

BUSINESS CONFIDENCE INDEX

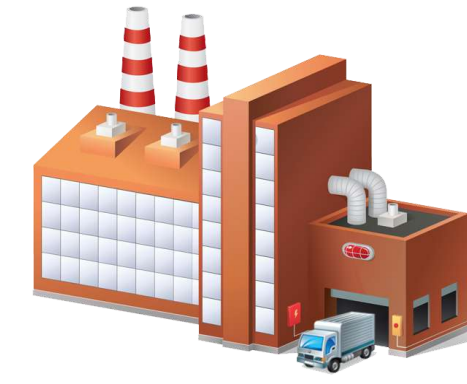
17.3
INCREASE

Momentous rebound of business optimism

Q3 2020

Participating Companies

Large



26

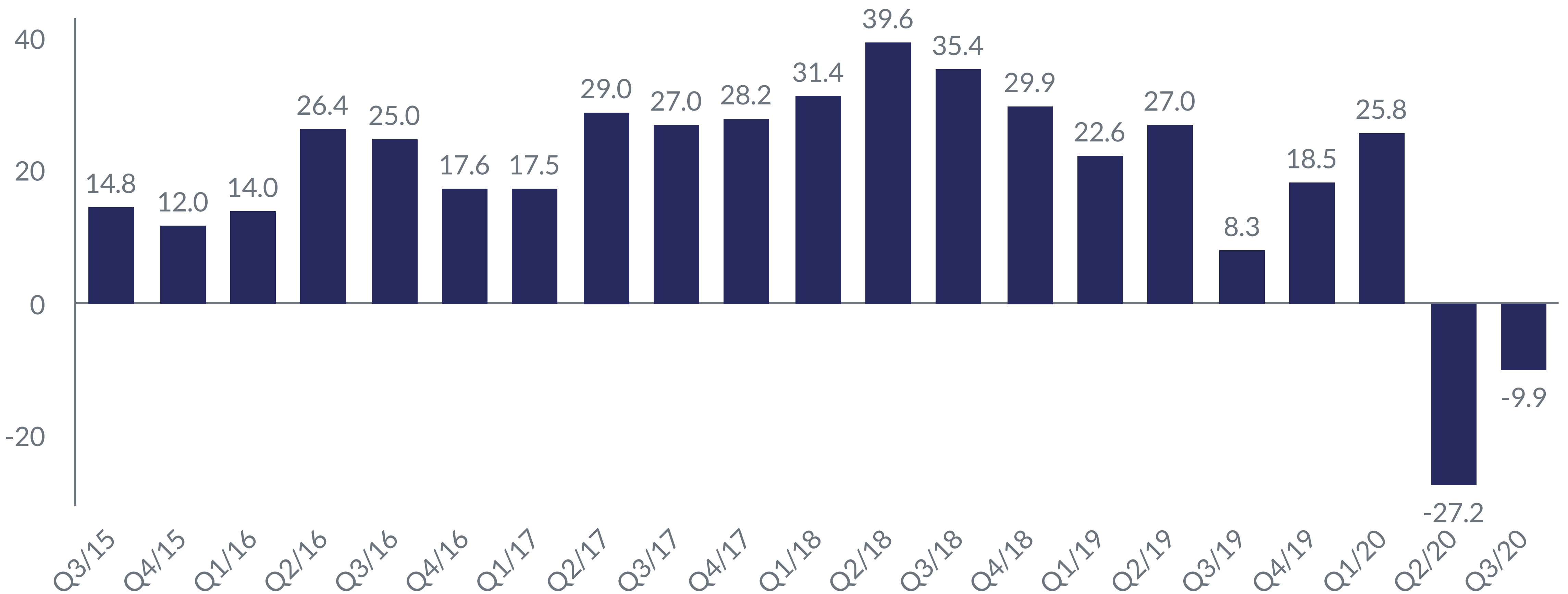
SMEs



135

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the third quarter of 2020, BCI increased by 17.3 index points and reached -9.9 after a significant deterioration in the previous quarter. Business confidence improved across all sectors, except manufacturing and service. The largest increase is observed in the construction sector. The positive change in BCI, for Q3 2020, is driven by significantly optimistic future expectations.
- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing further by 14.4 points compared to Q2 2020, and reached a new historic low of -40.6 in Q3 2020. The retail trade sector has the greatest decline in past performance.
- Expectations Index, which reflects business optimism, recovered from the drastic decline in Q2 2020 and showed a significant upturn, reaching 20.8 points. For Q3 2020 all sectors, except manufacturing have demonstrated increased expectations.
- The Sales Price Expectations Index declined further and reached its lowest value, -8.3 points, indicating a higher share of businesses that expect lower prices. Service is the only sector where a higher share of businesses predict increasing prices in the future.
- For Q3 2020 access to finances and lack of demand became more important limiting factors for both types of firms, especially for large companies, which 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).

ISET

International School of Economics at TSU
Policy Institute



After a significant deterioration in the previous quarter, BCI has increased by 17.3 points compared to Q2 2020 and reached -9.9. Expectations in the Georgian private sector has improved by 62.2 index points, up to 20.8. As for business performance over the past three months, it has decreased, reaching -40.6 points, indicating a significant downturn in production, turnover, and sales. Compared to the previous quarter, the Sales Price Expectation Index has decreased as well, showing growth in the market share of business owners who expect lower sales prices.

The BCI increased in most economic sectors, with the highest improvement in construction (39.6), followed by financial (24.2), service (18.5), and retail trade (18.4). Compared to Q2 2020 BCI decreased in manufacturing (-12.4) and agriculture (-8.3) sectors.

