

BUSINESS CONFIDENCE INDEX

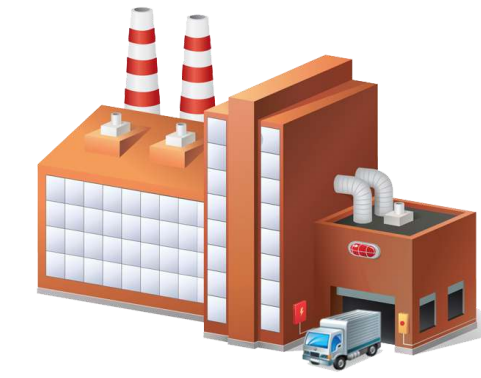
10.2
INCREASE

**The Retail Trade Sector
Optimistic for the Holiday
Season**

Q4 2019

Participating Companies

Large



27

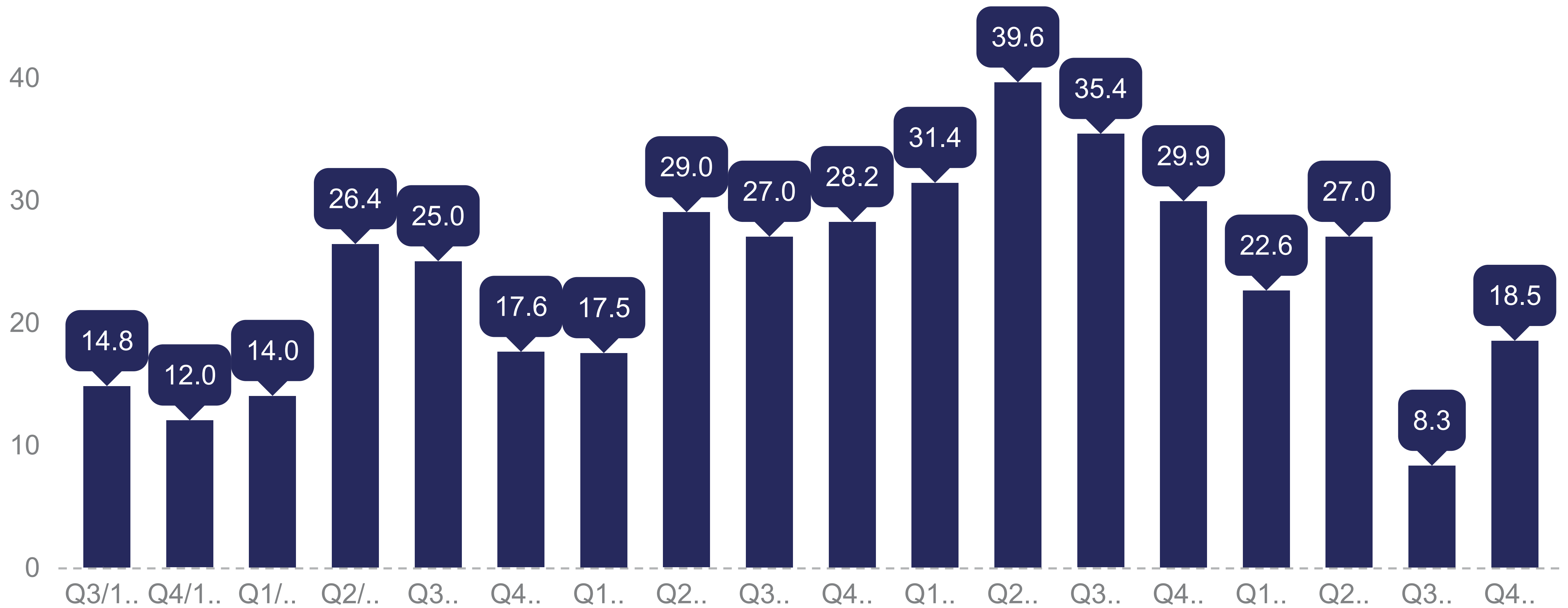
SMEs



96

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- BCI in the fourth quarter of 2019 has increased to 18.5 index points, which is 10.2 index points above the previous quarter. The largest increase in BCI was observed in retail trade, followed by the construction industry. In these sectors, the increase in BCI is driven by both increase in past performance and in raised expectations. On the contrary, agriculture is the one industry where BCI decreased.
- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed an upward trend, increasing by 27.4 points in Q4 2019.
- Business optimism increased after a recent significant deterioration in the previous quarter and rose to 31.3 index points. Other than retail trade and construction, the manufacturing sector has contributed the most to this increase in business optimism. Expectations have decreased significantly in agriculture.
- The Sales Price Expectation Index decreased moderately. Businesses in the service and agricultural industries predict lower prices compared to the previous quarter, while other sectors expect higher prices.
- Past performance improved for both large businesses and SMEs, while expectations worsened moderately for SMEs and improved for large businesses.
- The main factors that limit business activities for large businesses are shortage of labor force and access to finance. As for SMEs, the main limiting factors 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).

After registering a record low value in the previous quarter, the BCI has recovered by 10.2 points compared to Q3 2019. Expectations in the Georgian private sector increased by 9.5 index points, rising to 31.3. Moreover, business performance over the past three months has increased significantly, reaching 26.9 points (up from -0.5), indicating an upturn in production, turnover, and sales. Thus, the rise in both business expectations and past performance has led to an increase in the overall BCI. Compared to the previous quarter, the sales price expectation index has decreased slightly; however, the share of business owners who expect an increase in their sales prices remains high.

