

# BUSINESS CONFIDENCE INDEX

**7.4**

DECREASE

**Persistent Pessimism!**

**Q1 2019**

## Participating Companies

Large



**44**

SMEs



**116**

## SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- BCI in the first quarter of 2019 has worsened, dropping to 22.6 index points, which is a 7.4 index point loss over the previous quarter. The BCI drop is driven by worsening in the past performance and expectations in number of the business sectors. Interestingly, companies in construction industry assessed their past performance most pessimistically, however they display the most optimistic expectations. While the private sector expectations tend to worsen, they continue to remain positive.
- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing by 3.6 points in Q1 2019.
- Business optimism about the overall economy decreased significantly, reaching 36.3 index points. Other than retail trade, service and agriculture have contributed the most to this decrease in business optimism. In construction and financial sector expectations have improved significantly.
- The Sales Price Expectation Index decreased slightly. Businesses in the service sector predict the largest price reduction in the next quarter while the other sectors are expecting higher prices.
- Expectations and past performance worsened for large businesses and improved for SMEs.
- The main factor that continue to limit business activities is lack of demand for both large and small and medium businesses.

\* 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 7.4 points compared to Q4 2018. Expectations in the private sector in Georgia decreased by 13.8 percentage points, dropping to 36.3 index points (from 50.1 points in Q4). Business performance over the past three months decreased, reaching nearly 24.4 points (down from 28.0), indicating a downturn in production/turnover/sales. The combination of worsening performance in the past three months and lower expectations have led to a drop in the overall BCI.

The BCI index worsened in the construction (-0.1), retail trade (-11.5), service (-24.0) and agriculture (-5.4) sectors. The manufacturing and financial sectors improved by 38.6 and 26.1 points respectively.

### BCI QoQ change by sector

| Sectors              | Q1/19       |   | Change       |
|----------------------|-------------|---|--------------|
| <b>Manufacturing</b> | <b>0.4</b>  | ▲ | <b>38.6</b>  |
| <b>Construction</b>  | <b>24.7</b> | ▼ | <b>-0.1</b>  |
| <b>Retail Trade</b>  | <b>19.4</b> | ▼ | <b>-11.5</b> |
| <b>Service</b>       | <b>26.7</b> | ▼ | <b>-24.0</b> |
| <b>Agriculture</b>   | <b>13.6</b> | ▼ | <b>-5.4</b>  |
| <b>Financial</b>     | <b>42.0</b> | ▲ | <b>26.1</b>  |
| <b>Other</b>         | <b>8.0</b>  | ▲ | <b>3.9</b>   |

#### SME



**Q1/19**    **Change**  
**14.3**    ▼    **-0.4**

#### Large

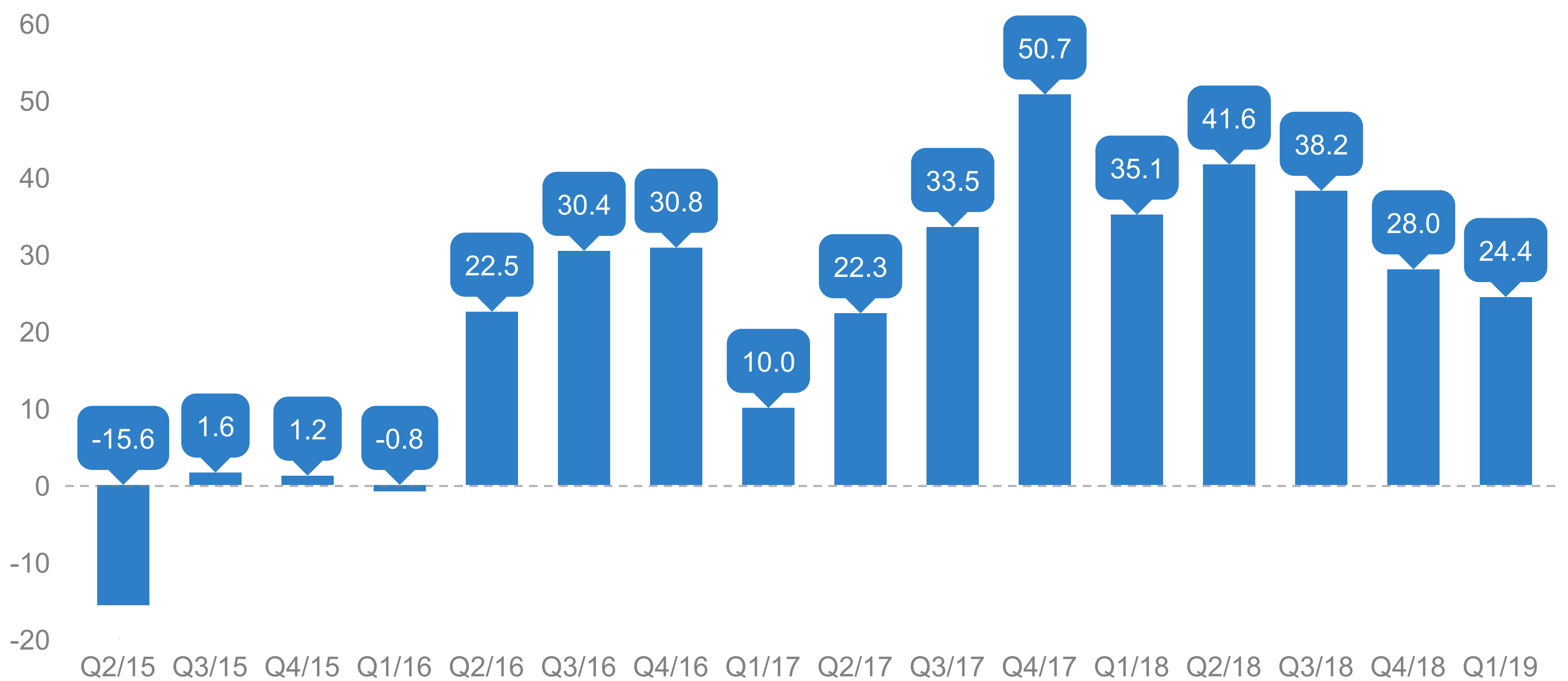


**Q1/19**    **Change**  
**23.7**    ▼    **-9.0**

Business confidence in the first quarter of 2019 decreased for both large firms (-9.0) and for SMEs (-0.4).