BCI QoQ change by sector

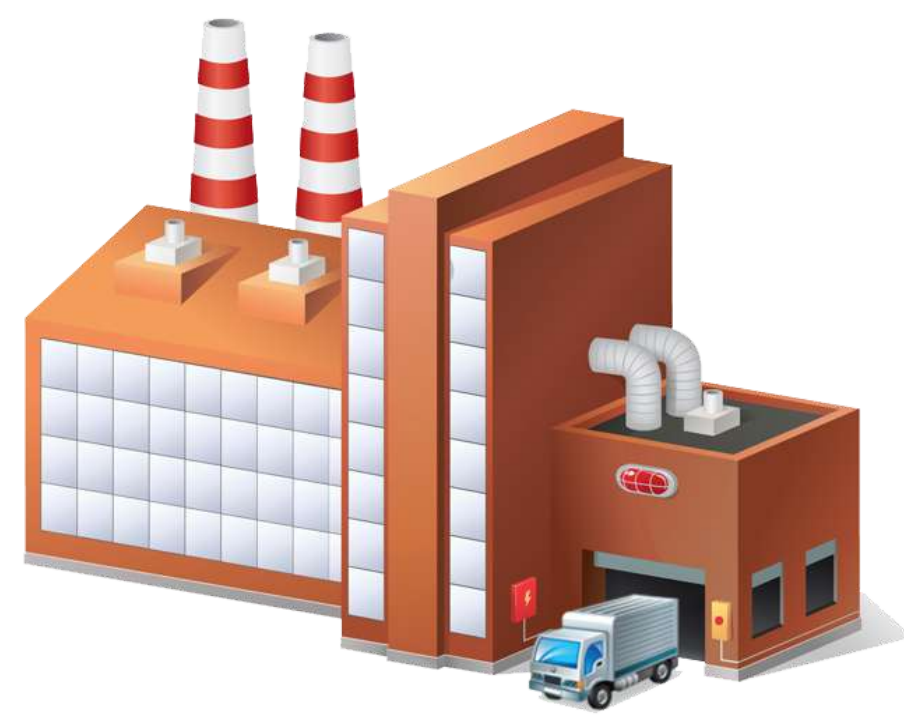
Sectors	Q3/20		Change
Manufacturing	2.1	▼	-12.4
Construction	24.6	▲	39.6
Retail Trade	-12.4	▲	18.4
Service	-23.6	▲	18.5
Agriculture	11.0	▼	-8.3
Financial	9.2	▲	24.2
Other	46.0		

SME



Q3/20 **Change**
-13.0 ▲ **21.8**

Large

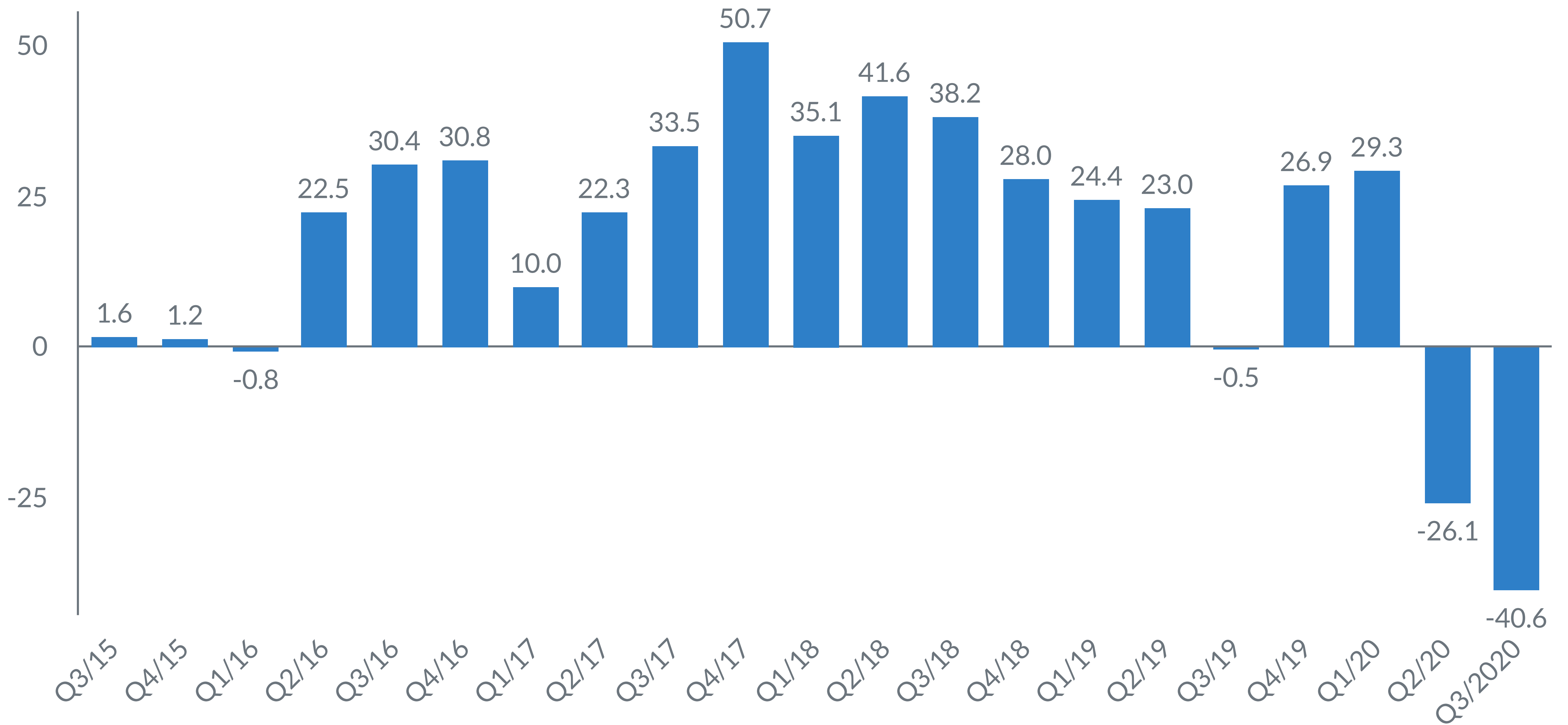


Q3/20 **Change**
-9.6 ▲ **15.0**

Business confidence in the third quarter of 2020 has increased both for SMEs (21.8), and large firms (15.0).

