

BUSINESS CONFIDENCE INDEX

32.1

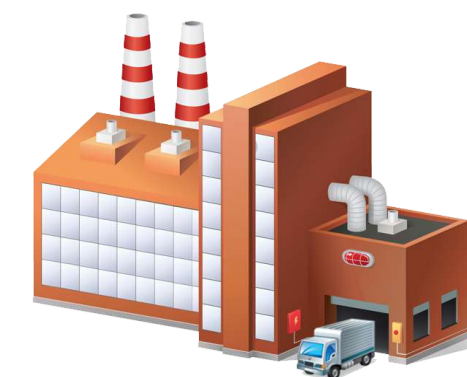
INCREASE

New Year, New Start?

Q1 2021

Participating Companies

Large



23

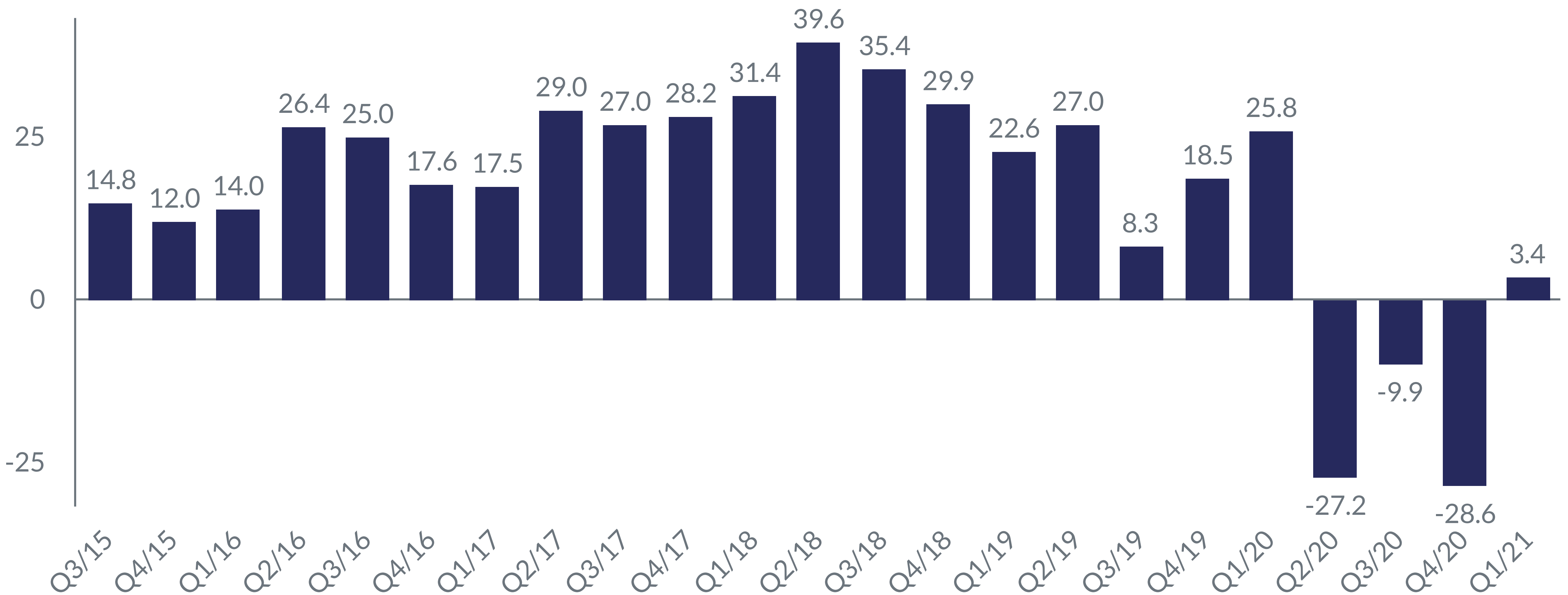
SMEs



128

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the first quarter of 2021, BCI increased by 32.1 index points and reached 3.4 after a significant deterioration in the previous quarter. Business confidence improved across all sectors, except retail trade, with the largest increase observed in the construction sector. The positive change in BCI, for Q1 2021, is driven by optimistic future expectations and improved past performance.
- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, increased by 12.4 points compared to Q4 2020, and reached -29.2 for Q1 2021. The construction sector has the greatest improvement in past performance.
- Expectations Index, which reflects business optimism, increased significantly after the drastic deterioration in Q4 2020, amounting to 22.5 points. For Q1 2021 all sectors, except retail trade have demonstrated increased expectations.
- The Sales Price Expectations Index increased further and reached 29.7 points, indicating a higher share of businesses that anticipate increasing prices on their products. Construction is the only sector where a higher share of businesses predicts decreasing prices in the future.
- A lack of demand and limited access to financing continues to be one of the most significant obstacles for both large companies and SMEs. For Q1 2021 "other" factors became more important for both, large companies and SME's, which could reflect the Covid-19 second-wave restrictions that the 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).

ISET

International School of Economics at TSU
Policy Institute



After a significant deterioration in the previous quarter, BCI has increased by 32.1 points for Q1 2021 compared to Q4 2020 and reached 3.4. Expectations in the Georgian private sector has improved by 64.1 index points, reaching 22.5. As for business performance over the past three months, it has increased, reaching -29.2 points, indicating an upturn in production, turnover, and sales. Compared to the previous quarter, the Sales Price Expectation Index has increased significantly, showing growth in the market share of business owners who expect higher sales prices.

The BCI increased in most economic sectors, with the highest increase in construction (70.6), followed by service (55.3), financial (23.0), agriculture (11.6), and manufacturing (1.6) sectors. Compared to Q4 2020, BCI decreased in retail trade (-14.3).