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

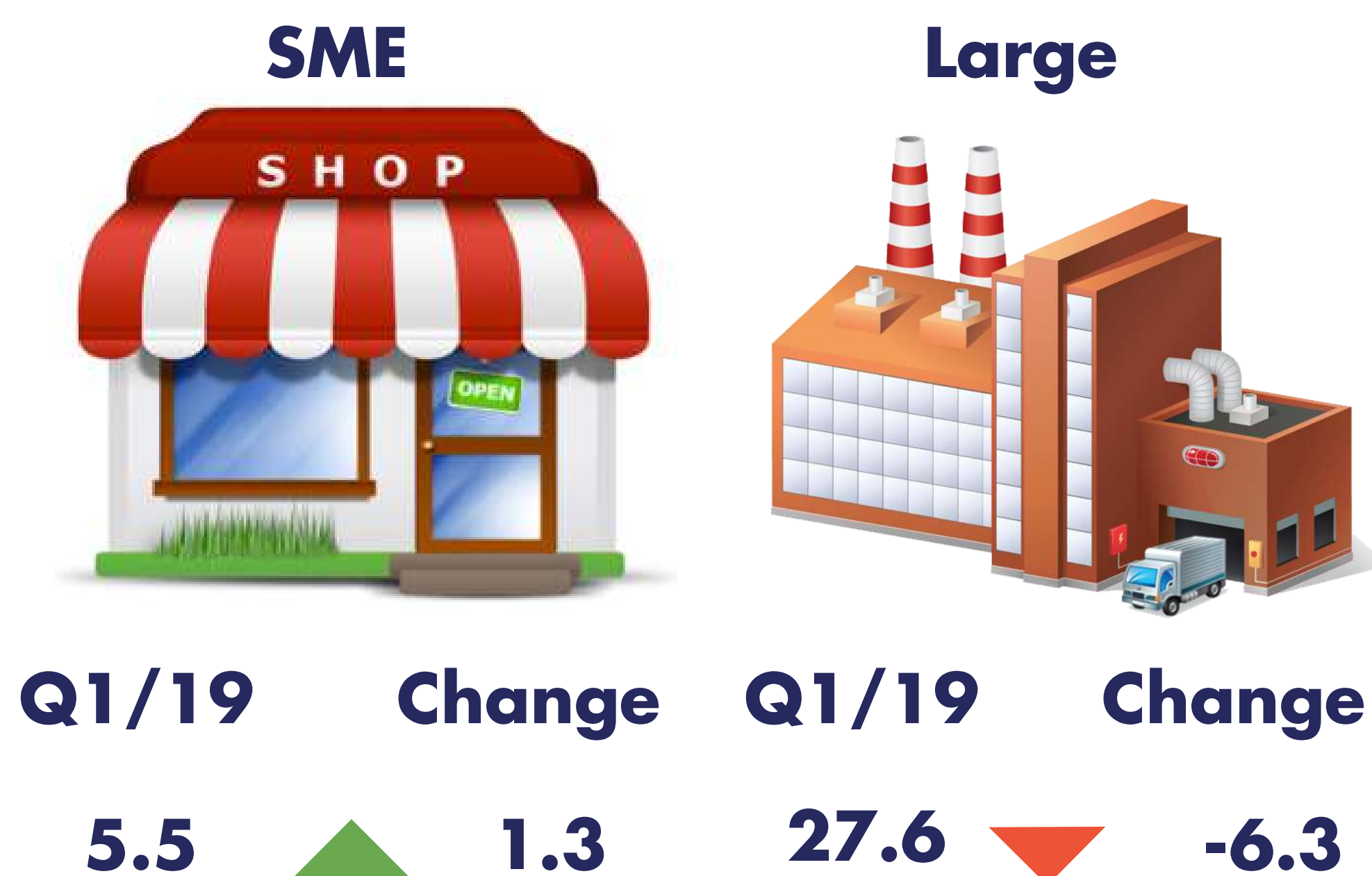


Businesses' actual performance decreased by -3.6 compared to Q4 of 2018. In the Q1 2019 reporting period, sales (production or turnover) of the 160 firms surveyed decreased from 28.0 (Q4 2018) to 24.4 (Q1 2019).

A significant decrease in performance was observed in the service (-17.8), retail trade (-14.9), agriculture (-13.3) and construction (-4.0) sectors. A significant decrease means that in these sectors, the weighted balance between positive and negative responses decreased compared to the previous quarter. In the remaining two sectors, production/turnover/sales for the past three months improved: manufacturing (+43.3) and financial (+34.4) sectors.