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, decreased further by 14.4 points compared to Q2 of 2020 and reached its new historic low of -40.6 for Q3 2020. A significant deterioration in performance was observed in the retail trade sector (-59.8), followed by the agriculture (-22.0), service (-17.5), and financial (-4.3) sectors. The smallest decrease in past performance is observed in the manufacturing (-1.7) sector. The decline in these sectors highlights that the weighted balance between positive and negative responses decreased compared to the previous quarter.

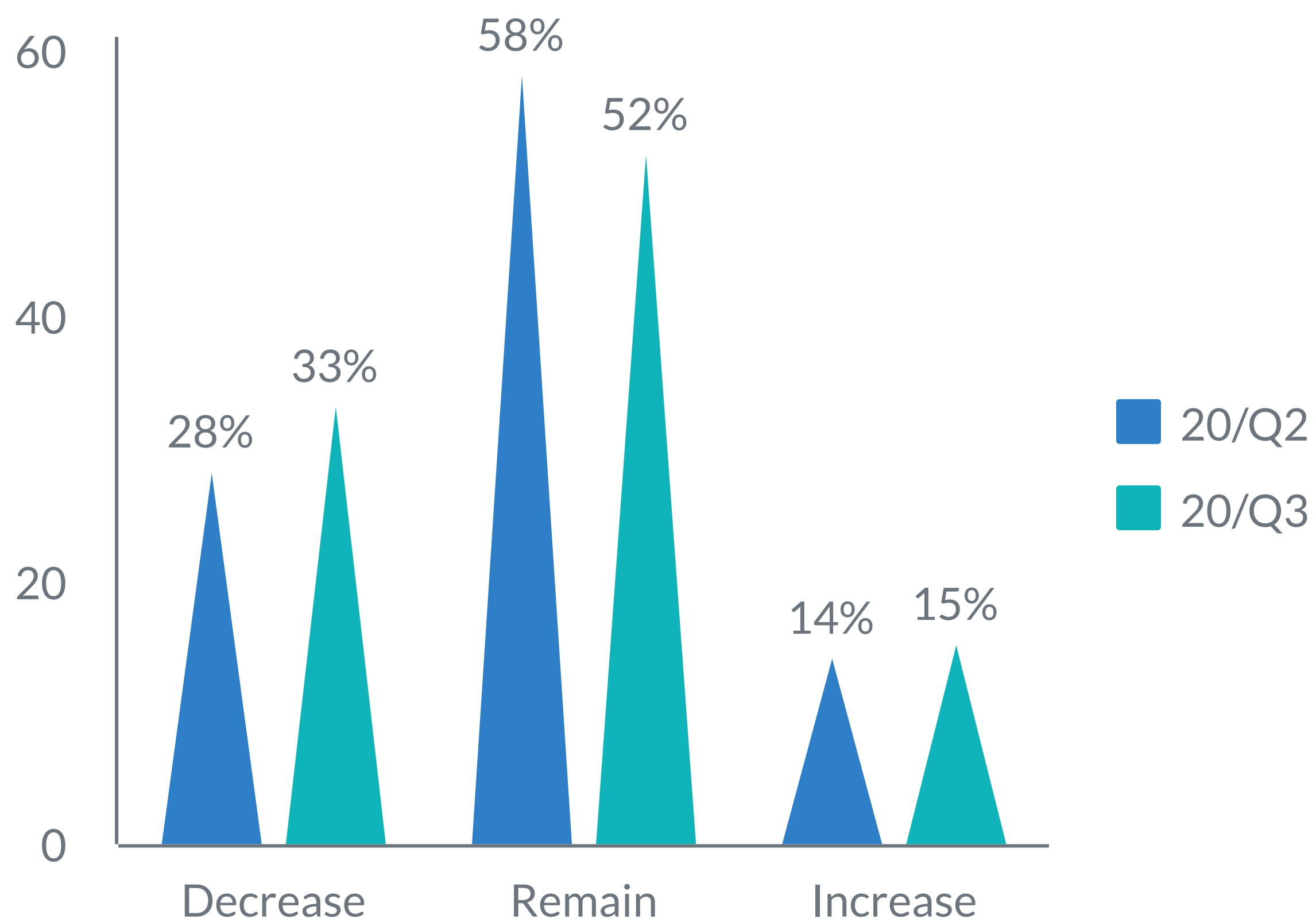
Past 3 Months QoQ change by sector

Sectors	Q3/20	Change
Manufacturing	-3.4	-1.7
Construction	39.7	
Retail Trade	-54.0	-59.8
Service	-64.8	-17.5
Agriculture	-8.3	-22.0
Financial	-57.6	-4.3
Other	66.1	