BCI QoQ change by sector

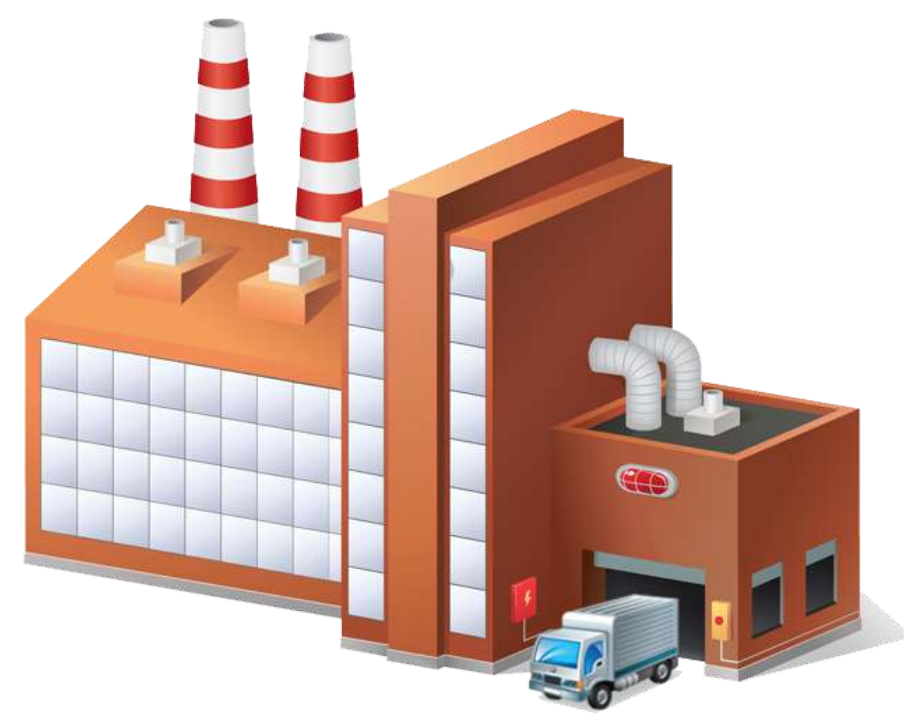
Sectors	Q1/21		Change
Manufacturing	-17.0	▲	1.6
Construction	13.4	▲	70.6
Retail Trade	1.0	▼	-14.3
Service	6.7	▲	55.3
Agriculture	13.1	▲	11.6
Financial	14.1	▲	23.0
Other	-46.4	▼	-3.9

SME



Q1/21 **Change**
-10.5 ▲ **6.1**

Large

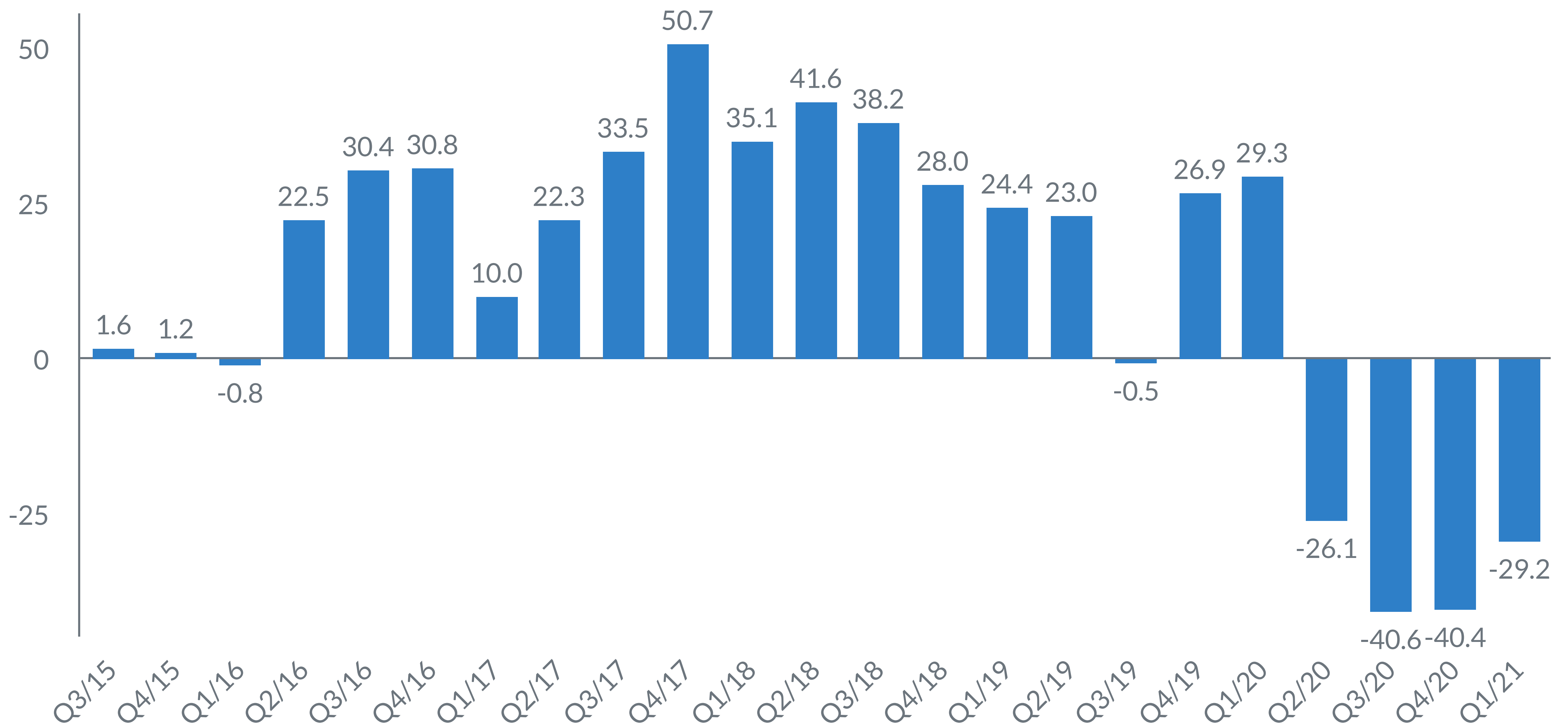


Q1/21 **Change**
6.4 ▲ **35.0**

Business confidence for the first quarter of 2021 has increased both for SMEs (6.1), and large firms (35.0).

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 compared to Q4 of 2020 and reached -29.2 for Q1 2021. Significant improvement in performance was observed in the construction sector (88.4), followed by the service (32.5) and agriculture (16.4) sectors. A decrease in past performance was observed in retail trade (-51.6), manufacturing (-8.4) and financial (-7.0) sectors.