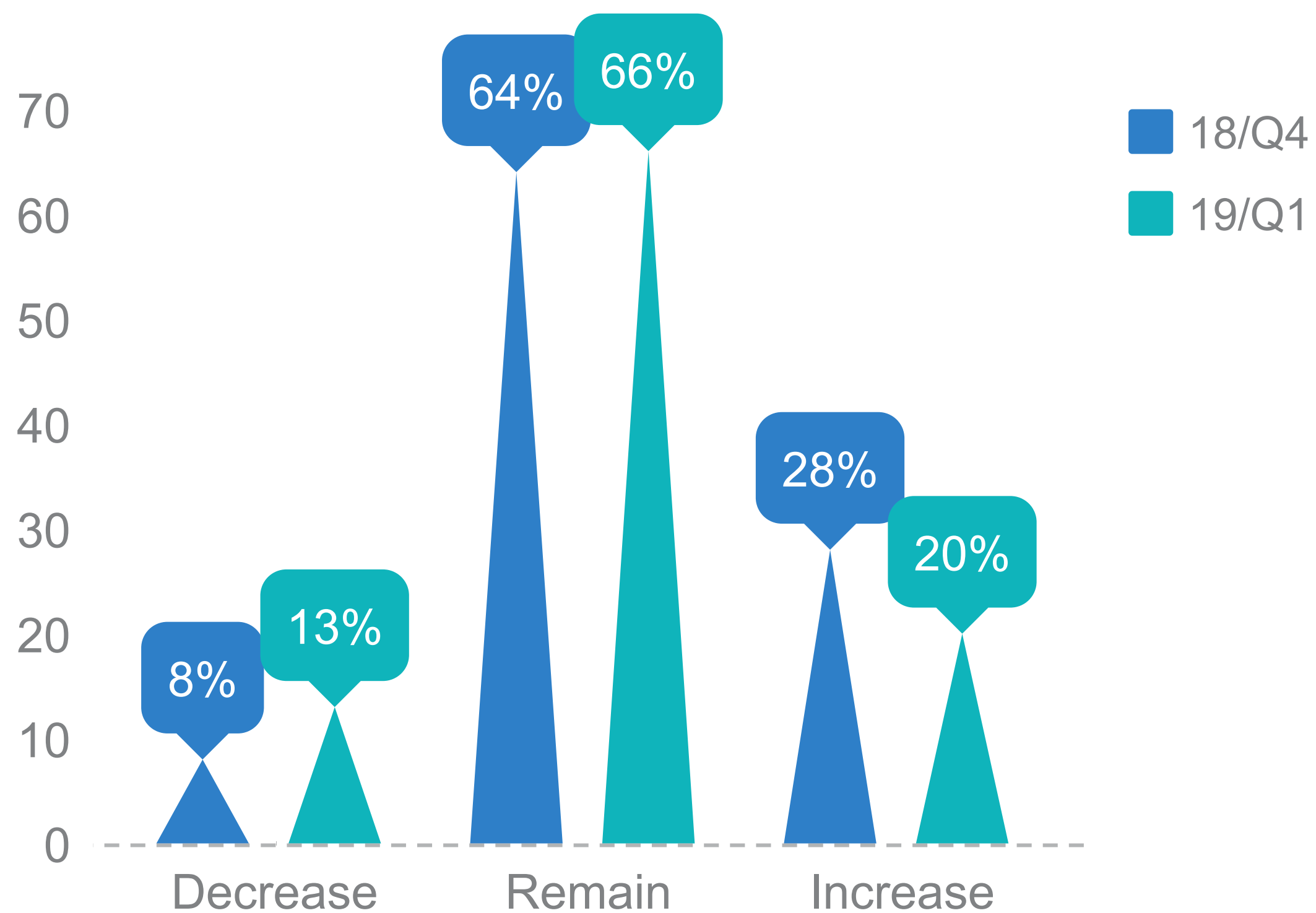
### Past 3 Months QoQ change by sector

| Sectors              | Q1/19       | Change         |
|----------------------|-------------|----------------|
| <b>Manufacturing</b> | <b>0.0</b>  | <b>▲ 43.3</b>  |
| <b>Construction</b>  | <b>-6.9</b> | <b>▼ -4.0</b>  |
| <b>Retail Trade</b>  | <b>33.1</b> | <b>▼ -14.9</b> |
| <b>Service</b>       | <b>34.3</b> | <b>▼ -17.8</b> |
| <b>Agriculture</b>   | <b>9.6</b>  | <b>▼ -13.3</b> |
| <b>Financial</b>     | <b>29.5</b> | <b>▲ 34.4</b>  |
| <b>Other</b>         | <b>0.0</b>  | <b>▲ 39.8</b>  |