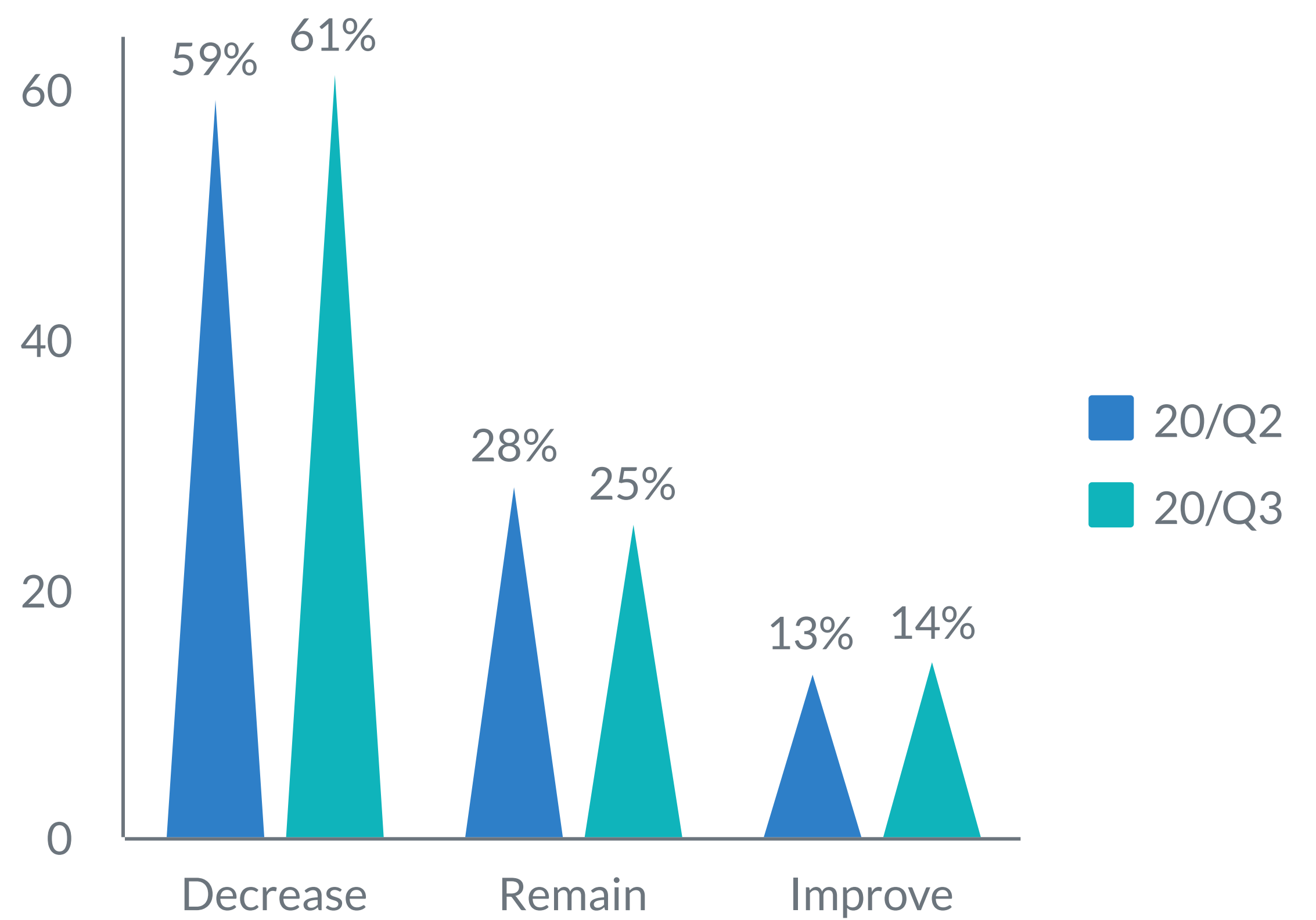
Business activities in the past 3 months have worsened for both SMEs and large businesses. For large firms, the index decreased by 17.5 points and reached -39.0 for Q3 2020; for SMEs, the same indicator declined by 7.8 and stopped at -50.0 index points.

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



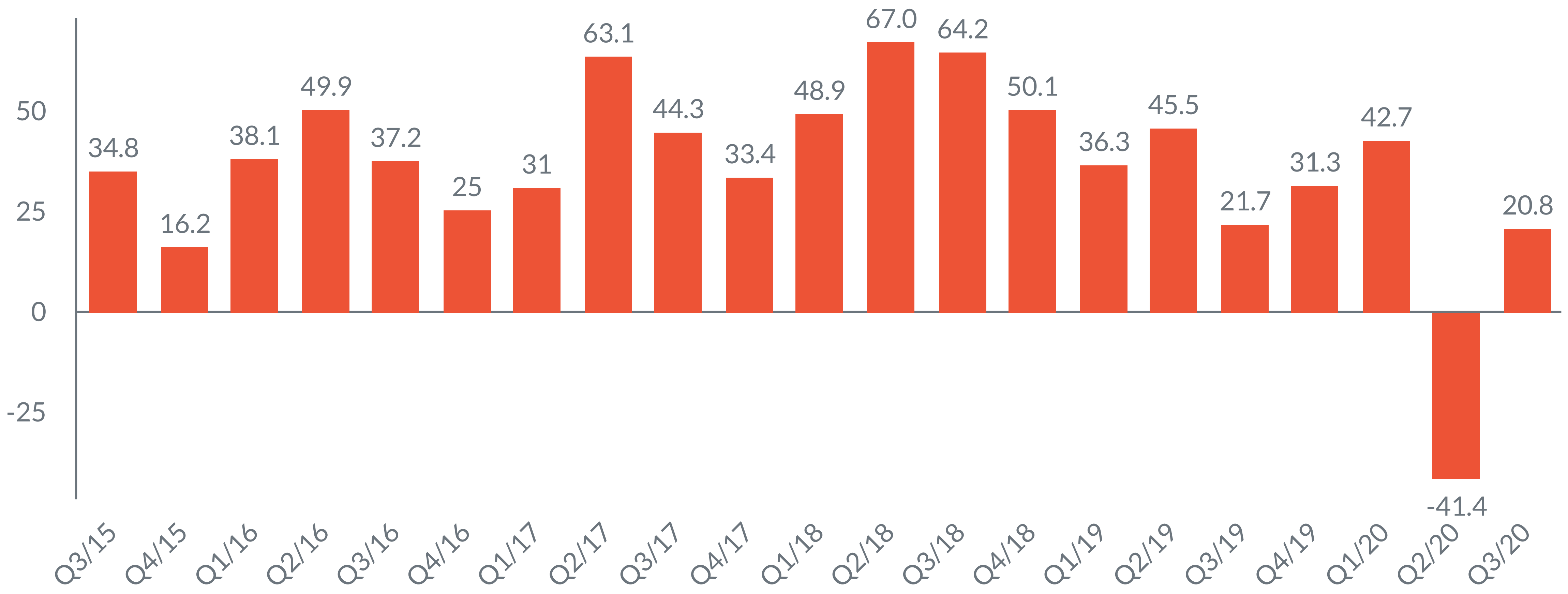
Compared to the previous quarter, a higher share of firms (33%) surveyed stated that employment had decreased over the past three months, 15% reported an increase, and 52% no changes in employment.