Past 3 Months QoQ change by sector

Sectors	Q1/21	Change
Manufacturing	-50.0	-8.4
Construction	-3.6	88.4
Retail Trade	-45.9	-51.6
Service	-21.6	32.5
Agriculture	-21.9	16.4
Financial	-23.3	-7.0
Other	-86.4	-73.7

SME



Q1/21
-42.1

Change
-13.4

Large

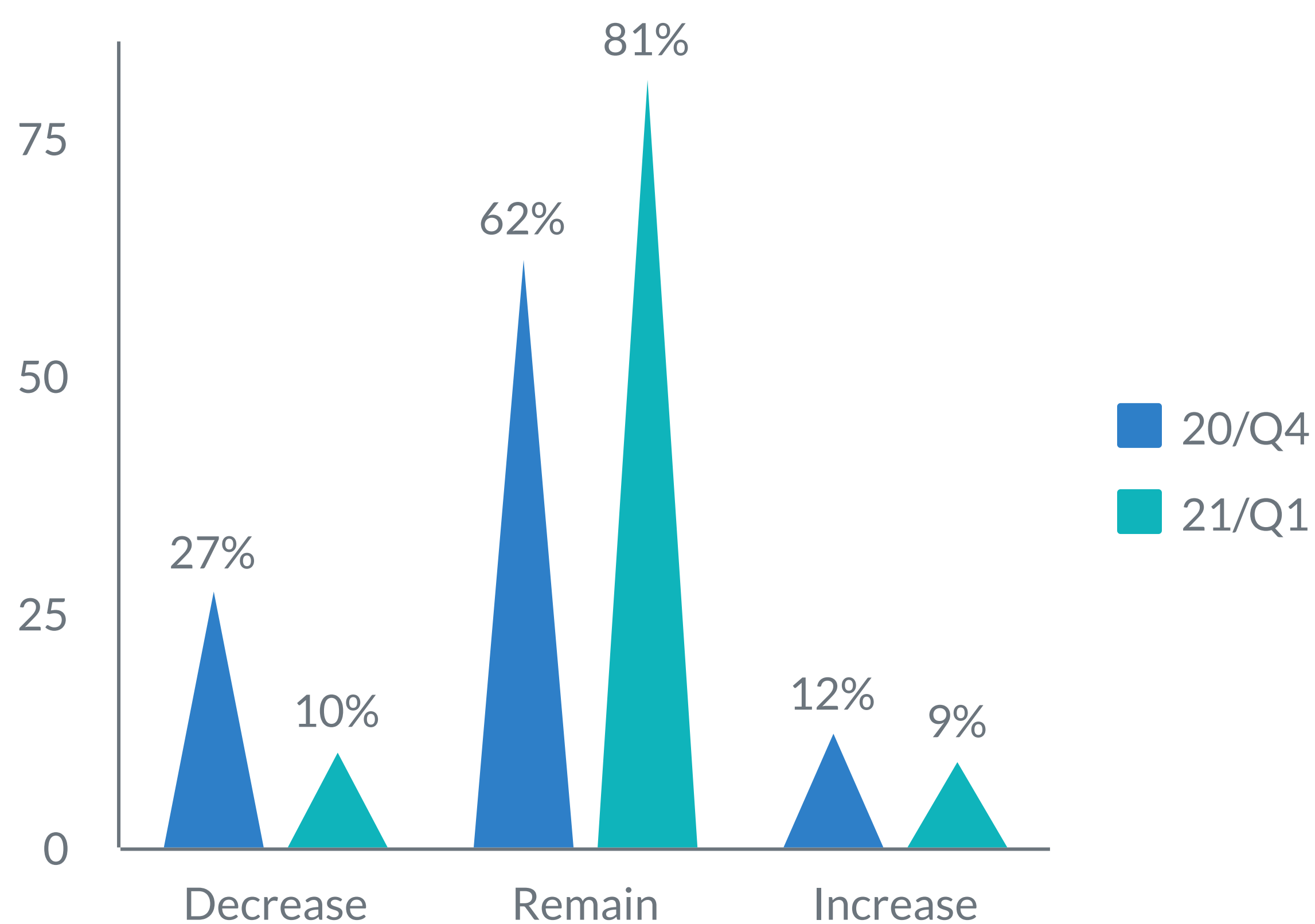


Q1/21
-26.0

Change
15.6

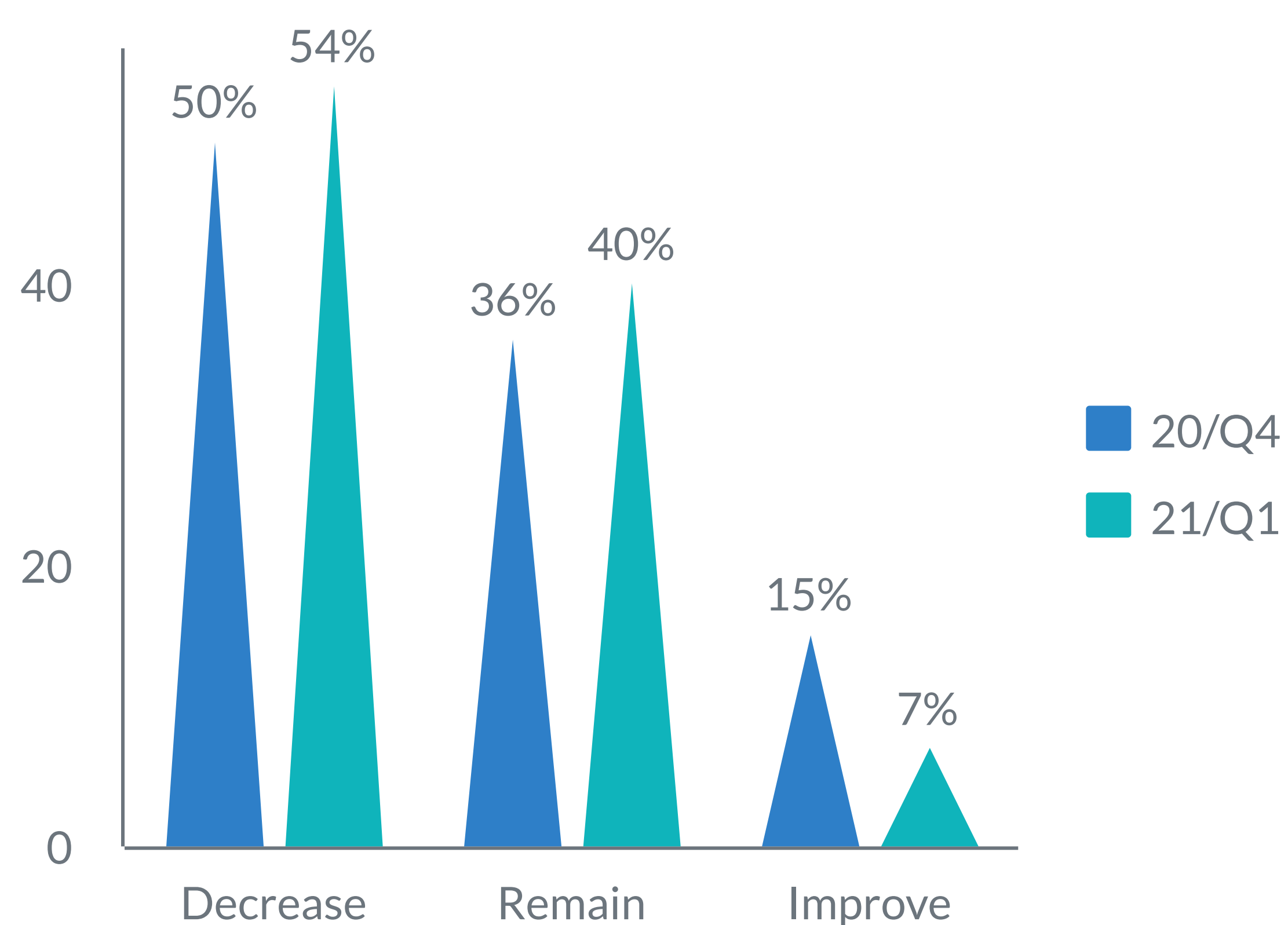
Business activities in the past 3 months have improved for large businesses and worsened for SMEs. For large firms, the index increased by 15.6 points and reached -26.0 for Q1 2021; for SMEs, the same indicator decreased by 13.4 and settled at -42.1 index points.

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



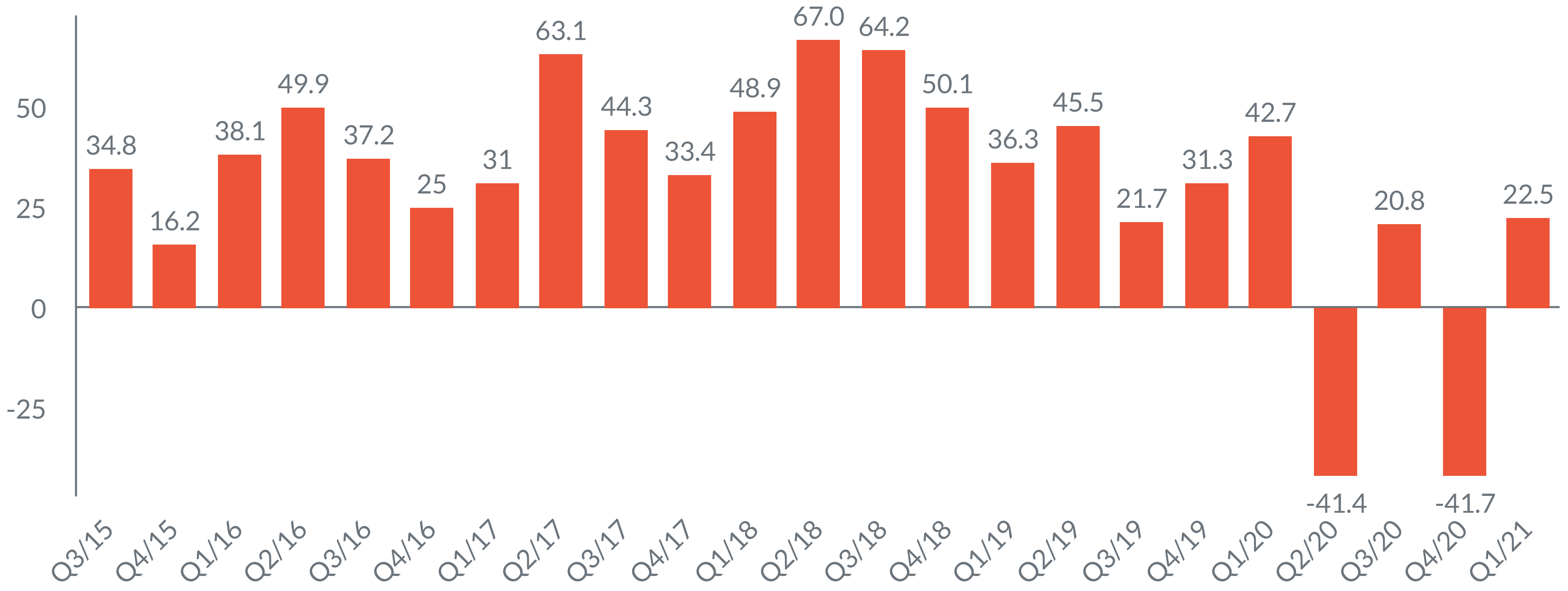
Compared to the previous quarter, a smaller share of firms (10%) surveyed stated that employment had decreased over the past three months, 9% reported an increase, and 81% no changes in employment.

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



Moreover, the majority (54%) of firms claimed that their business activity worsened over the past three months. 40% of firms stated that their business activities remained unchanged and only 7% reported an improvement.

Expectations Index



Expectations QoQ change by sector

The Expectations Index increased significantly by 64.1 index points for Q1 2021 and reached 22.5. Prospects for the next three months have improved for every sector, except retail trade (19.5-point decrease). The most significant increase is observed in the construction (111.5), followed by service (110.0), financial (47.6), manufacturing (39.9), and agriculture (5.5) sectors.