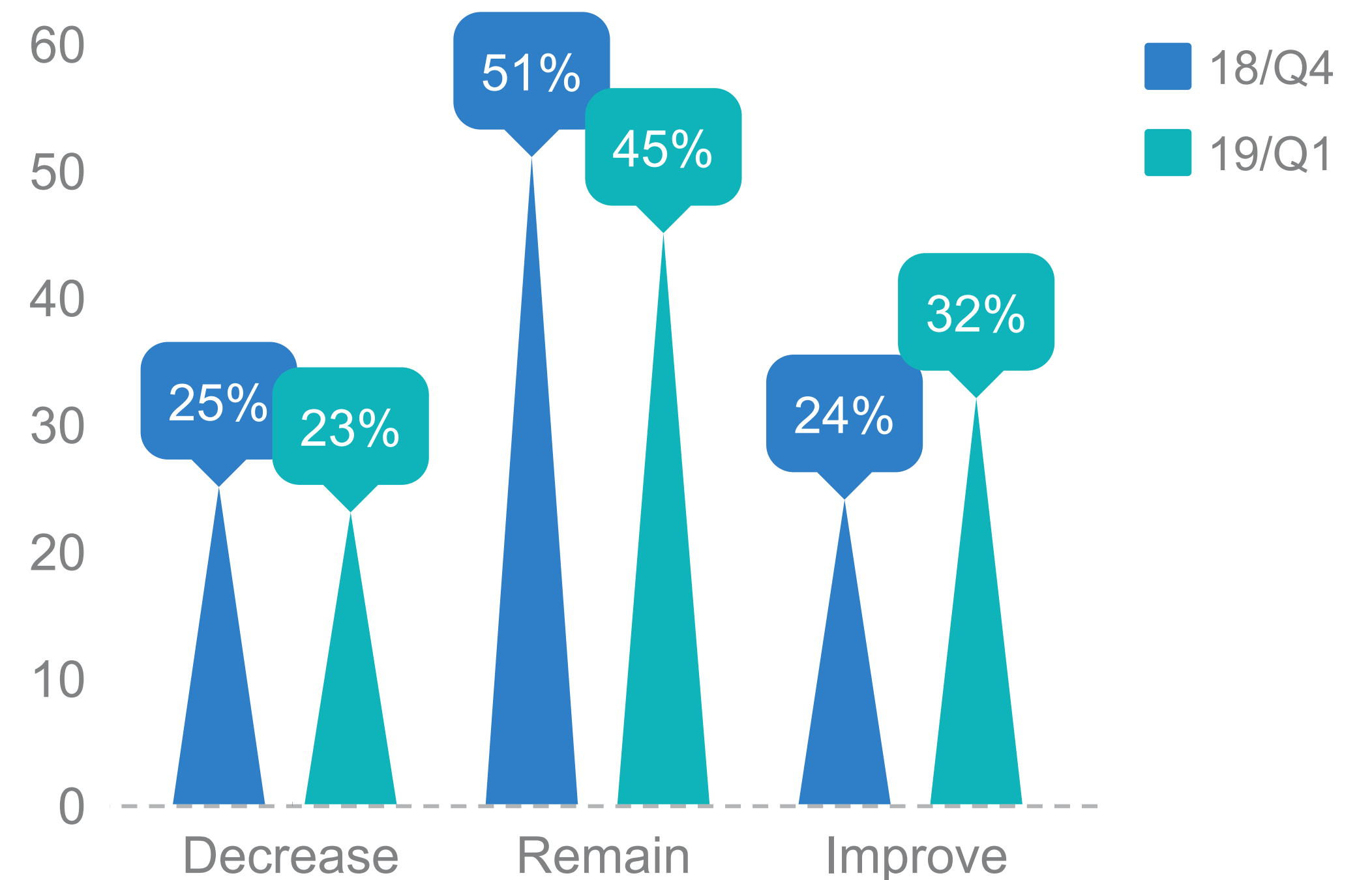
Business activities decreased for large businesses and improved for SMEs. For large firms, business activity indicators dropped by -6.3 points and stopped at 27.6 in Q1 2019; for SMEs, the same indicator grew up by 1.3 and reached 5.5 over the same period.

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



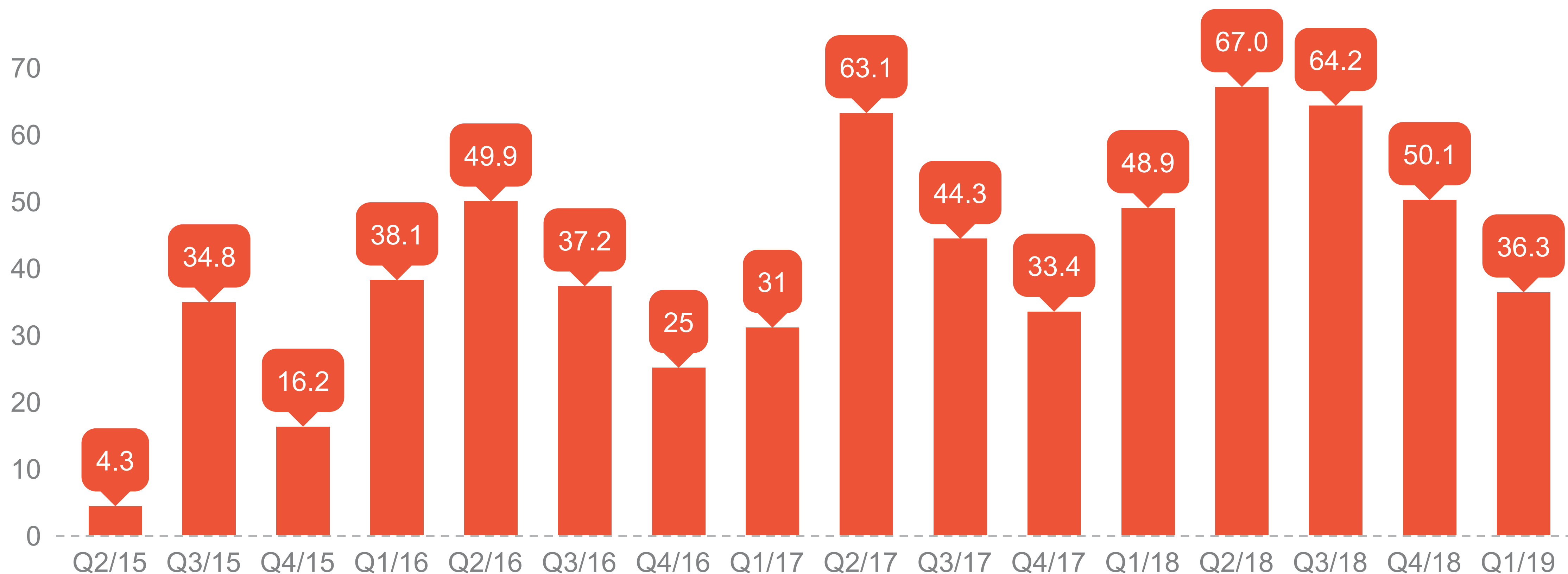
Compared to the previous quarter, a higher share of surveyed firms (66%) stated that employment remained the same over the past three months. More businesses reported an increase and less decreases in employment.

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



Moreover, 45% of firms claimed that their business activities remained unchanged over the past three months, while 32% of participants stated that they had improved their performance, and 23% stated the decline.

