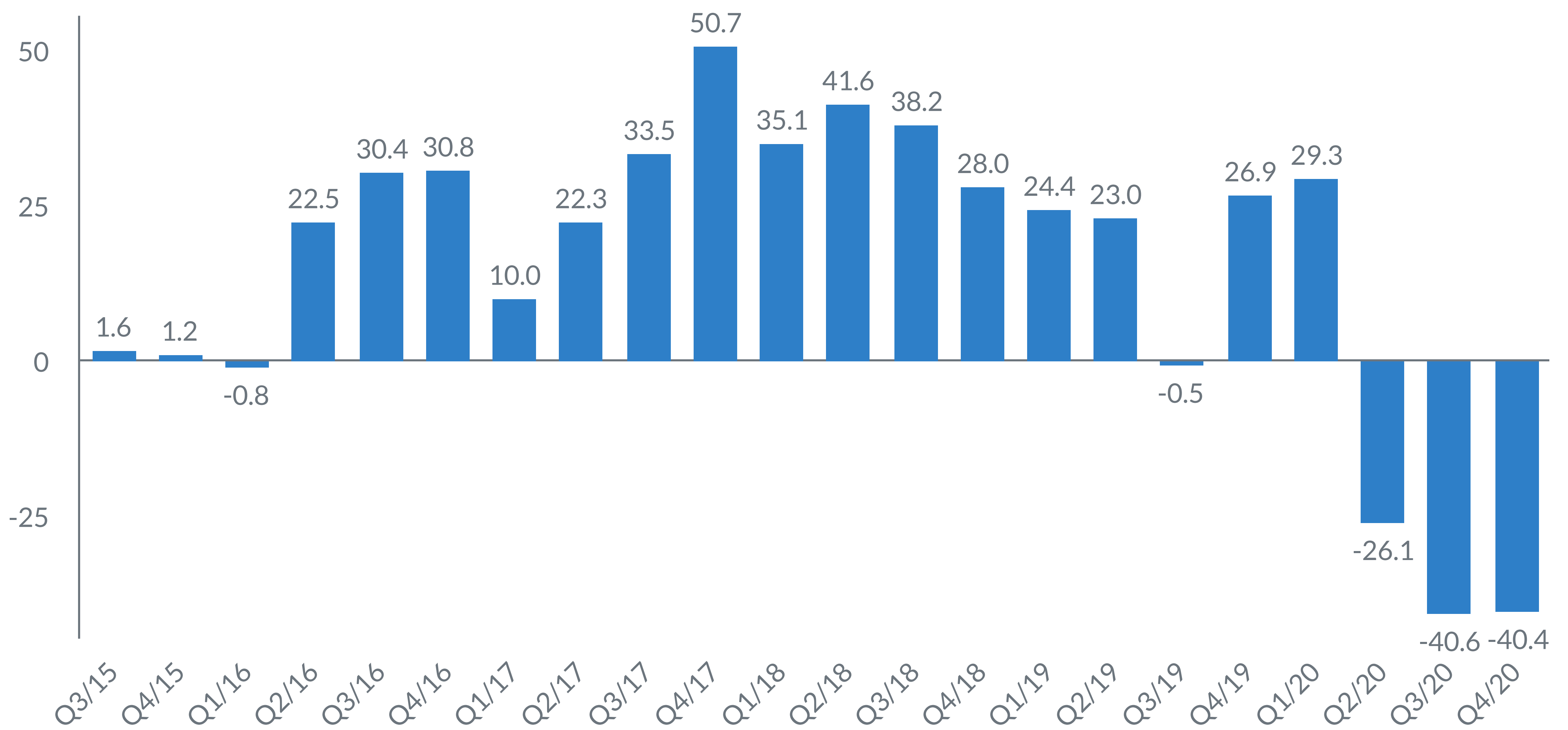


**Q4/20**  
**-28.6** ▼ **Change**  
**-19.0**

Business confidence in the fourth quarter of 2020 has decreased both for SMEs (-3.6), and large firms (-19.0).

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 slightly further by 0.2 points compared to Q3 of 2020 and reached -40.4 for Q4 2020. A significant deterioration in performance was observed in the construction sector (-131.7), followed by the manufacturing (-38.3), and agriculture (-29.9) sectors. An increase in past performance was observed in retail trade (59.7), financial (41.2), and service (10.6) sectors.