BCI QoQ change by sector

The BCI increased in most economic sectors, namely in the retail trade (33.2), construction (28.1), service (8.5), financial (4.6), and manufacturing (3.8) sectors. One exception was agriculture, in which the BCI declined by 33.4 index points.

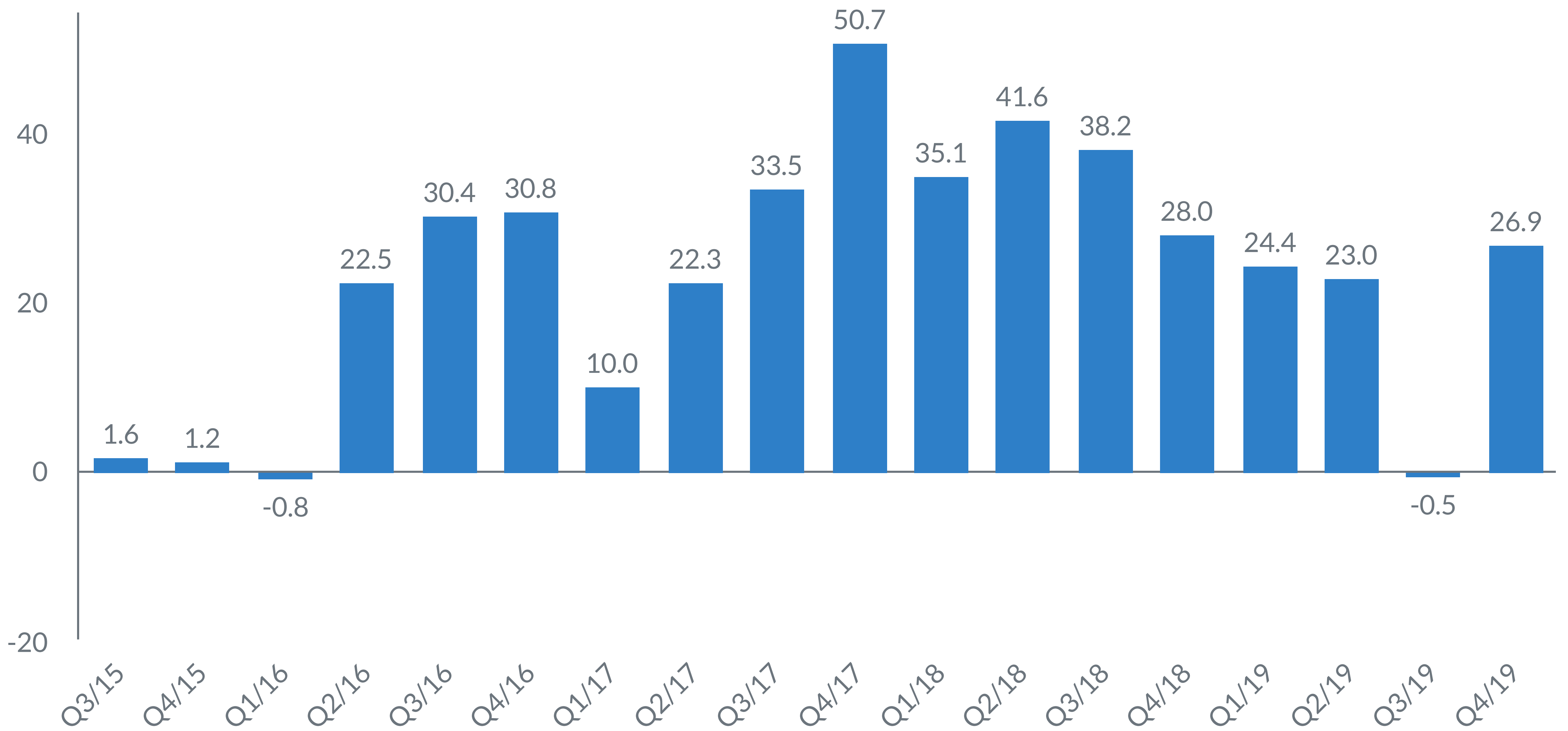
Sectors	Q4/19		Change
Manufacturing	0.0	▲	3.8
Construction	3.4	▲	28.1
Retail Trade	23.8	▲	33.2
Service	27.8	▲	8.5
Agriculture	22.5	▼	-33.4
Financial	-2.3	▲	4.6
Other	-5.0	▼	-5.0



Business confidence in the fourth quarter of 2019 has dropped for SMEs (-1.5), though it has increased for large firms (12.6).

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, to some extent, more likely to have a negative outlook.

Production/Turnover/Sales Past 3 Months



Businesses' actual performance increased by 27.4 points compared to Q3 of 2019. In Q4, of the 123 firms surveyed, sales (production or turnover) increased from -0.5 (Q3 2019) to 26.9 (Q4 2019). A significant upsurge in performance was observed in retail trade (85.7), service (36.1), construction (31.7), and finance (13.5). 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, production, turnover, and sales for the past three months have decreased: in agriculture (-46.2) and manufacturing (-46.0).