## Expectations Index



## Expectations QoQ change by sector

The Expectations Index decreased by 13.8 index points in Q1 2019. Expectations about the next three months improved only for the financial (+47.8) and construction (+25.4) sectors. The remaining sectors expect a worsening of the situation. The greatest decreases were reported in the agriculture and retail trade sectors.

| Sectors              | Q1/19       | Change       |
|----------------------|-------------|--------------|
| <b>Manufacturing</b> | <b>4.5</b>  | <b>-1.3</b>  |
| <b>Construction</b>  | <b>68.6</b> | <b>25.4</b>  |
| <b>Retail Trade</b>  | <b>41.2</b> | <b>-41.9</b> |
| <b>Service</b>       | <b>40.1</b> | <b>-18.1</b> |
| <b>Agriculture</b>   | <b>16.8</b> | <b>-38.6</b> |
| <b>Financial</b>     | <b>40.5</b> | <b>47.8</b>  |
| <b>Other</b>         | <b>0.0</b>  | <b>-60.2</b> |

### SME



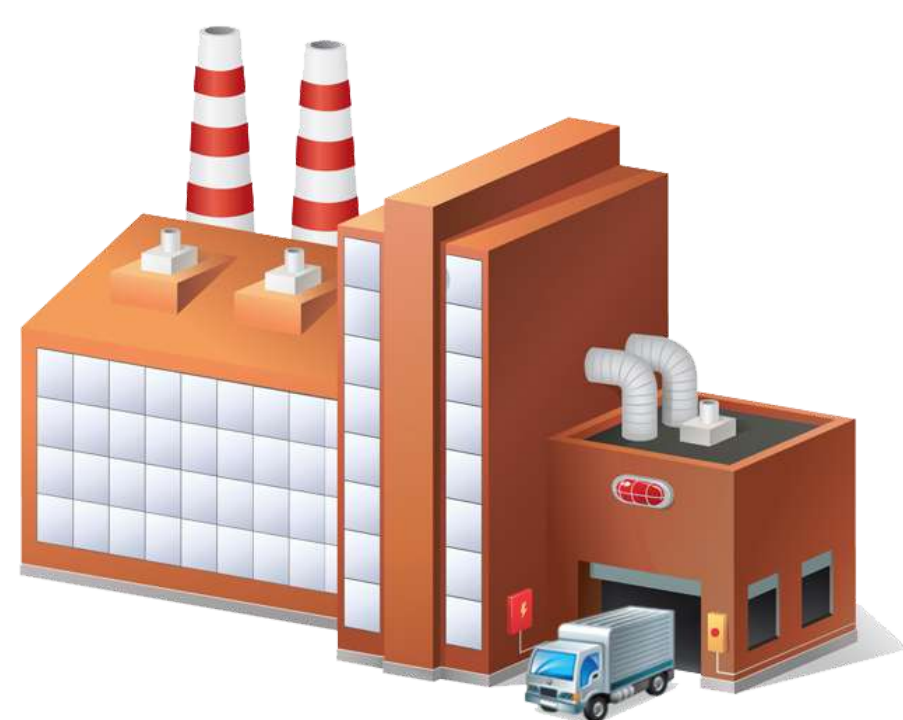
**Q1/19**

**38.3**

**Change**

**0.1**

### Large



**Q1/19**

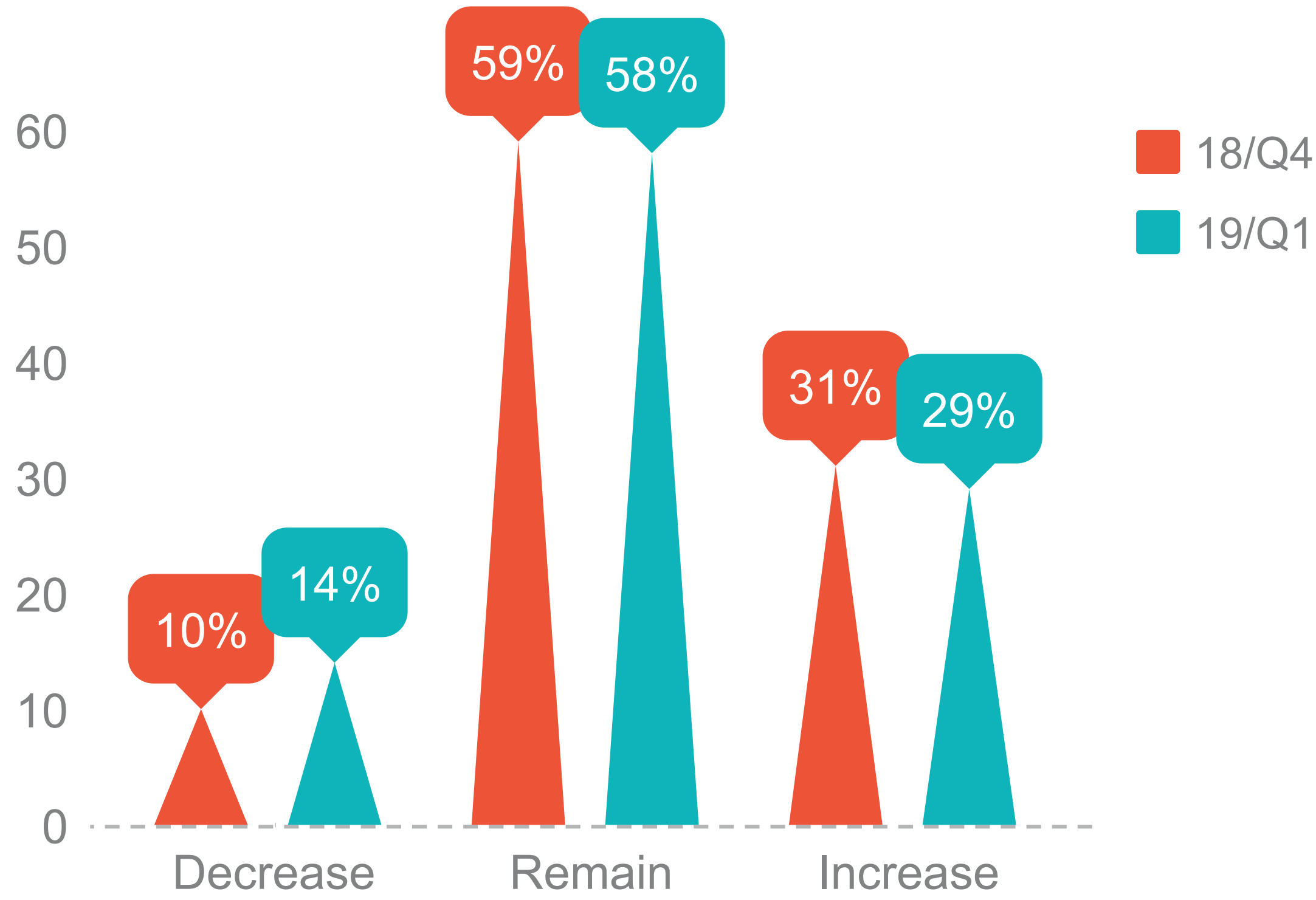
**35.6**

**Change**

**-17.4**

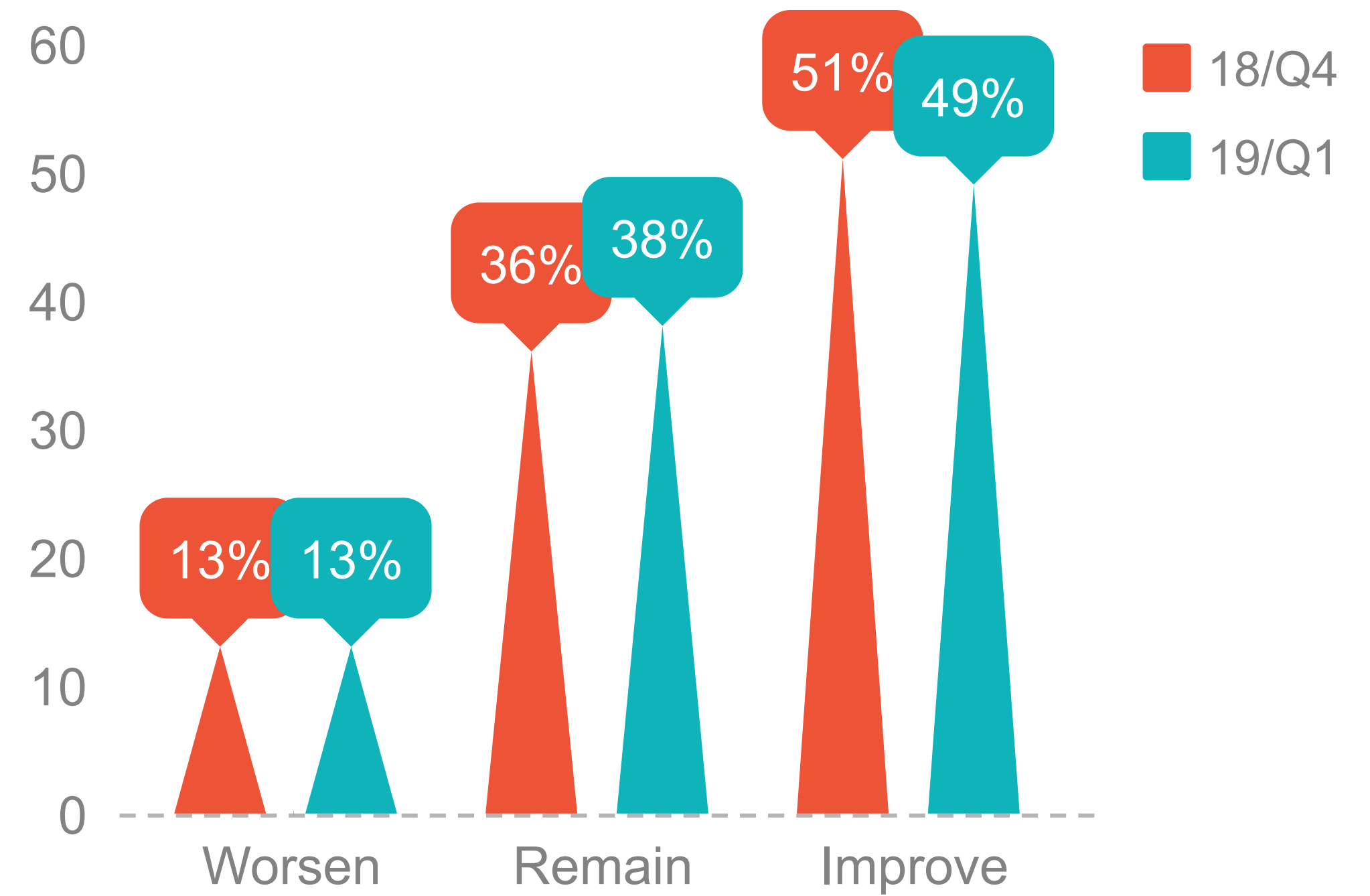
Business expectations for the three-month period decreased for large size and improved for SME firms.