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



Moreover, majority (61%) of firms claimed that their business activity worsened over the past three months. 28% of firms stated that their business activities remained unchanged and only 13% reported an improvement.

Expectations Index



Expectations QoQ change by sector

The Expectations Index increased significantly by 62.2 index points for Q3 2020 and stopped at 20.8. Prospects for the next three months have improved for every sector, except manufacturing (-34.9 point decrease). The most significant increase is observed in the financial (79.5), followed by service (76.4), retail trade (61.7), and agriculture (9.0) sectors.

Sectors	Q3/20	Change
Manufacturing	46.6	-34.9
Construction	89.7	
Retail Trade	-16.4	61.7
Service	20.2	76.4
Agriculture	12.5	9.0
Financial	-10.5	79.5
Other	84.2	

SME



Q3/20

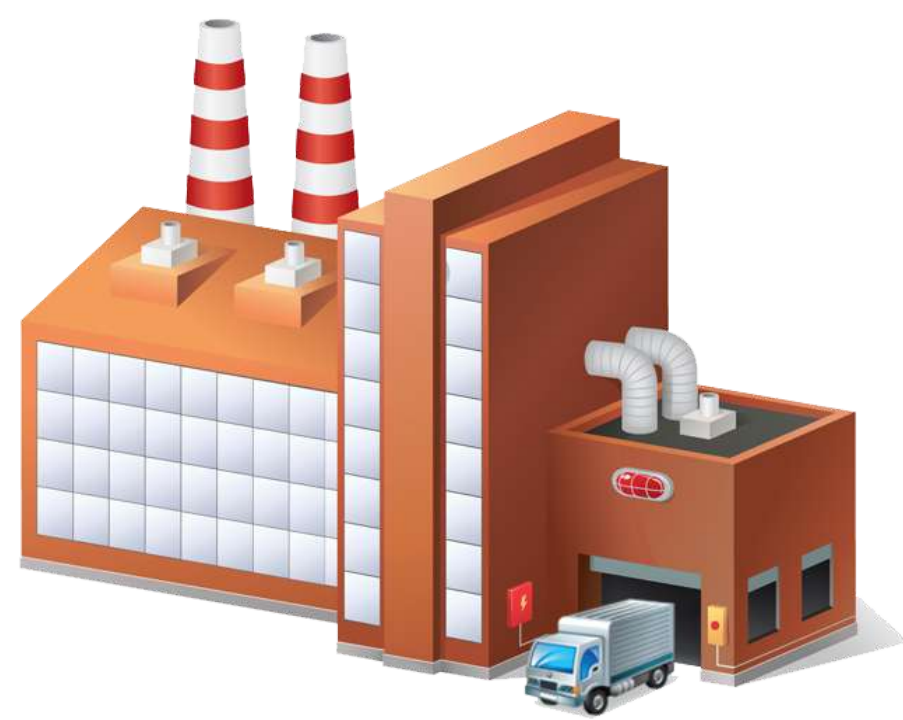
14.6



Change

67.1

Large



Q3/20

20.8

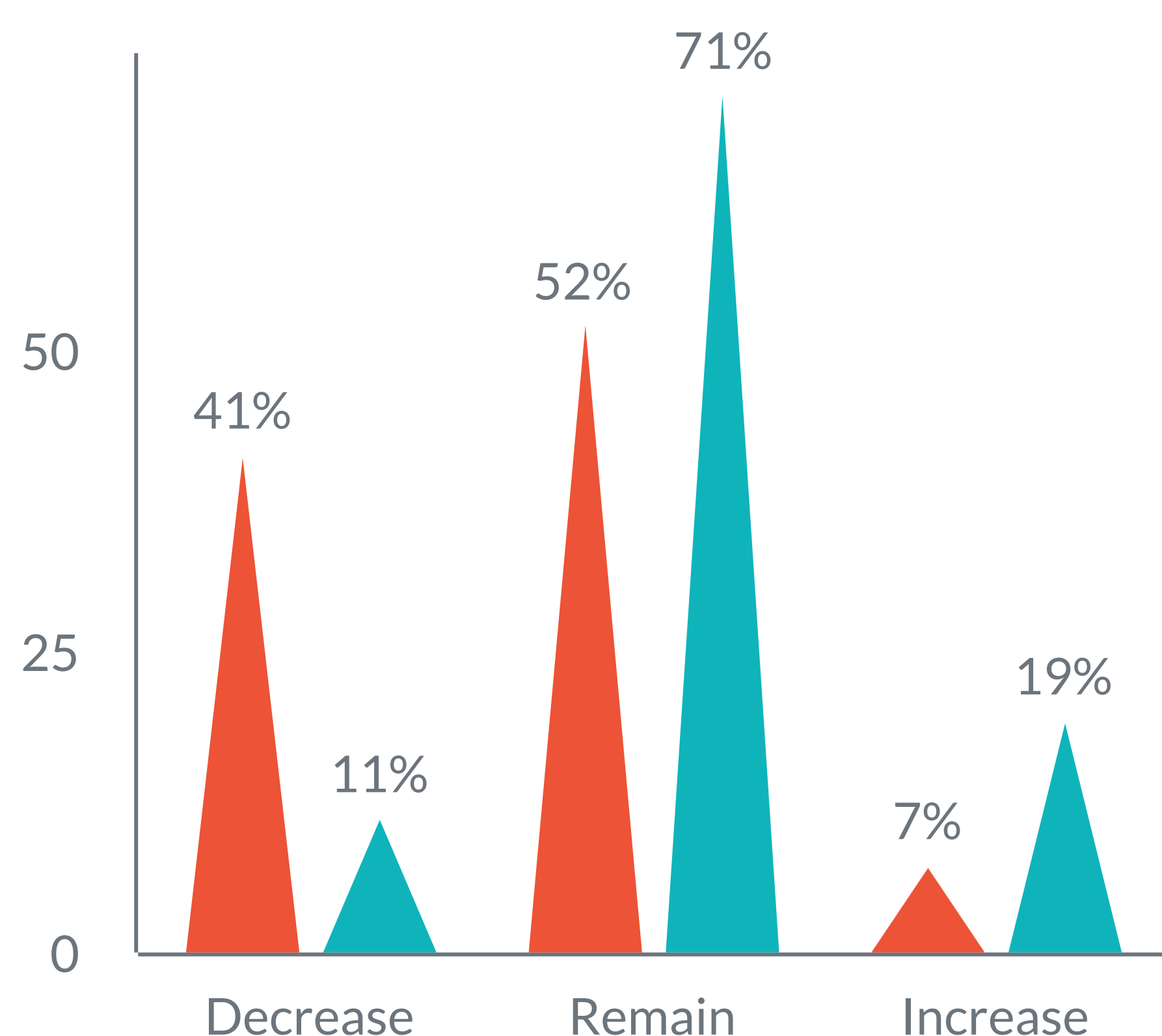


Change

61.5

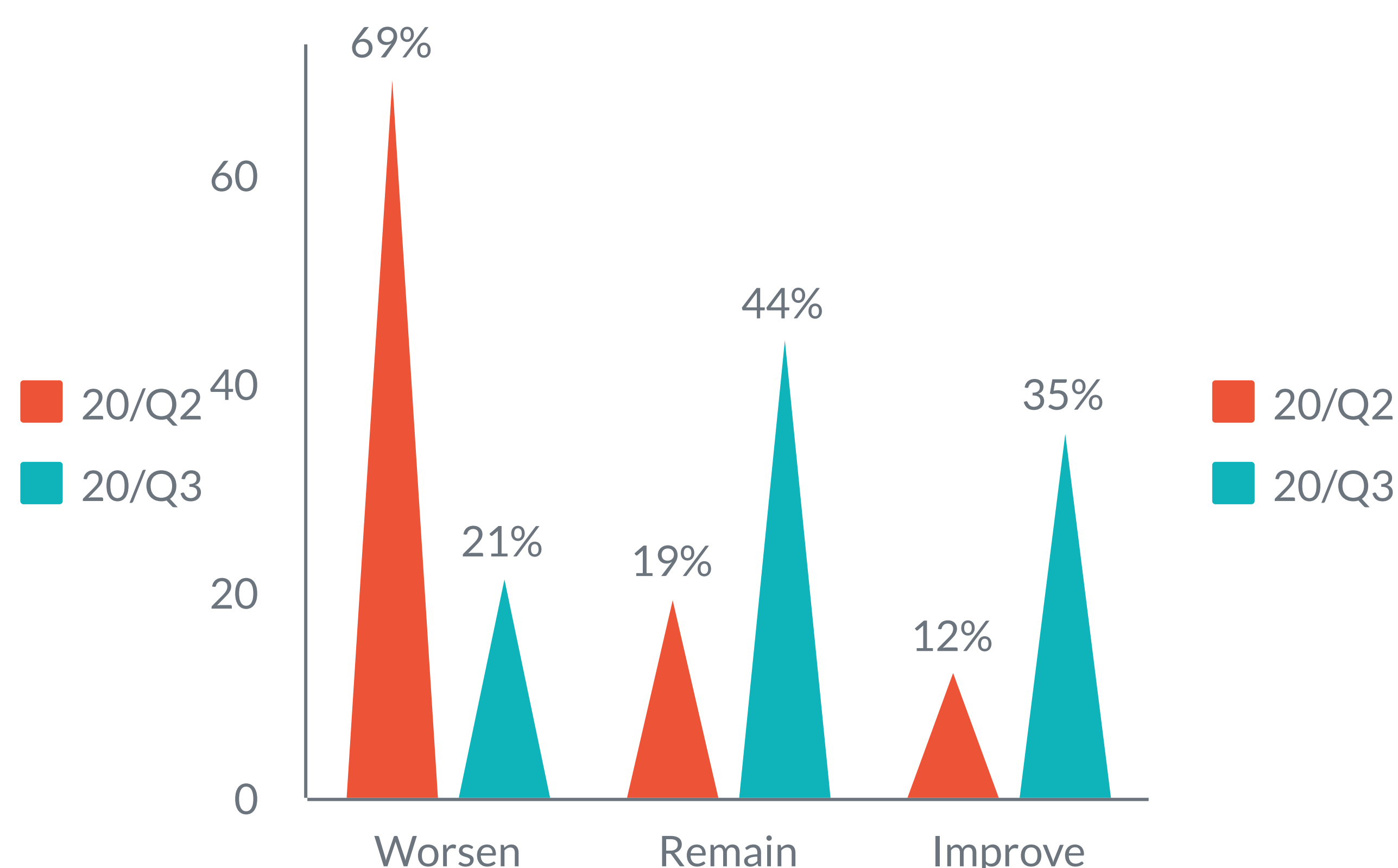
Business expectations have, on the whole, increased for both, large firms (61.5) and SMEs (67.1).