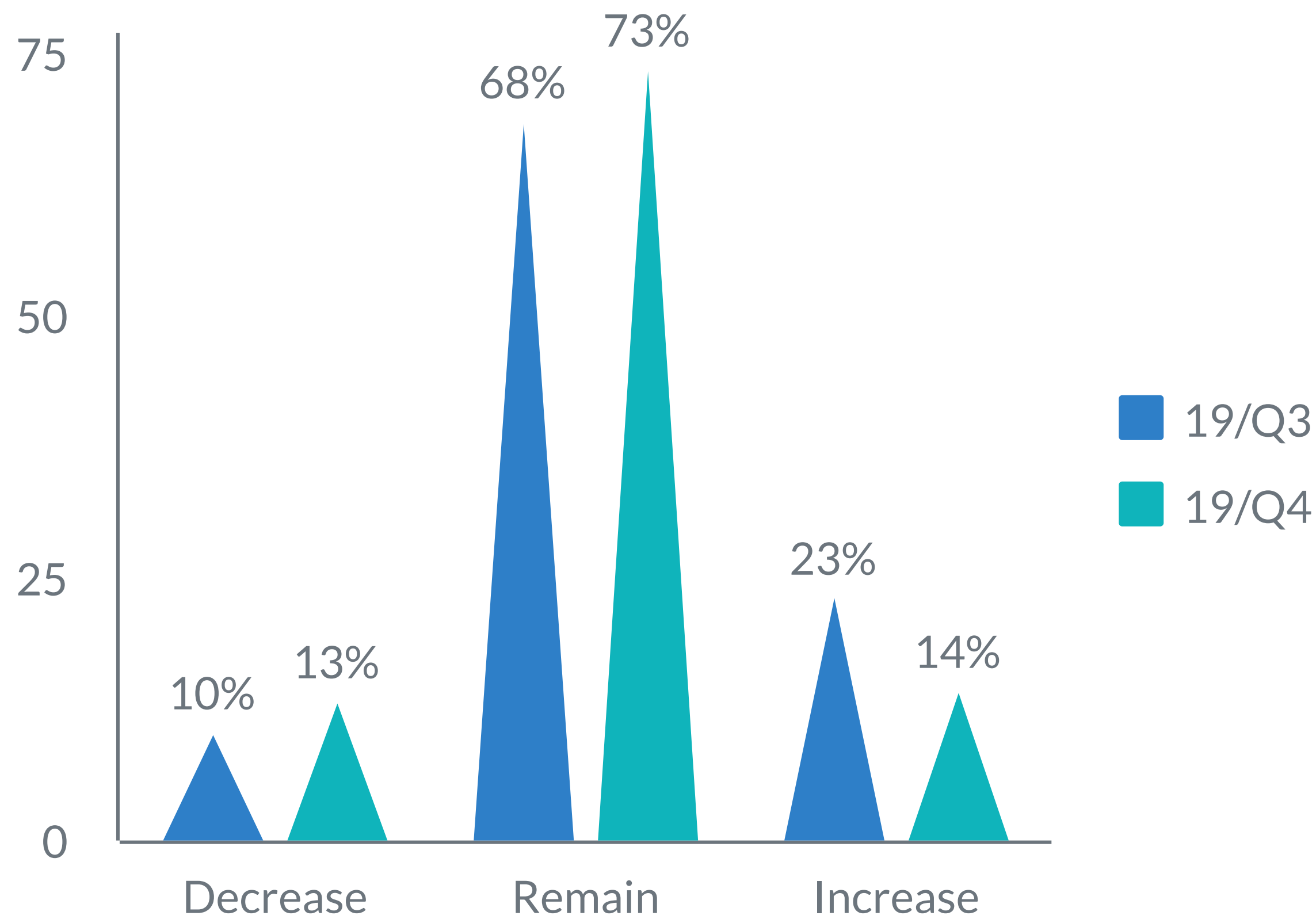
Past 3 Months QoQ change by sector

Sectors	Q4/19	Change
Manufacturing	-46.0	-46.0
Construction	-3.6	31.7
Retail Trade	47.7	85.7
Service	48.8	36.1
Agriculture	26.4	-46.2
Financial	-11.0	13.5
Other	0.0	0.0