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



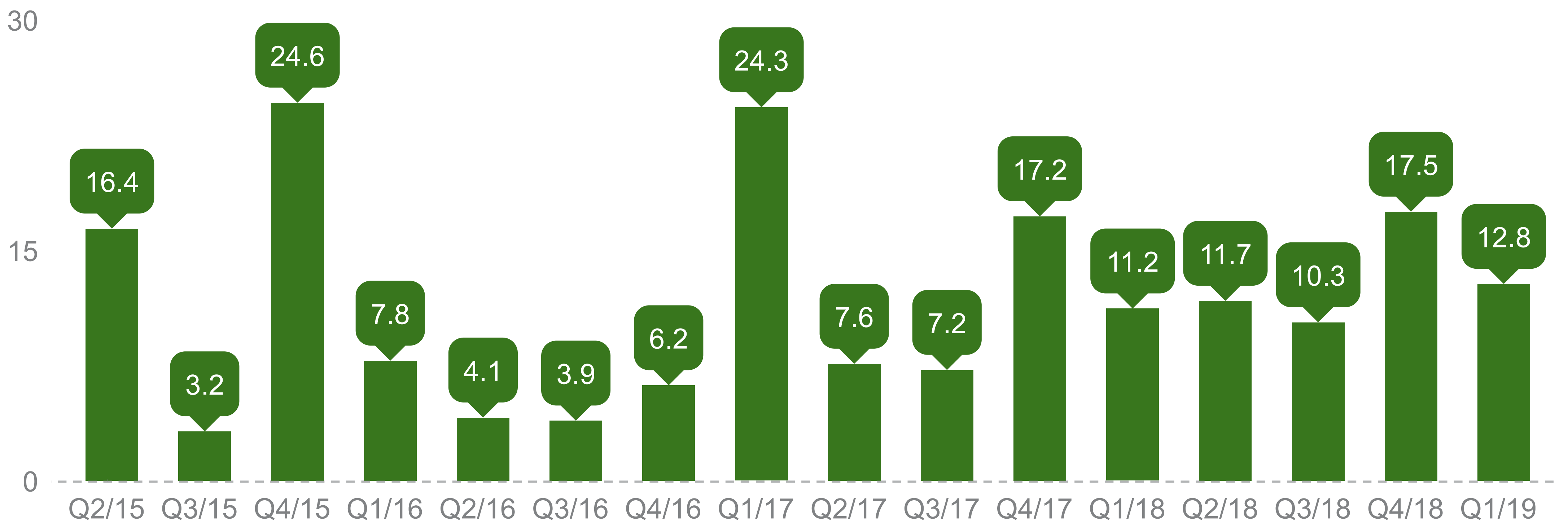
The majority (58%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 29% of firms stated that they would employ more employees in the future.

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



49% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 38% did not expect any changes in the future, while a lower share of businesses expect their business conditions to worsen.

## Sales Price Expectations



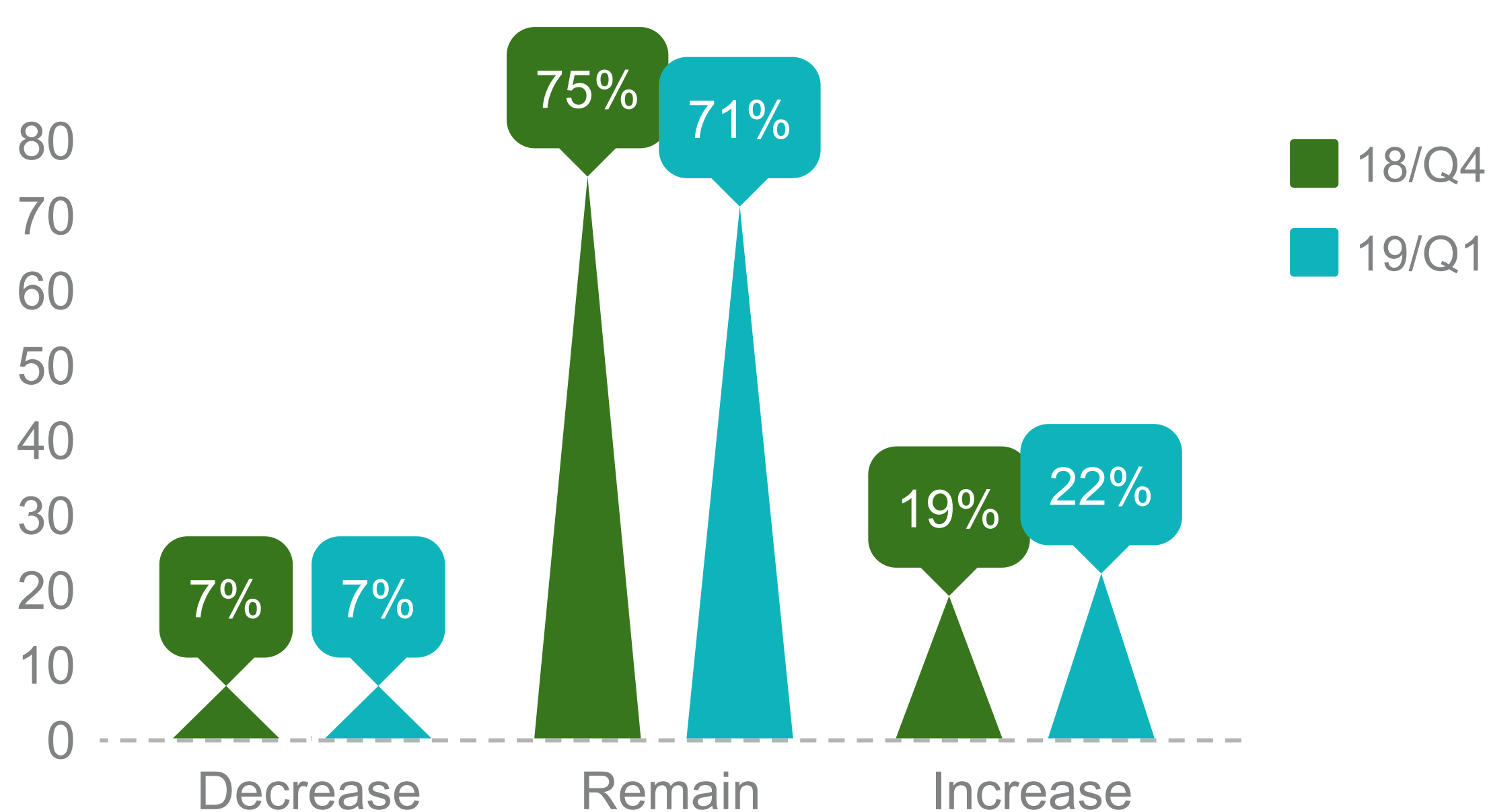
The Sales Price Expectations Index decreased from 17.5 points (Q4 2018) to 12.8 points (Q1 2019). The reduction in the index is mostly driven by a decrease in the retail trade and service sectors. The manufacturing, construction, and agriculture sectors expect a noticeable increase in prices over the next three months.