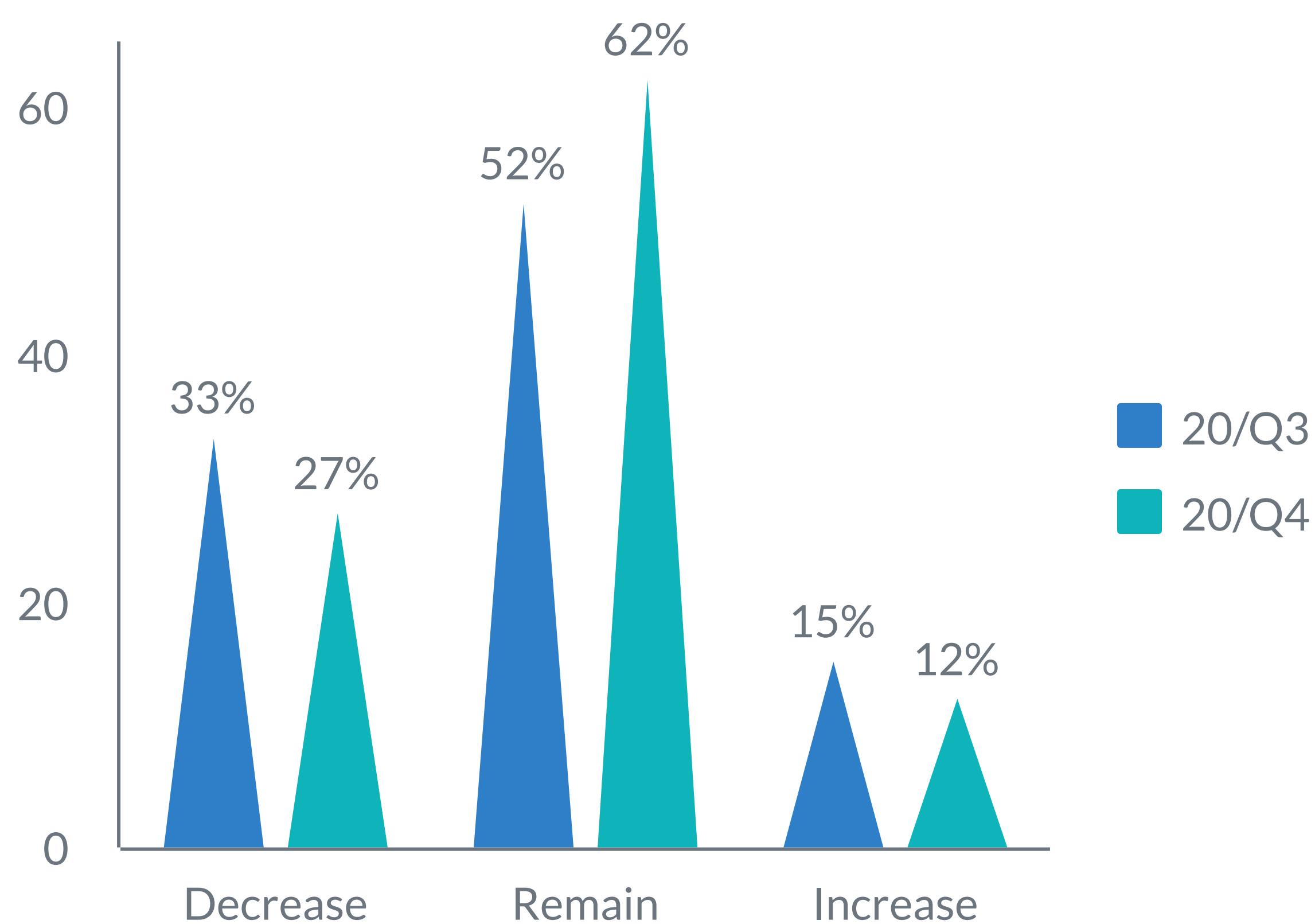
### Past 3 Months QoQ change by sector

Sectors	Q4/20	Change
<b>Manufacturing</b>	<b>-41.6</b>	<b>-38.3</b>
<b>Construction</b>	<b>-92.0</b>	<b>-131.7</b>
<b>Retail Trade</b>	<b>5.7</b>	<b>59.7</b>
<b>Service</b>	<b>-54.2</b>	<b>10.6</b>
<b>Agriculture</b>	<b>-38.3</b>	<b>-29.9</b>
<b>Financial</b>	<b>-16.4</b>	<b>41.2</b>



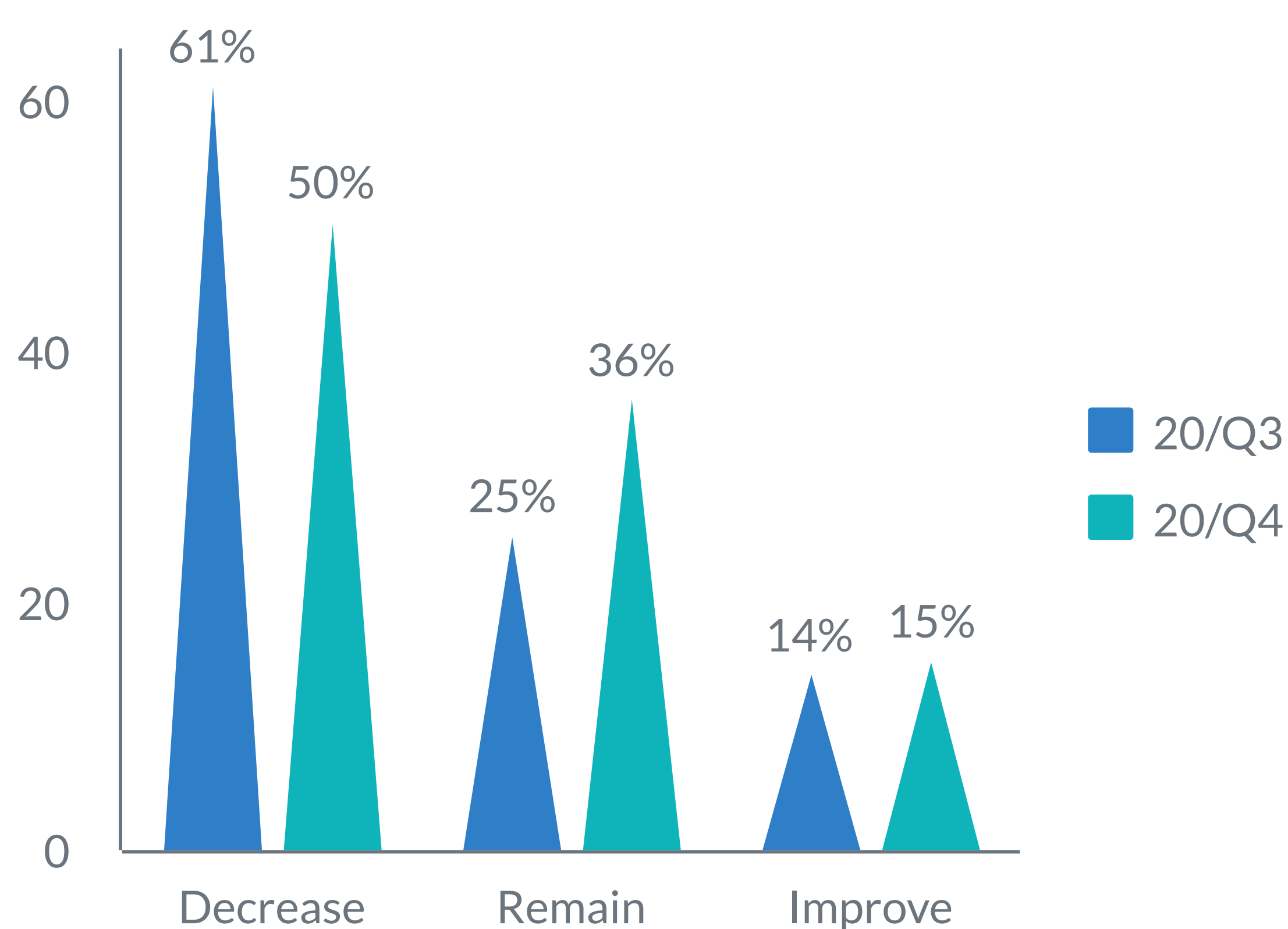
Business activities in the past 3 months have worsened for large businesses and improved for SMEs. For large firms, the index decreased by 2.6 points and reached -41.6 for Q4 2020; for SMEs, the same indicator increased by 21.4 and stopped at -28.6 index points.