Sectors	Q1/21		Change
Manufacturing	0.0	▲	39.9
Construction	18.6	▲	111.5
Retail Trade	11.1	▼	-19.5
Service	44.7	▲	110.0
Agriculture	9.4	▲	5.5
Financial	-6.7	▲	47.6
Other	-72.9	▼	-67.8

SME



Q1/21

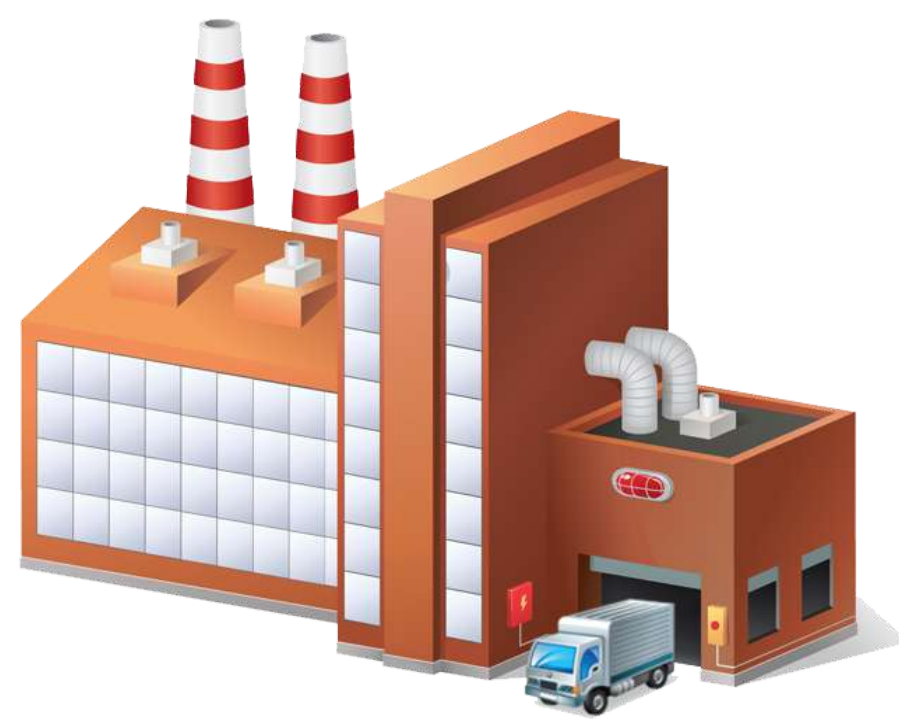
1.1



Change

18.7

Large



Q1/21

26.0

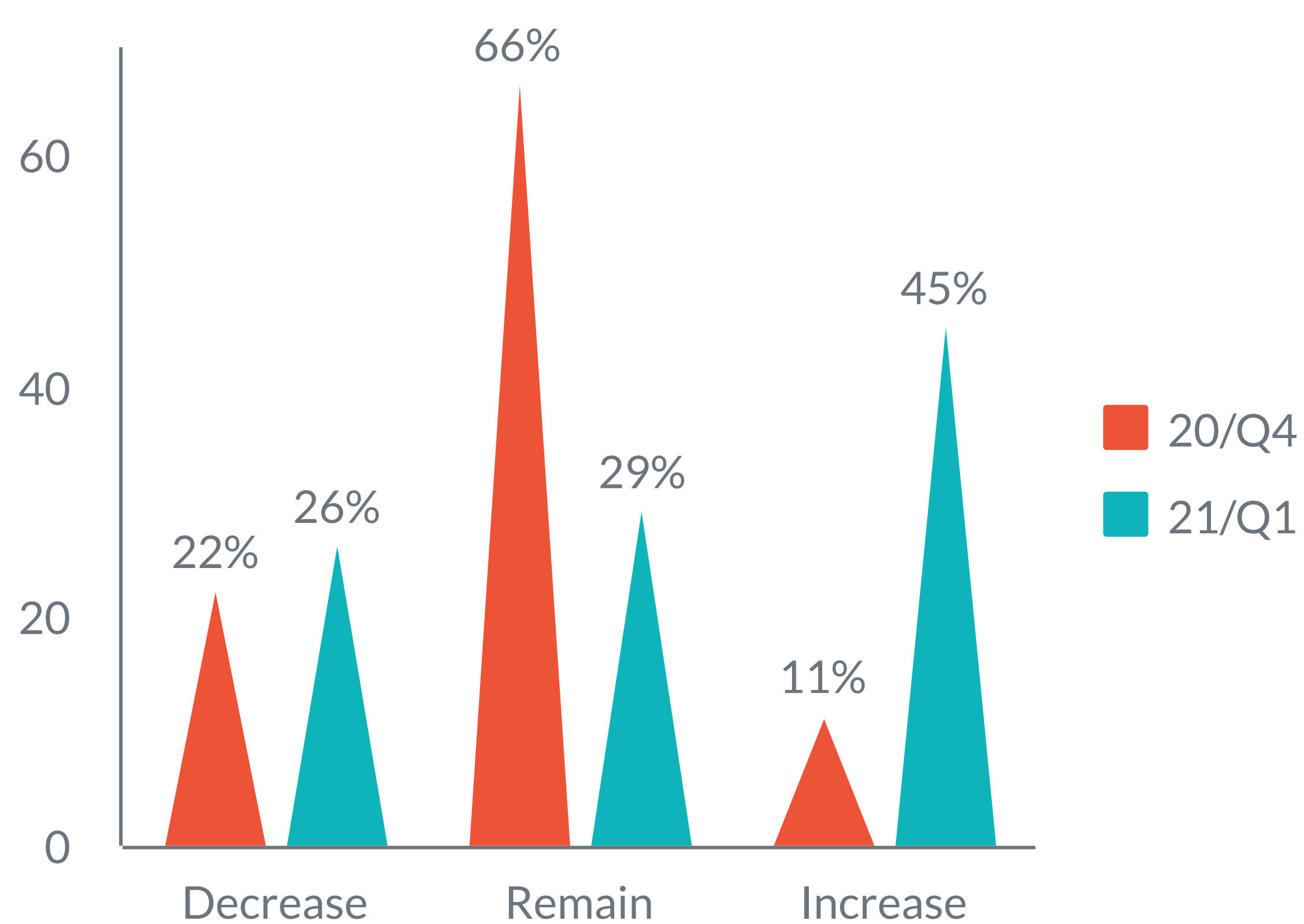


Change

70.3

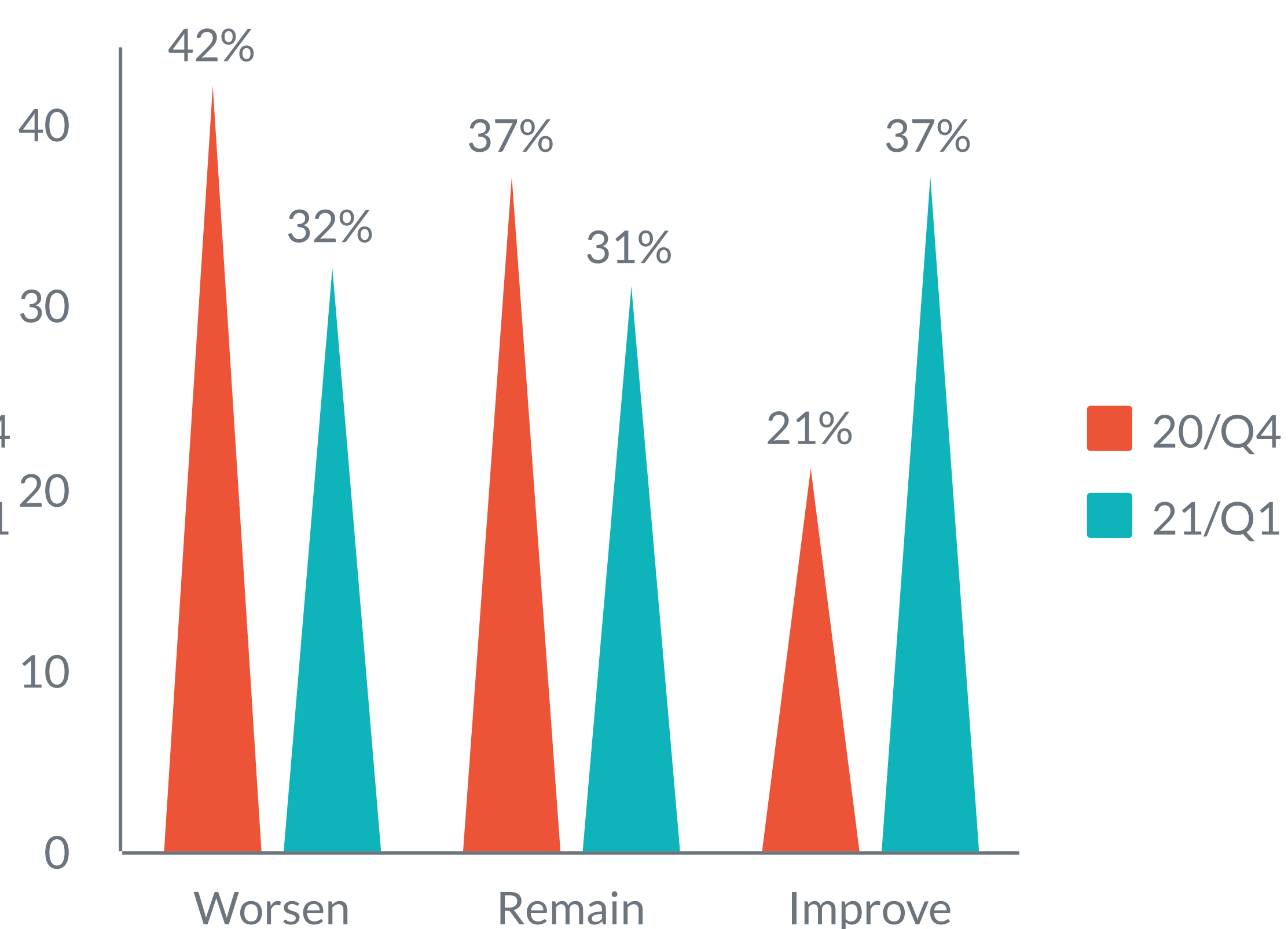