The overall Sales Price Expectations Index increased for SMEs while the index decreased for large companies.

### Sales price QoQ change by sector

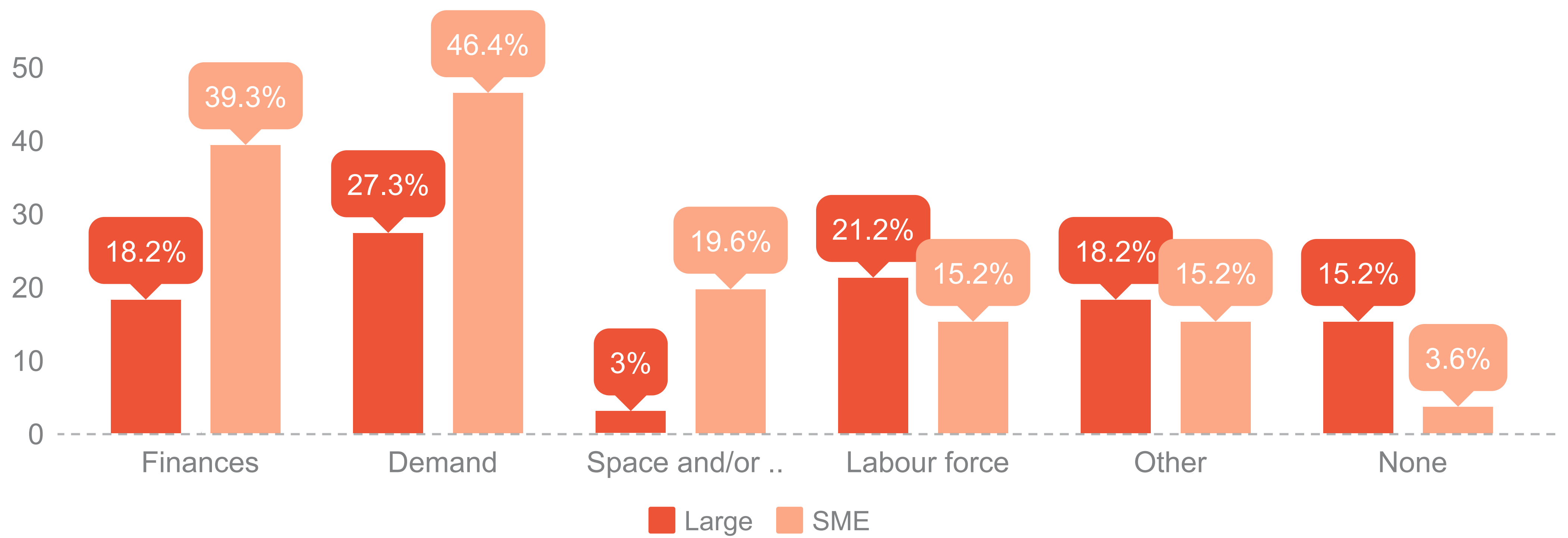
| Sectors              | Q1/19       | Change         |
|----------------------|-------------|----------------|
| <b>Manufacturing</b> | <b>23.1</b> | <b>▲ 66.4</b>  |
| <b>Construction</b>  | <b>48.8</b> | <b>▲ 26.7</b>  |
| <b>Retail Trade</b>  | <b>0.9</b>  | <b>▼ -0.5</b>  |
| <b>Service</b>       | <b>9.0</b>  | <b>▼ -32.7</b> |
| <b>Agriculture</b>   | <b>34.4</b> | <b>▲ 31.9</b>  |
| <b>Other</b>         | <b>0.0</b>  | <b>0.0</b>     |

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



The majority (71%) of all surveyed firms are not going to change the prices they charge over the next three months. Only 7% of firms expect to decrease prices, and 22% expect to increase prices in the future.

## WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 1, 2019



The low level of consumption activities and lack of access to financing continue to be two of the most significant obstacles for businesses. 27.3% of large-sized firms and 46.4% of SMEs noted that lack of demand was their main obstacle. Meanwhile, 18.2% of large firms and 39.3% of SMEs chose access to finance as the main limiting factor for further business development.



# 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 | 18/Q4      | 18/Q4          | 19/Q1      | 19/Q1          |
|---------------------------|------------|----------------|------------|----------------|
| Manufacturing             | 9          | 7%             | 13         | 8%             |
| Construction              | 16         | 12%            | 14         | 9%             |
| Retail Trade              | 30         | 23%            | 30         | 19%            |
| Service                   | 48         | 37%            | 68         | 43%            |
| Agriculture               | 16         | 12%            | 13         | 9%             |
| Financial                 | 8          | 6%             | 15         | 9%             |
| Other                     | 4          | 3%             | 5          | 3%             |
| Source: BCI Survey Data   | <b>131</b> | <b>% share</b> | <b>160</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 | 19/Q1     |            |
|-----------------------------------|-----------|------------|
|                                   | Large     | SME        |
| Manufacturing                     | 4         | 9          |
| Construction                      | 4         | 10         |
| Retail Trade                      | 9         | 21         |
| Service                           | 14        | 54         |
| Agriculture                       | 2         | 13         |
| Financial                         | 11        | 4          |
| Other                             | 0         | 5          |
| Source: BCI Survey Data           | <b>44</b> | <b>116</b> |

|   |            |
|---|------------|
| Maximum number of firms participating in the survey |            |
| <b>2016 Q2</b>                                      |            |
| <b>Large</b>  | <b>SME</b> |
| <b>104</b>  | <b>266</b> |

The number of firms participating in the BCI survey in Q1 2018 was 160. This is an increase of 22% 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, 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:

Irakli Barbakadze

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

Business Confidence Index

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