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



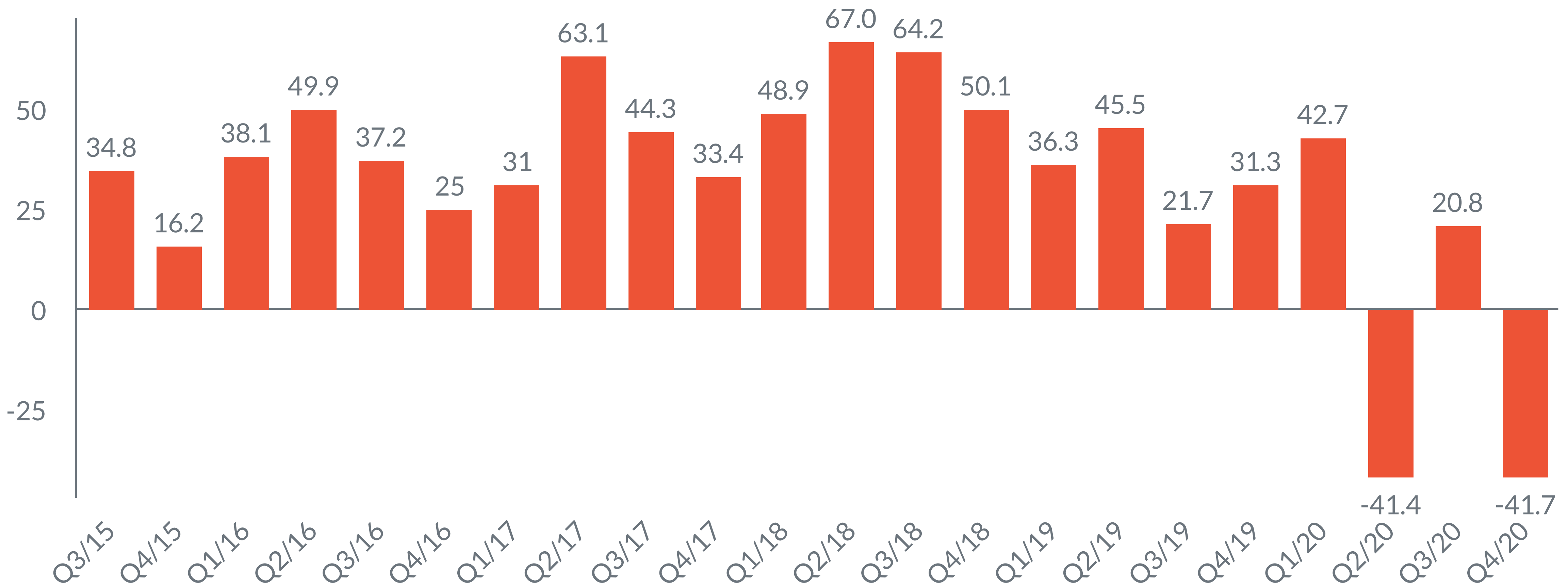
Compared to the previous quarter, a smaller share of firms (27%) surveyed stated that employment had decreased over the past three months, 12% reported an increase, and 62% no changes in employment.

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



Moreover, the majority (50%) of firms claimed that their business activity worsened over the past three months. 36% of firms stated that their business activities remained unchanged and only 15% reported an improvement.

# Expectations Index



## Expectations QoQ change by sector

The Expectations Index decreased significantly by 62.5 index points for Q4 2020 and stopped at -41.7. Prospects for the next three months have deteriorated for every sector, except retail trade (30.6 point increase). The most significant decline is observed in the construction (-182.6), followed by manufacturing (-86.6), service (-85.5), financial (-43.8), and agriculture (-8.6) sectors.