Business expectations have increased for both, large firms (70.3) and SMEs (18.7).

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



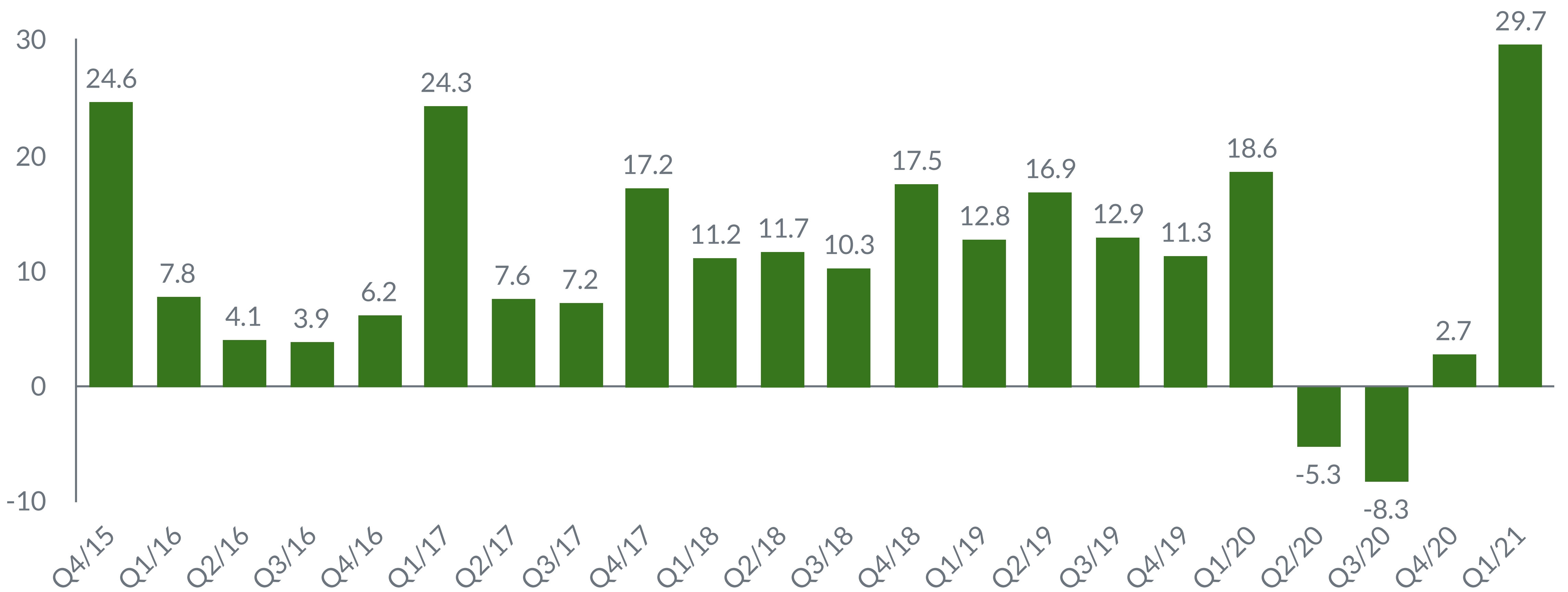
29% of the surveyed businesses do not expect any changes in employment over the next three months, 26% of firms stated that they would hire fewer employees in the future, however, 45% think that they would hire more.