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



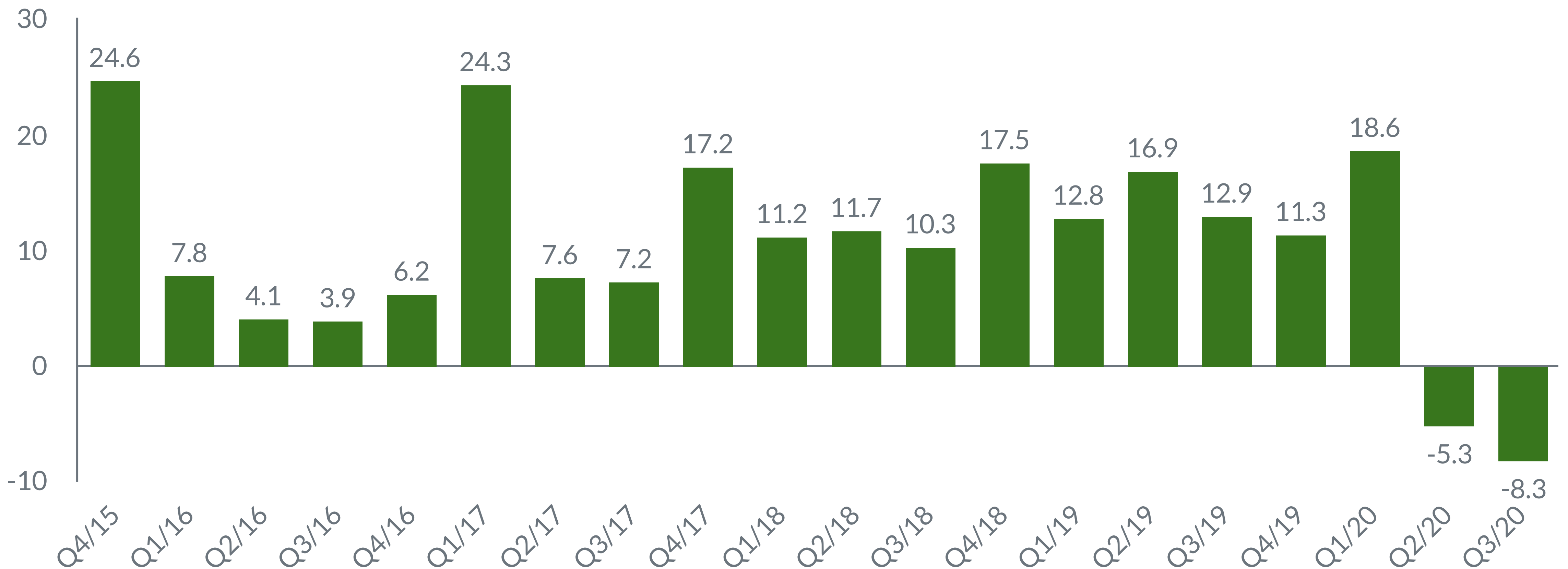
71% of the surveyed businesses do not expect any changes in employment over the next three months, however, 11% of firms stated that they would hire fewer employees in the future and 19% think that they would hire more.

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



35% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 44% do not predict any changes in the future, leaving 21% of businesses that believe their business conditions will worsen.