Sectors	Q4/20	Change
<b>Manufacturing</b>	<b>-39.9</b>	<b>-86.6</b>
<b>Construction</b>	<b>-92.9</b>	<b>-182.6</b>
<b>Retail Trade</b>	<b>30.6</b>	<b>47.0</b>
<b>Service</b>	<b>-65.3</b>	<b>-85.5</b>
<b>Agriculture</b>	<b>3.9</b>	<b>-8.6</b>
<b>Financial</b>	<b>-54.3</b>	<b>-43.8</b>

### SME



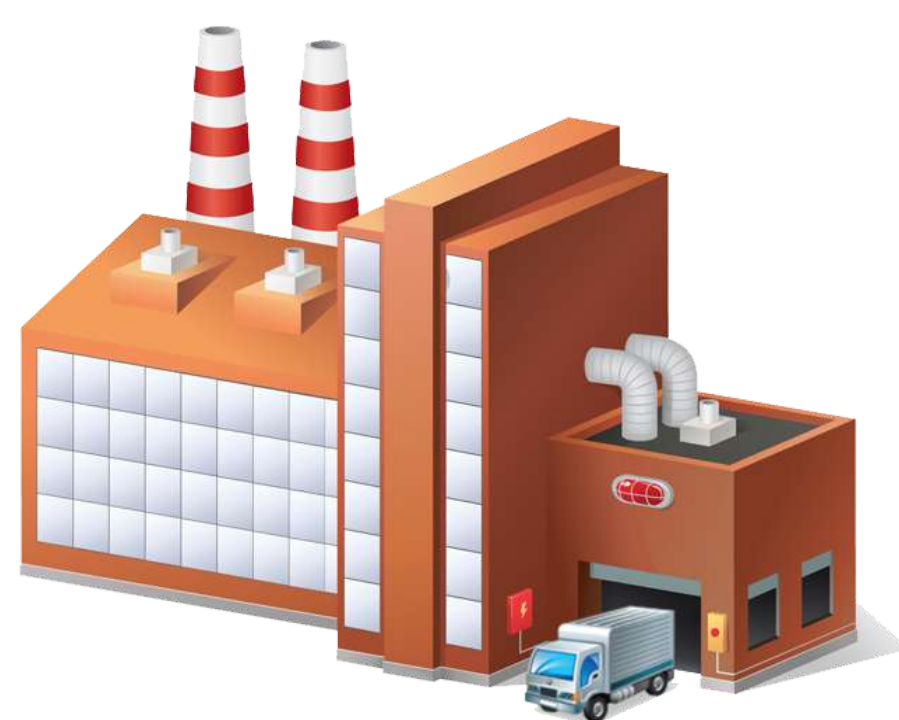
**Q4/20**

**-17.7**

**Change**

**-32.2**

### Large



**Q4/20**

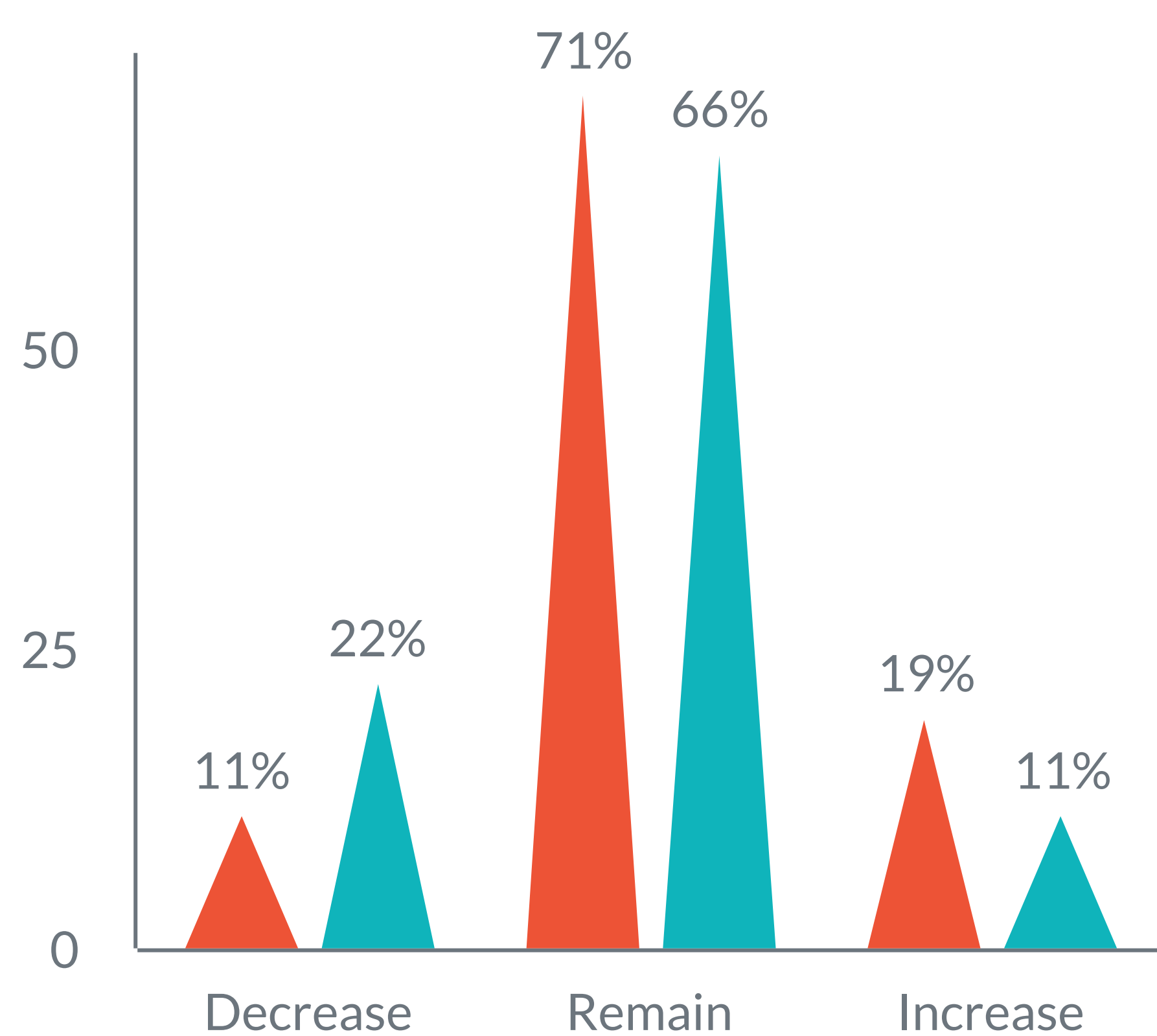