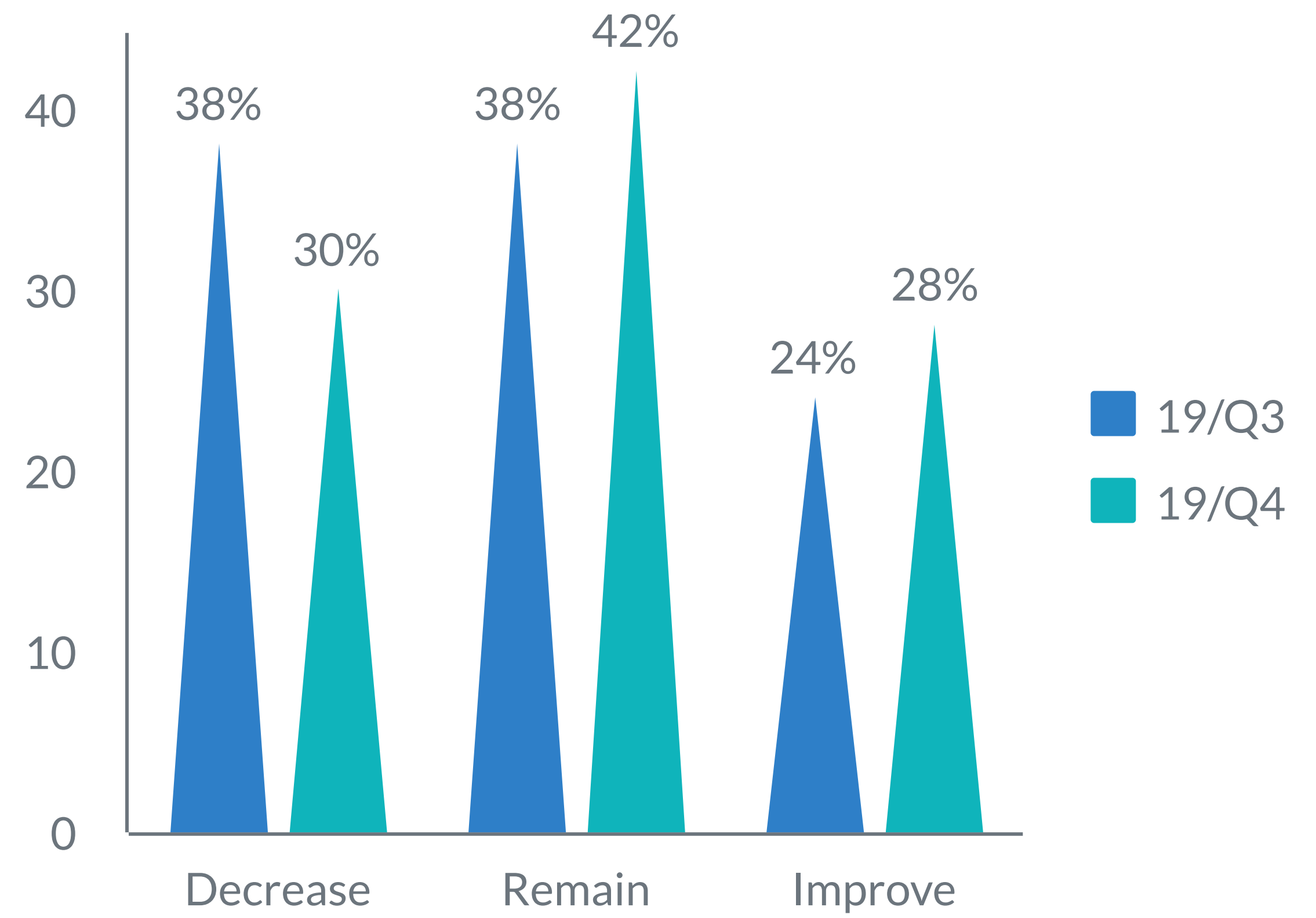
Business activities have improved for both SMEs and large businesses. For large firms, the business activity indicator increased by 32.3 points and raised to 33.5 in Q4 2019; for SMEs, the same indicator increased by 1.7 and stopped at -4.9 index points.

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



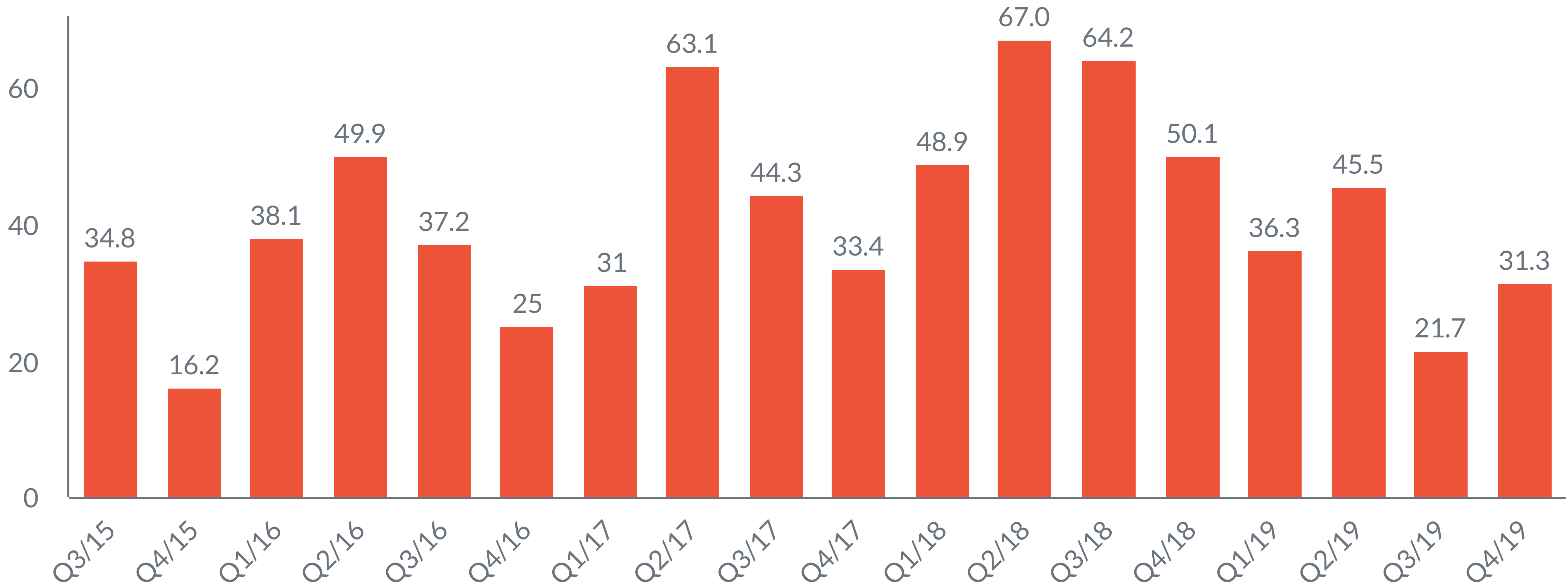
Compared to the previous quarter, a higher share of surveyed firms (73%) stated that employment remained the same over the past three months. More businesses reported a decrease and fewer increases in employment.

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



Moreover, 42% of firms claimed that their business activities remained unchanged over the past three months, 30% of respondents stated that their performance had deteriorated, and only 28% stated an improvement.