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



37% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 31% do not predict any changes, leaving 32% of businesses that believe their business conditions will worsen.

Sales Price Expectations Index

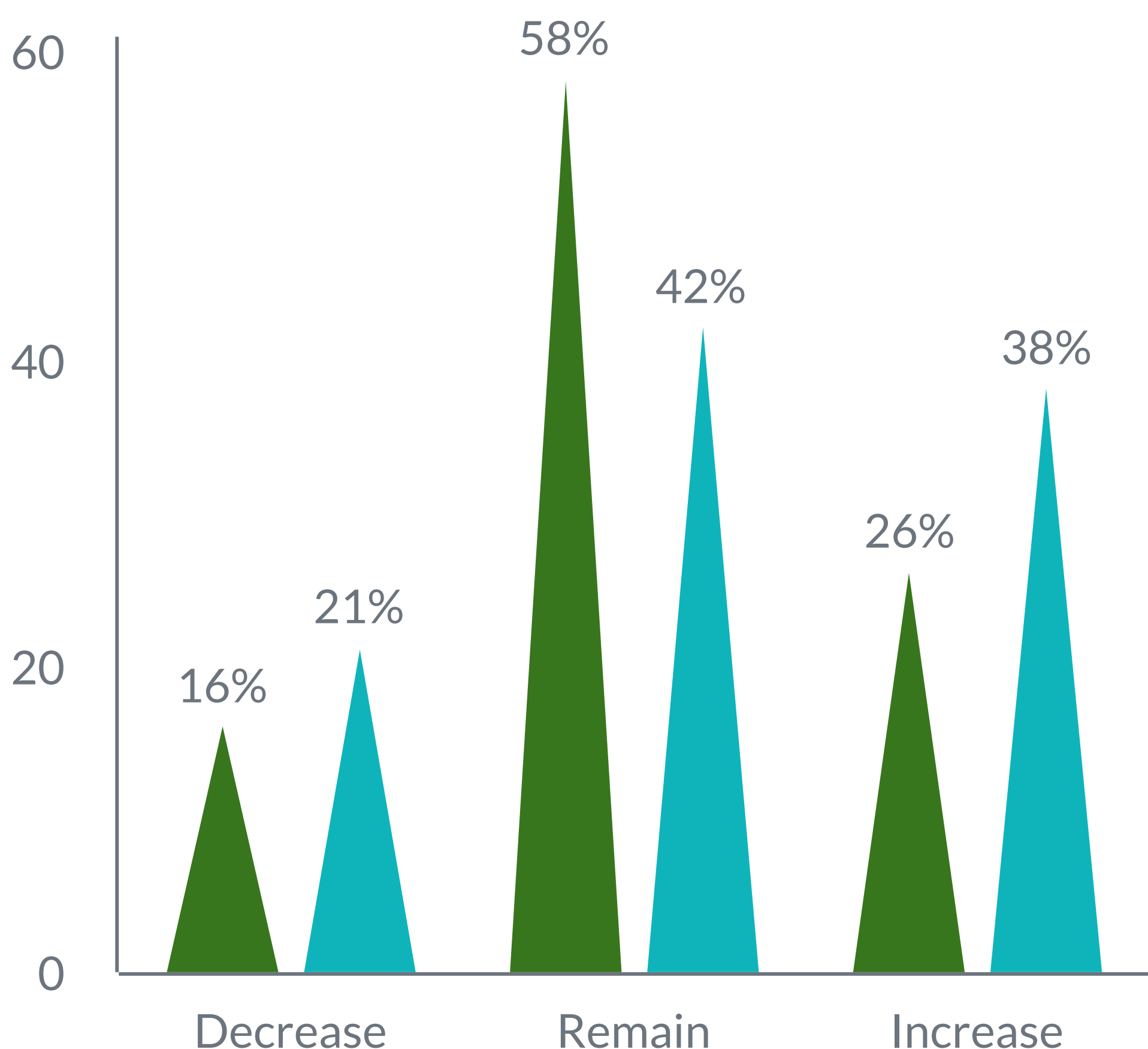


The Sales Price Expectations Index increased significantly from 2.7 points (Q4 2020) to 29.7 points for Q1 2021. The index increased in every sector, except construction (47.7 points decrease). The overall Sales Price Expectations Index has increased for both SMEs and large companies.