**-44.3**

**Change**

**-65.1**

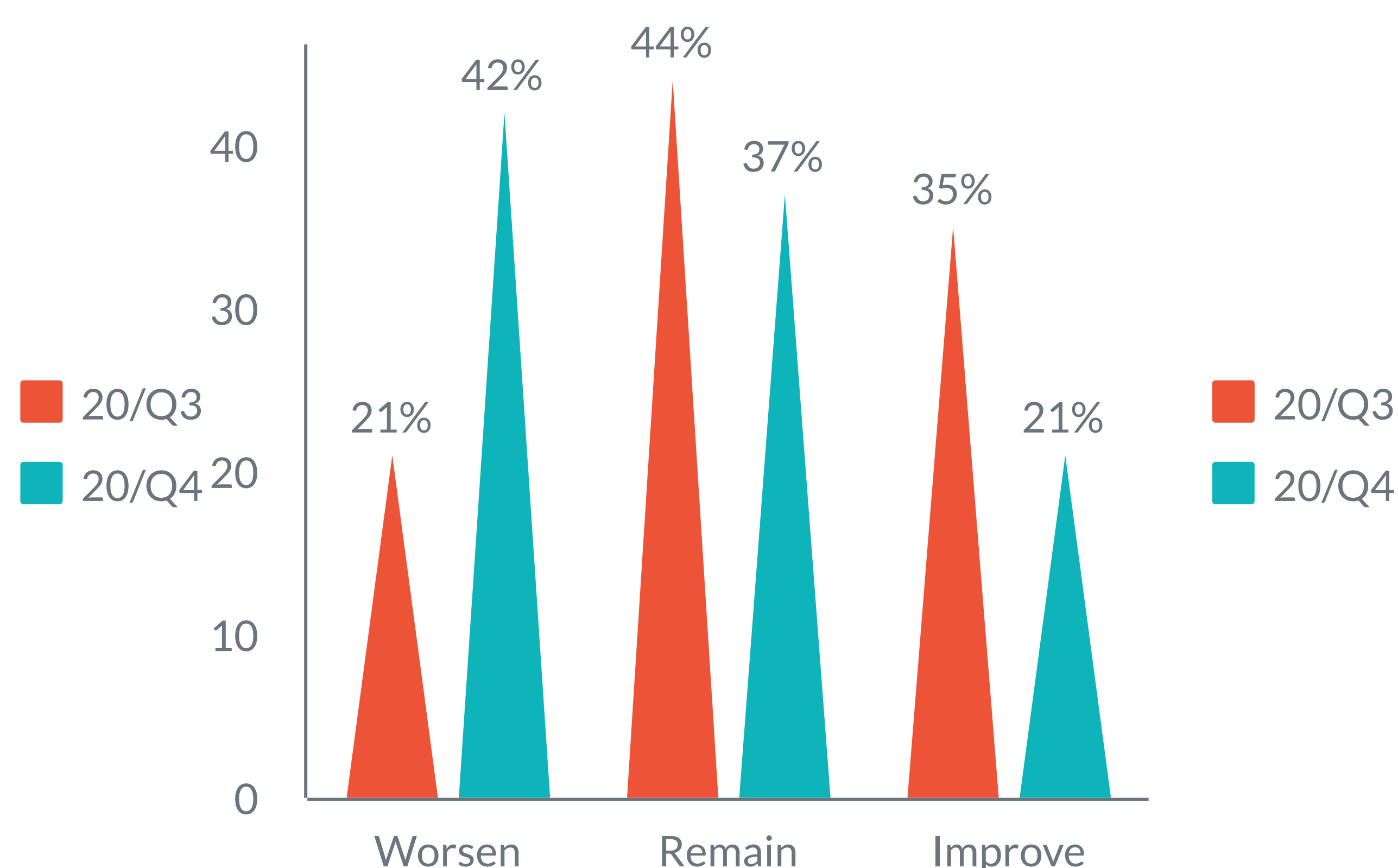
Business expectations have, on the whole, decreased for both, large firms (-65.1) and SMEs (-32.2).

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



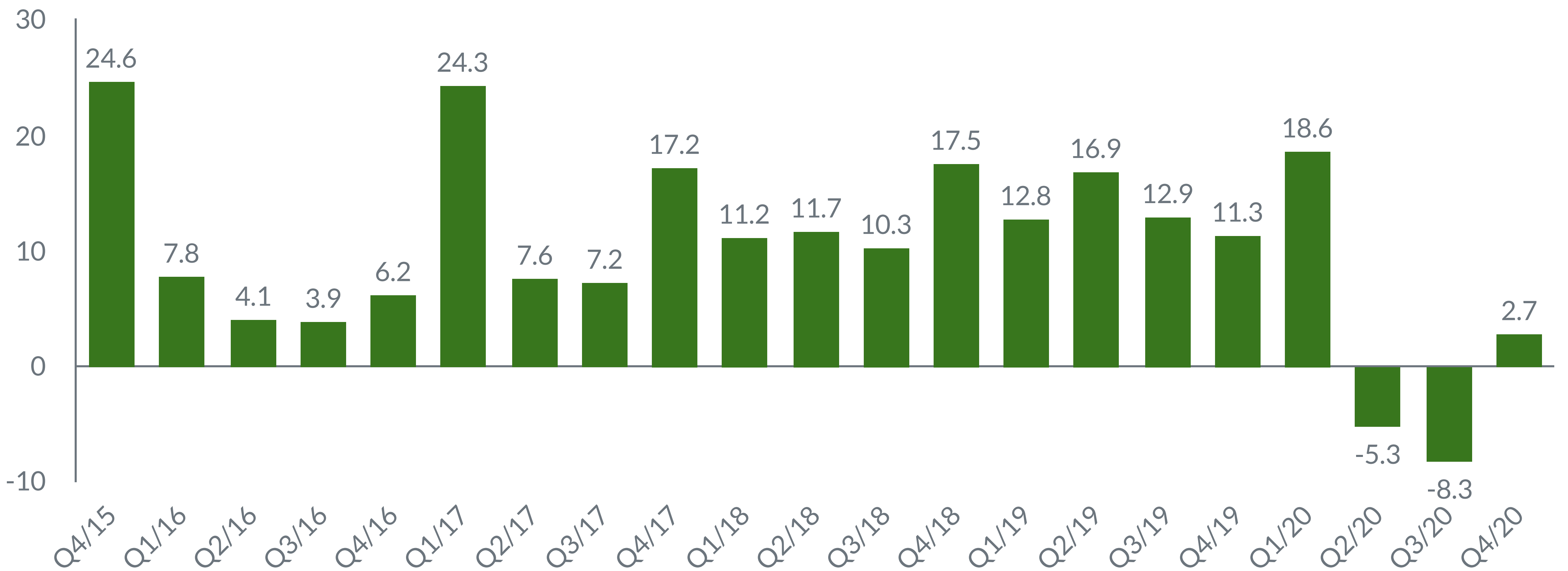
66% of the surveyed businesses do not expect any changes in employment over the next three months, however, 22% of firms stated that they would hire fewer employees in the future and only 11% think that they would hire more.