Expectations Index



Expectations QoQ change by sector

Sectors	Q4/19	Change
Manufacturing	89.3	▲ 28.2
Construction	28.6	▲ 25.7
Retail Trade	32.0	▲ 40.3
Service	30.4	▼ -0.5
Agriculture	3.5	▼ -38.7
Financial	0.0	▲ 8.0
Other	0.0	■ 0.0

The expectations index increased by 9.5 index points in Q4 2019. Prospects about the next three months improved for most business sectors; the one exception being agriculture (-38.7). The greatest increase was reported in retail trade (40.3).

SME



Q4/19

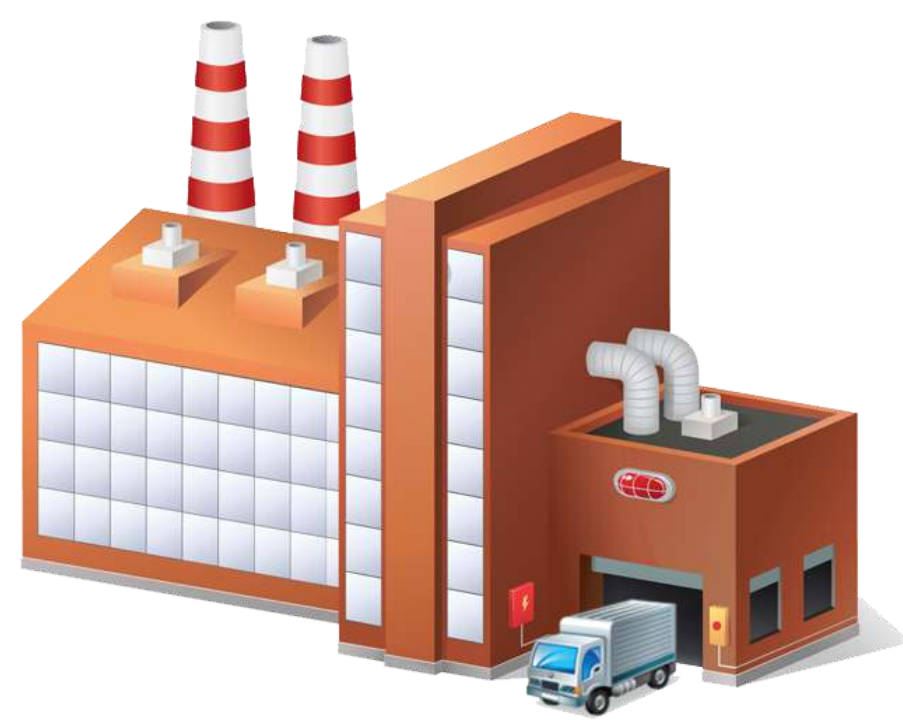
10.5

Change



-1.7

Large



Q4/19

34.9

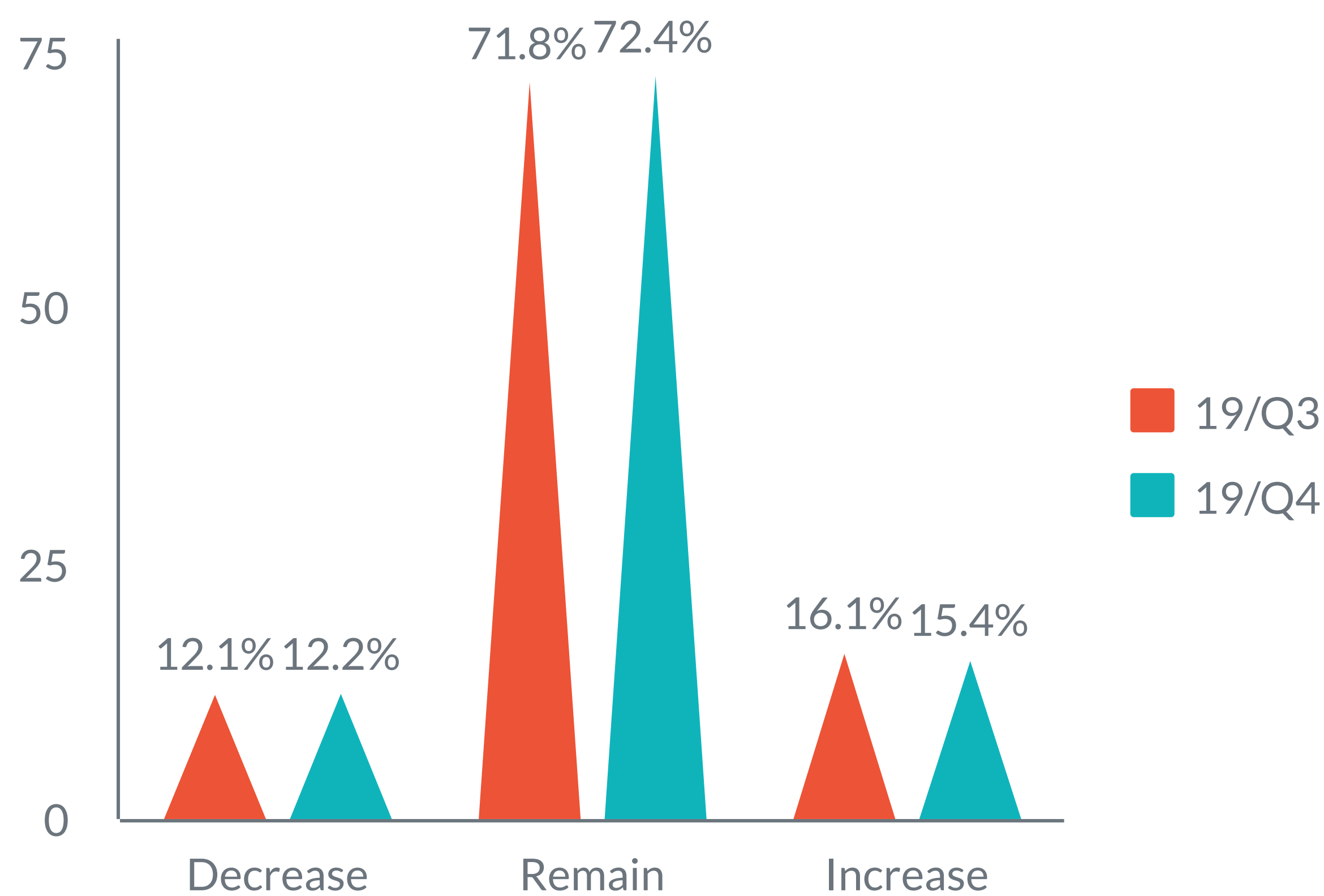
Change



11.2

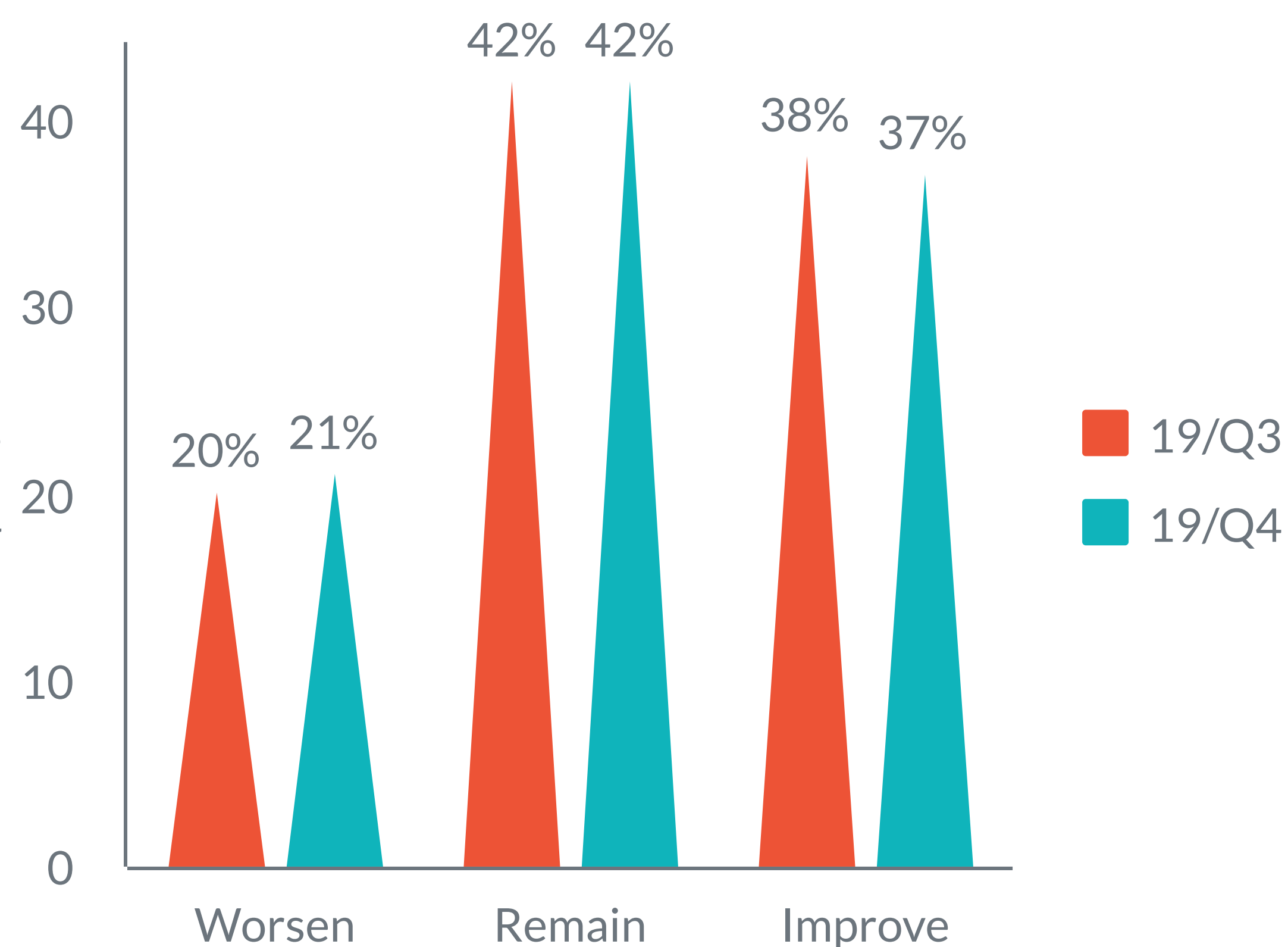
Business expectations have, on the whole, improved for large firms but worsened for SMEs.