Sales price QoQ change by sector

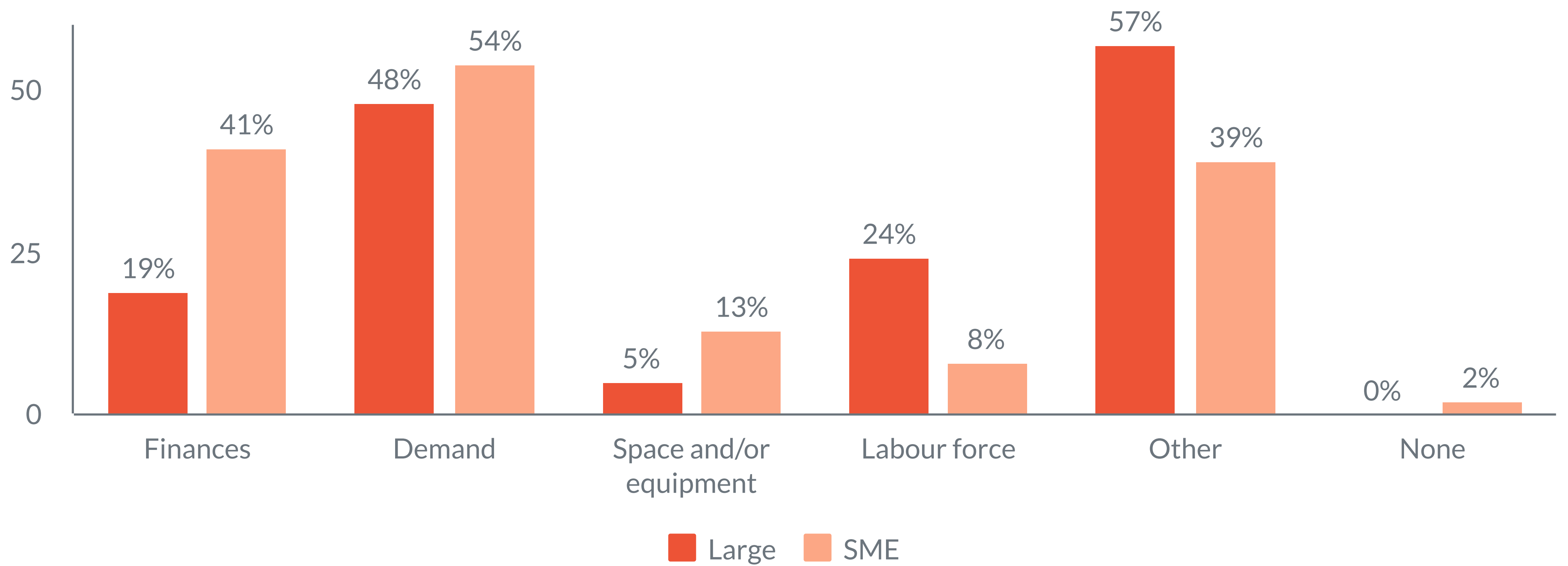
Sectors	Q1/21	Change
Manufacturing	98.1	▲ 94.7
Construction	39.8	▼ -47.7
Retail Trade	51.5	▲ 14.4
Service	0.0	▲ 27.0
Agriculture	84.4	▲ 50.0
Other	88.1	▲ 93.2

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



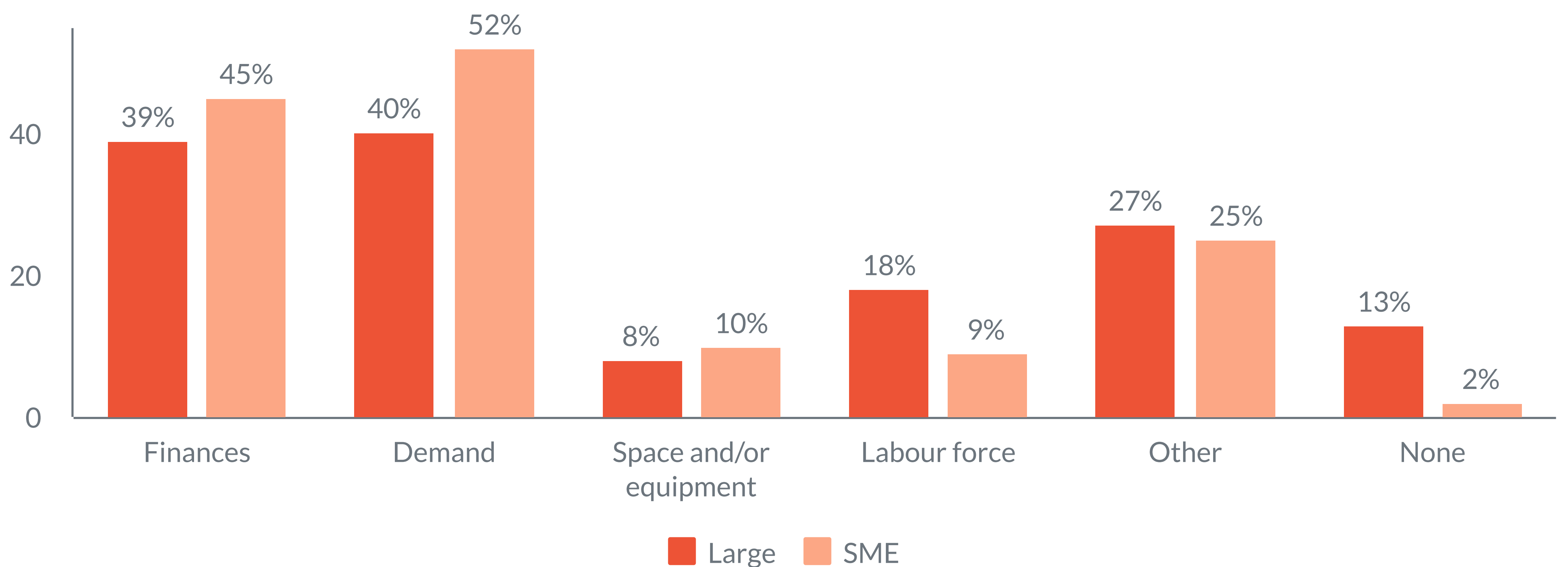
Around 42% of all firms surveyed do not intend to change their prices over the next three months. 38% of firms expect to increase their prices, and the remaining 21% will consider decreasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q1, 2021



A lack of demand and limited access to financing continues to be one of the most significant obstacles for both large companies and SMEs. For Q1 2021 "other" factors became more important for both, large companies and SME's (the last four-quarter average was 27% and 25%, respectively), which could reflect the Covid-19 second-wave restrictions that business sector is currently facing.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q1 2020 - Q4 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](#)

*** 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	20/Q4	20/Q4	21/Q1	21/Q1
Manufacturing	6	5%	8	5%
Construction	14	11%	18	12%
Retail Trade	33	25%	43	28%
Service	48	37%	46	30%
Agriculture	10	8%	12	8%
Financial	12	9%	11	7%
Other	8	6%	13	9%
Source: BCI Survey Data	131	% share	151	% 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/Q1	
	Large	SME
Manufacturing	1	7
Construction	5	13
Retail Trade	7	36
Service	5	41
Agriculture	2	10
Financial	2	9
Other	1	12
Source: BCI Survey Data	23	128

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 2021 was 151. This is an increase of 15% 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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