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



Only 21% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 37% do not predict any changes in the future, leaving 42% of businesses that believe their business conditions will worsen.

## Sales Price Expectations Index

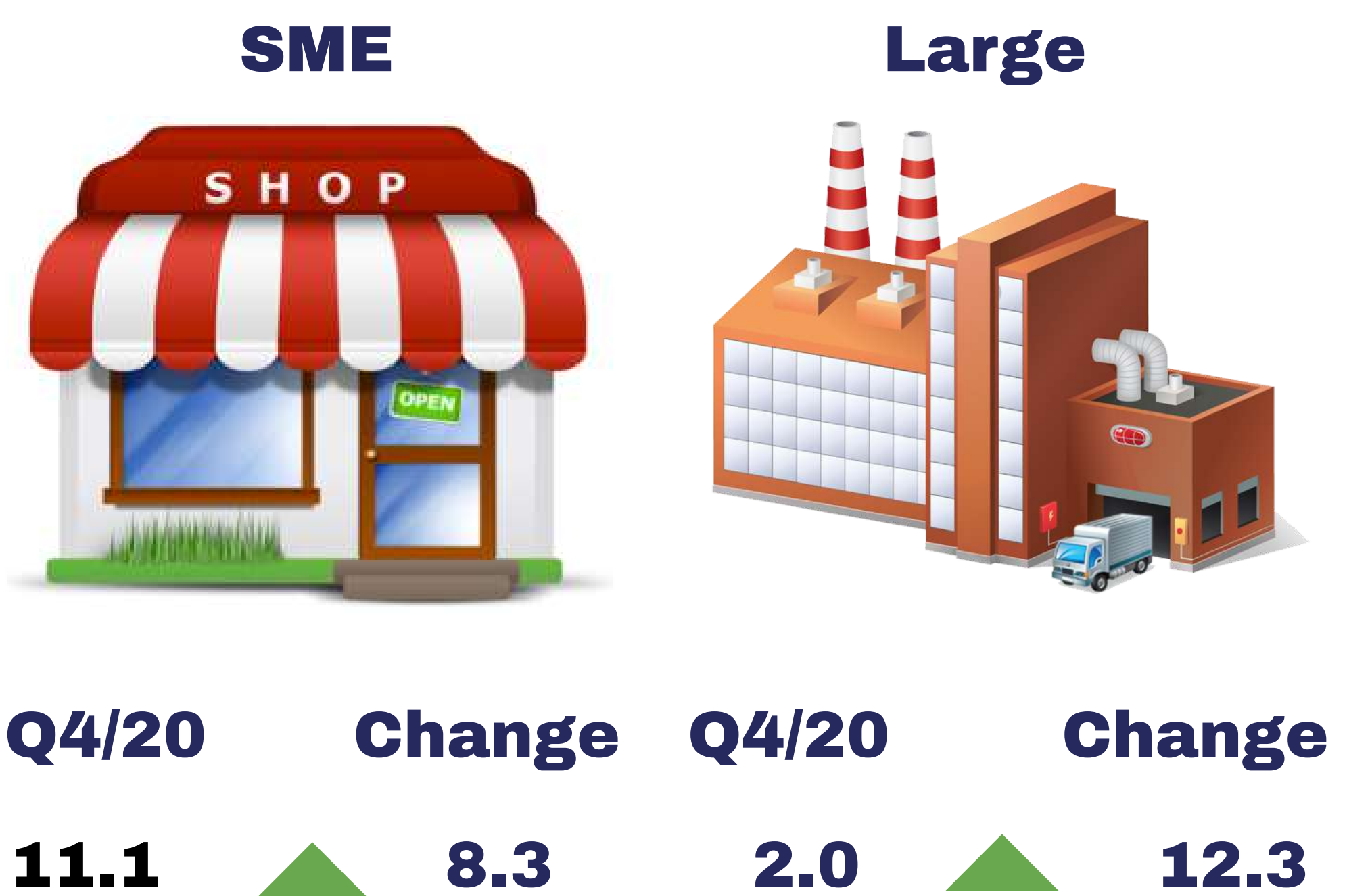
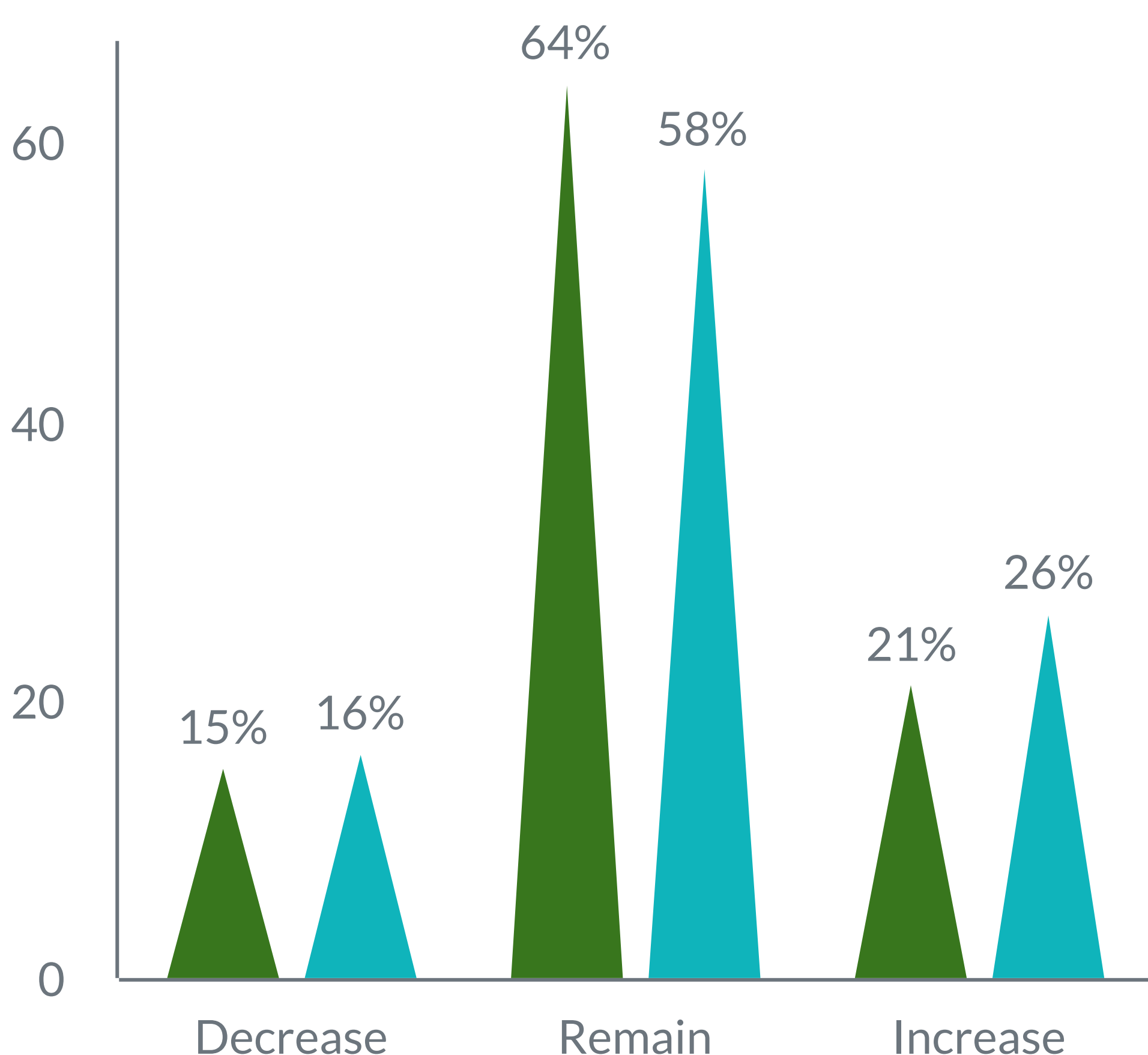