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



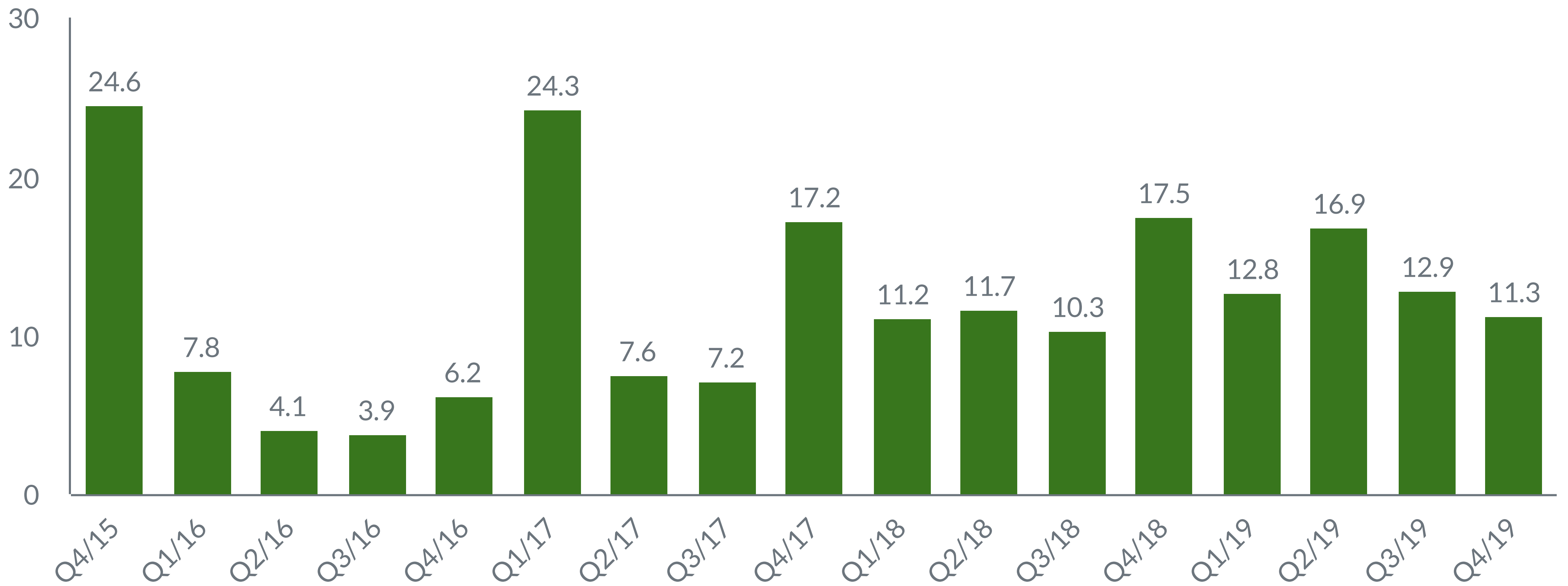
The majority (72.4%) of the surveyed businesses do not expect any changes in employment over the next three months. Furthermore, only 15.4% of firms stated that they would hire more employees in the future.

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



Around 37% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. While, 42% do not imagine any changes in the future, leaving a small proportion of businesses that believe their business conditions will worsen.