The Sales Price Expectations Index increased from -8.3 points (Q3 2020) to 2.7 points for Q4 2020. The index increased in every sector, except service (1.9 points decrease) and agriculture (-12.5 points decrease). The overall Sales Price Expectations Index has increased for both SMEs and large companies.

### Sales price QoQ change by sector

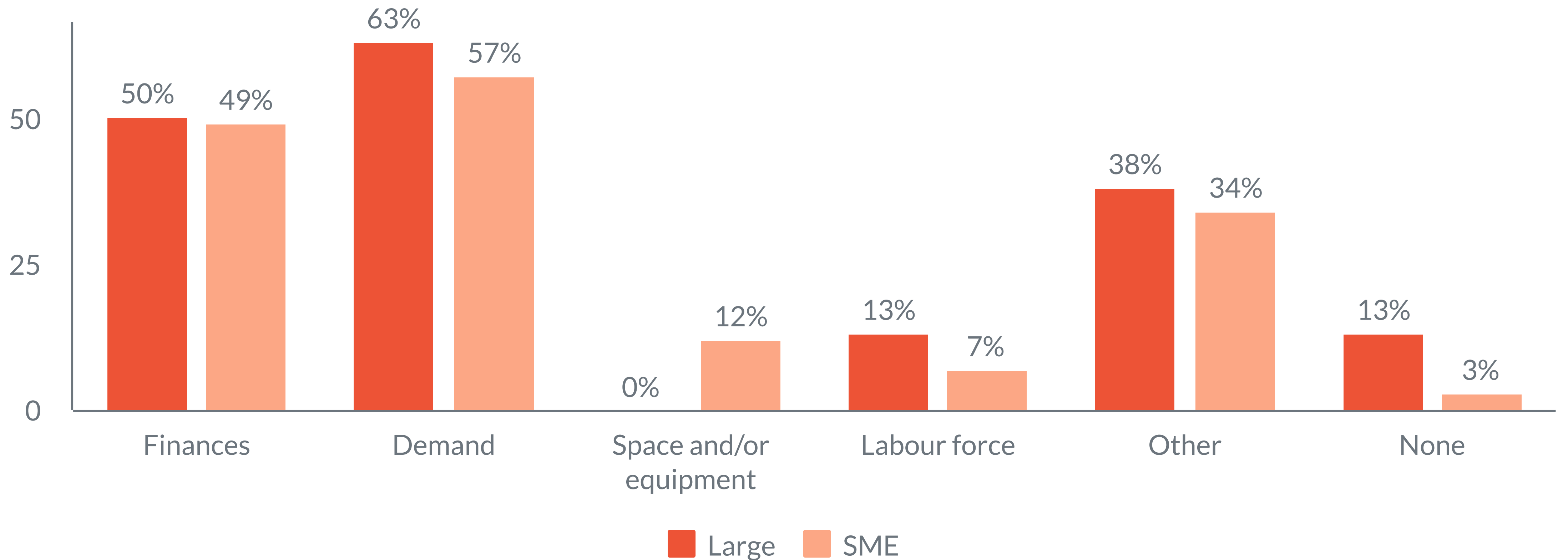
Sectors	Q4/20	Change
<b>Manufacturing</b>	<b>3.4</b>	<b>▲ 8.4</b>
<b>Construction</b>	<b>87.5</b>	<b>▲ 86.3</b>
<b>Retail Trade</b>	<b>37.1</b>	<b>▲ 32.7</b>
<b>Service</b>	<b>-27.0</b>	<b>▼ -1.9</b>
<b>Agriculture</b>	<b>34.4</b>	<b>▼ -12.5</b>

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



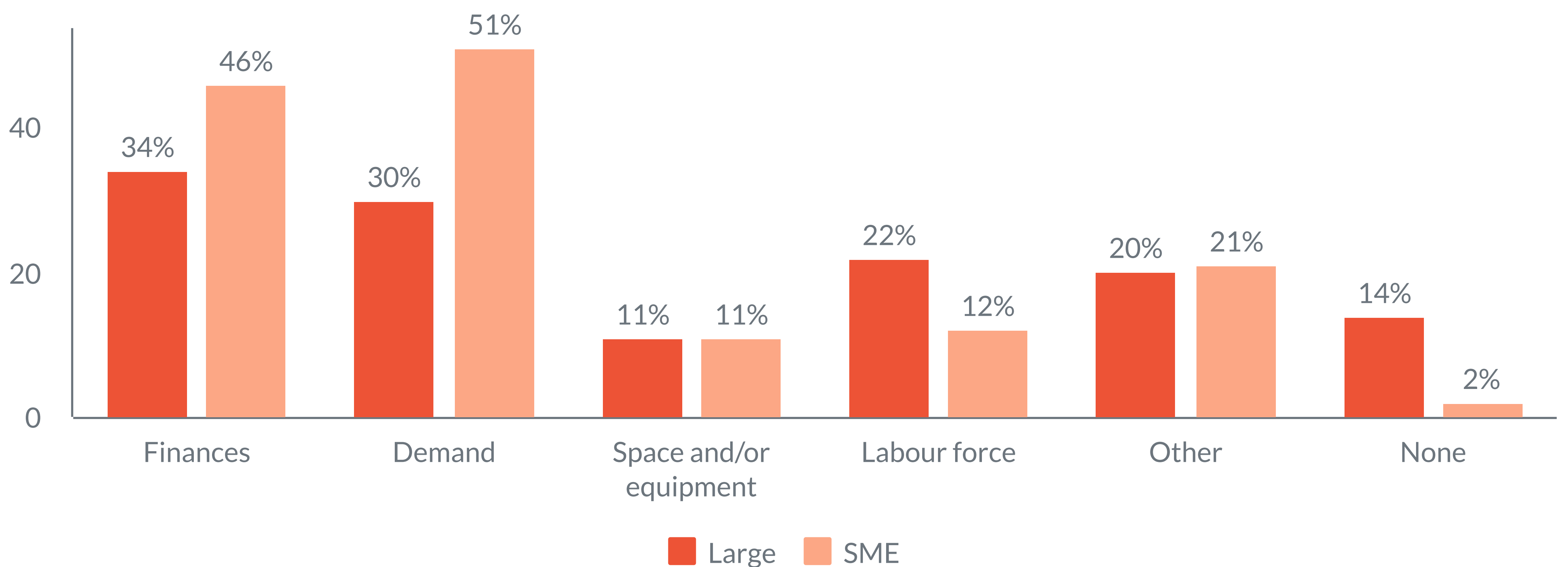
Around 58% of all firms surveyed do not intend to change their prices over the next three months. 26% of firms expect to increase their prices, and the remaining 16% will consider decreasing their prices in the future.

## WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q4, 2020



A lack of demand and limited access to financing continues to be the most significant obstacles for both large companies and SMEs. For Q4 2020 access to finances and lack of demand became more important for both types of firms, especially for large companies (in the last four quarters, on average, 34% of large companies mentioned access to finances as a limiting factor, while, 30% mentioned lack of demand), which, together with an increased share of "other" factors could reflect the post-Covid-19 situation that business sector is currently facing.

## WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q4 2019 - Q3 2020, average





## 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](#)

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\*\*\* 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](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	20/Q3	20/Q3	20/Q4	20/Q4
Manufacturing	12	7%	6	5%
Construction	20	12%	14	11%
Retail Trade	29	18%	33	25%
Service	63	39%	48	37%
Agriculture	17	11%	10	8%
Financial	10	6%	12	9%
Other	10	6%	8	6%
Source: BCI Survey Data	<b>161</b>	<b>% share</b>	<b>131</b>	<b>% share</b>

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/Q4	
	Large	SME
Manufacturing	2	4
Construction	1	13
Retail Trade	5	28
Service	6	42
Agriculture	2	8
Financial	5	7
Other	0	8
Source: BCI Survey Data	<b>21</b>	<b>110</b>

Maximum number of firms participating in the survey	
2016	Q2
Large	SME
104	266

The number of firms participating in the BCI survey in Q4 2020 was 131. This is a decrease of 18% 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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