Sales Price Expectations

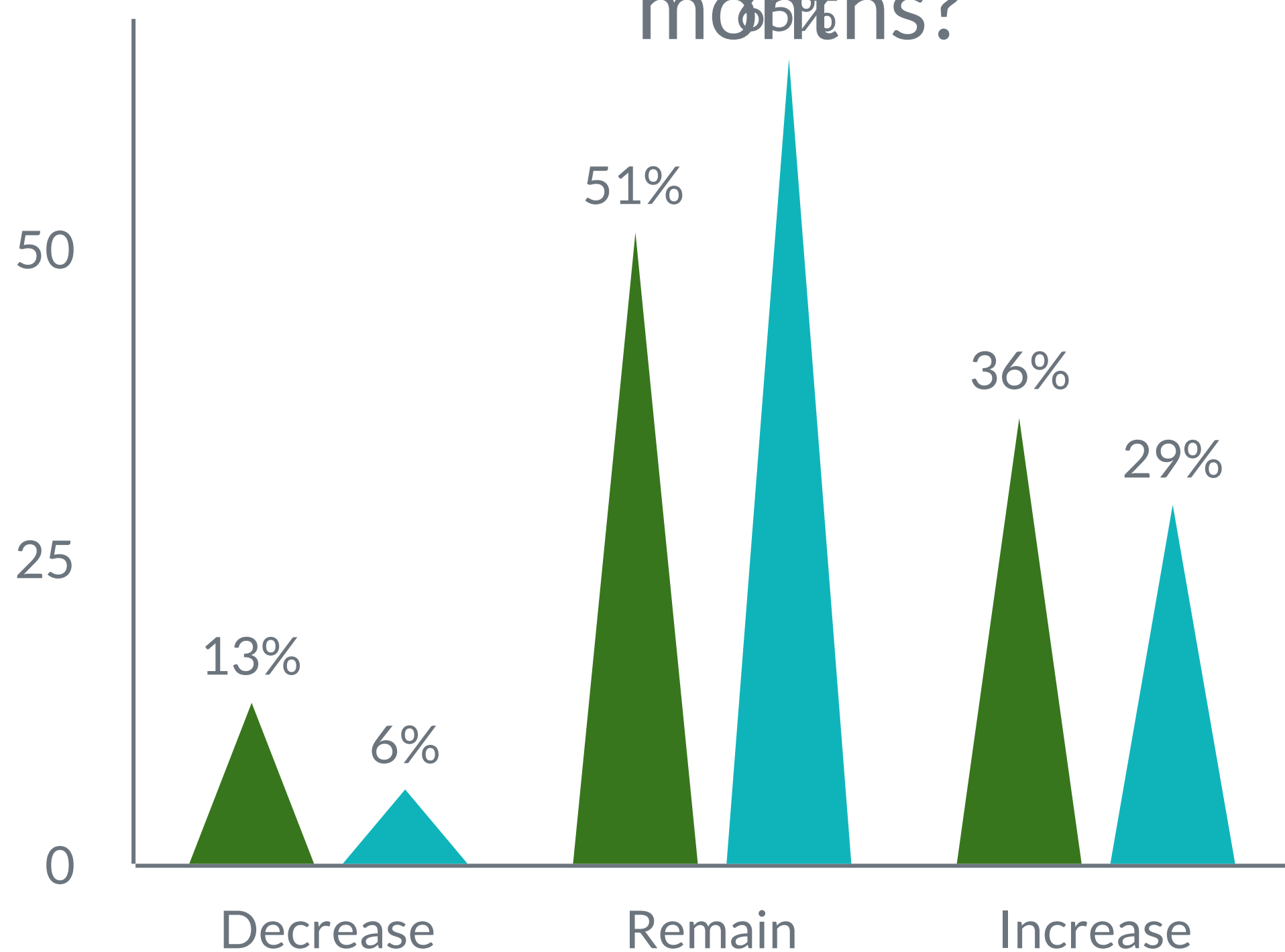


The sales price expectations index decreased from 12.9 points (Q3 2019) to 11.3 points (Q4 2019). The descent is mostly driven by a decline in the agricultural and service sectors. While, the overall sales price expectations index has decreased moderately for both SMEs and large companies.

Sales price QoQ change by sector

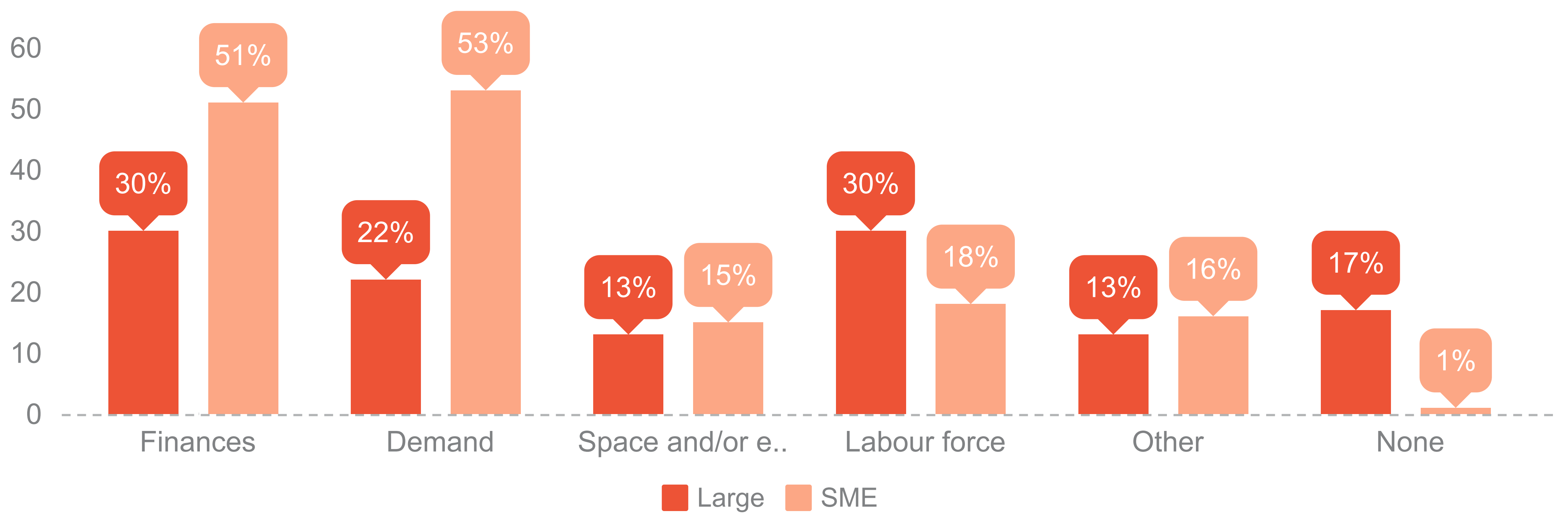
Sectors	Q4/19	Change
Manufacturing	8.0	▲ 33.6
Construction	3.6	▲ 0.7
Retail Trade	33.7	▲ 0.6
Service	1.9	▼ -6.3
Agriculture	56.2	▼ -32.0
Other	0.0	■ 0.0

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



Around 65% of all firms surveyed are not intending to change their prices over the next three months. Only 6% of firms expect to decrease their prices, and the remaining 29% will consider increasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 4, 2019



A lack of demand and limited access to financing continue to be the most significant obstacles, particularly for 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
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/Q3	19/Q3	19/Q4	19/Q4
Manufacturing	11	7%	6	5%
Construction	15	10%	16	13%
Retail Trade	30	20%	30	24%
Service	62	42%	44	36%
Agriculture	10	7%	12	10%
Financial	13	9%	11	9%
Other	8	5%	4	3%
Source: BCI Survey Data	149	% share	123	% 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	19/Q4	
	Large	SME
Manufacturing	1	5
Construction	3	13
Retail Trade	8	22
Service	8	36
Agriculture	3	9
Financial	4	7
Other	0	4
Source: BCI Survey Data	27	96

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 2019 was 123. This is a decrease of 17% compared to the previous quarter's level of participation. Despite the decrease 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, 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.

Contact person:

Mariam Katsadze

Researcher
Private Sector Development Research Center ISET
Policy Institute
m.katsadze@iset.ge Tel: +995 322 507 177 (ext. 220)

Business Confidence Index

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