Sales Price Expectations Index

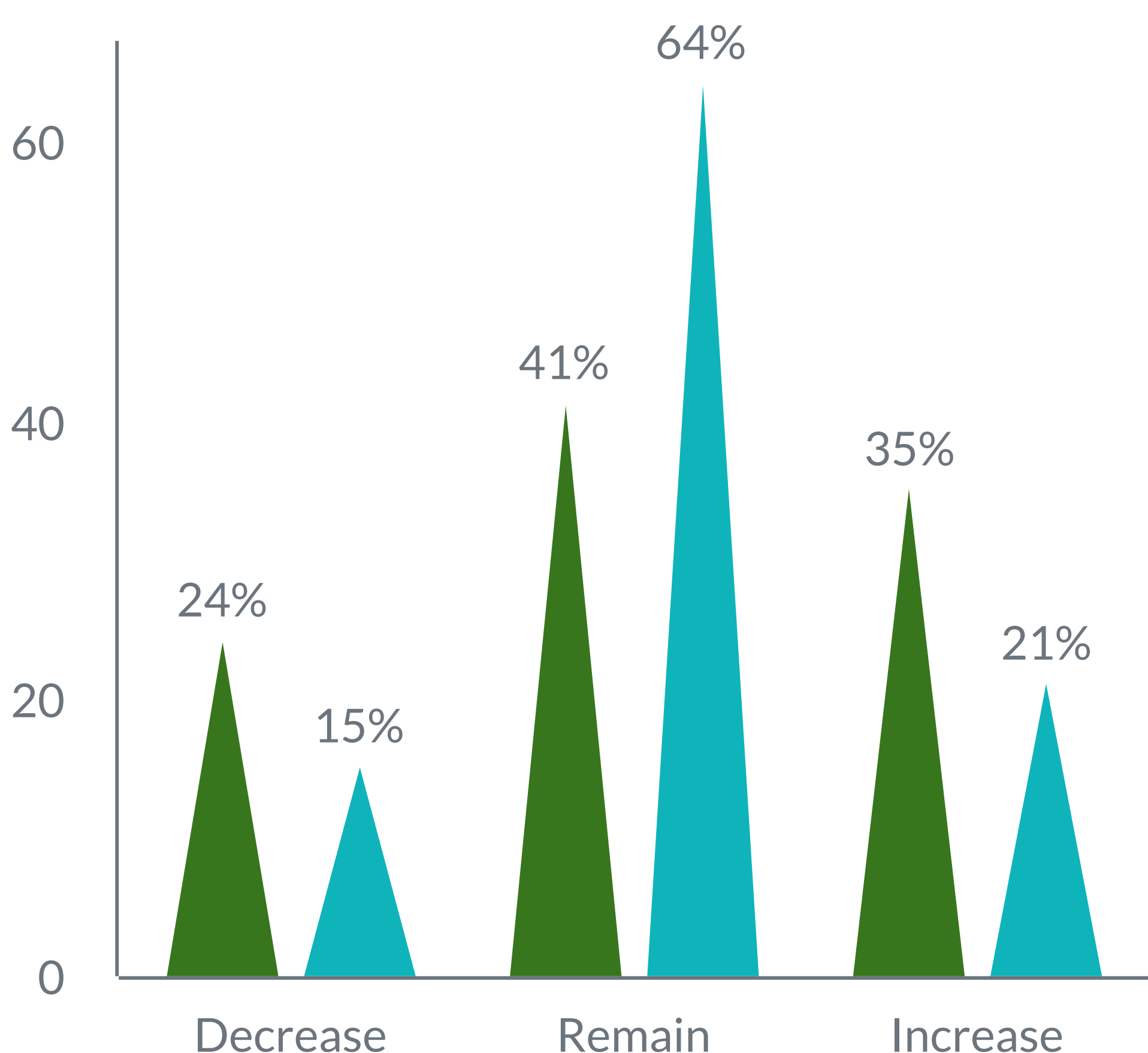


The Sales Price Expectations Index decreased further from -5.3 points (Q2 2020) to -8.3 points for Q3 2020. The index declined in every sector, except service (11.8 points increase). The overall Sales Price Expectations Index has decreased for both SMEs and large companies.

Sales price QoQ change by sector

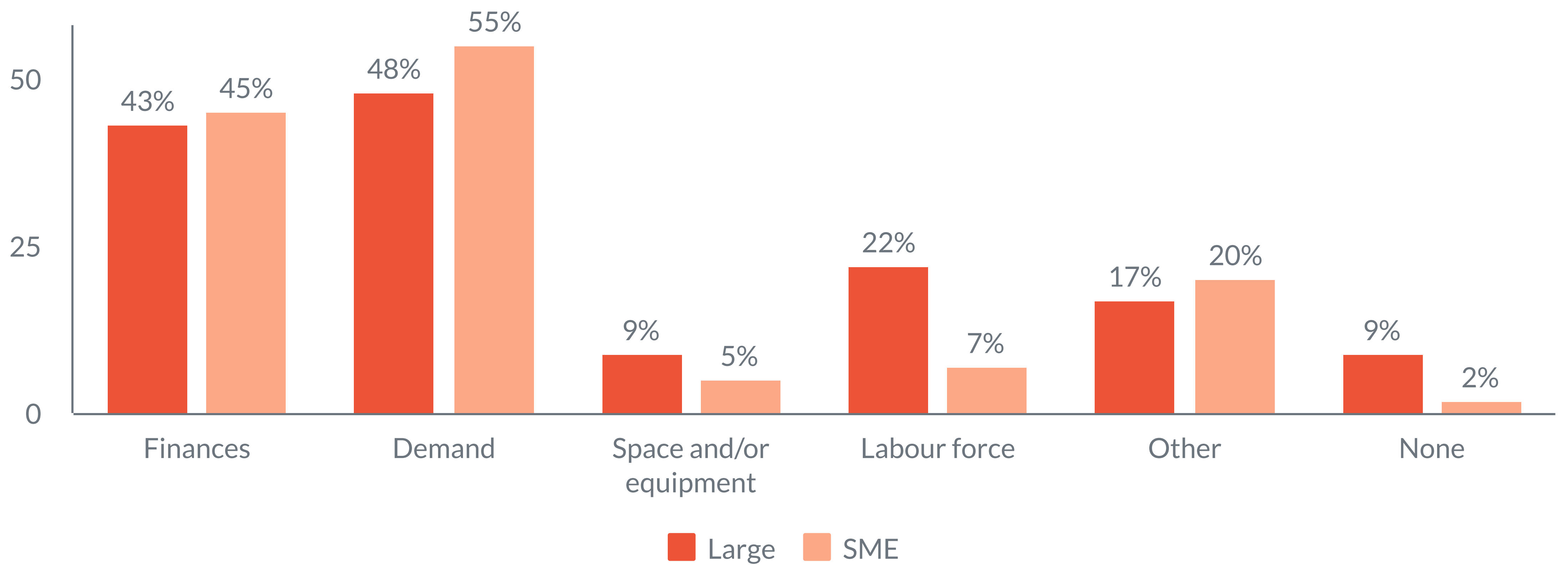
Sectors	Q3/20	Change
Manufacturing	-5.0	▼ -50.0
Construction	1.3	
Retail Trade	4.4	▼ -11.4
Service	-25.1	▲ 11.8
Agriculture	46.9	▼ -4.9
Other	6.8	

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



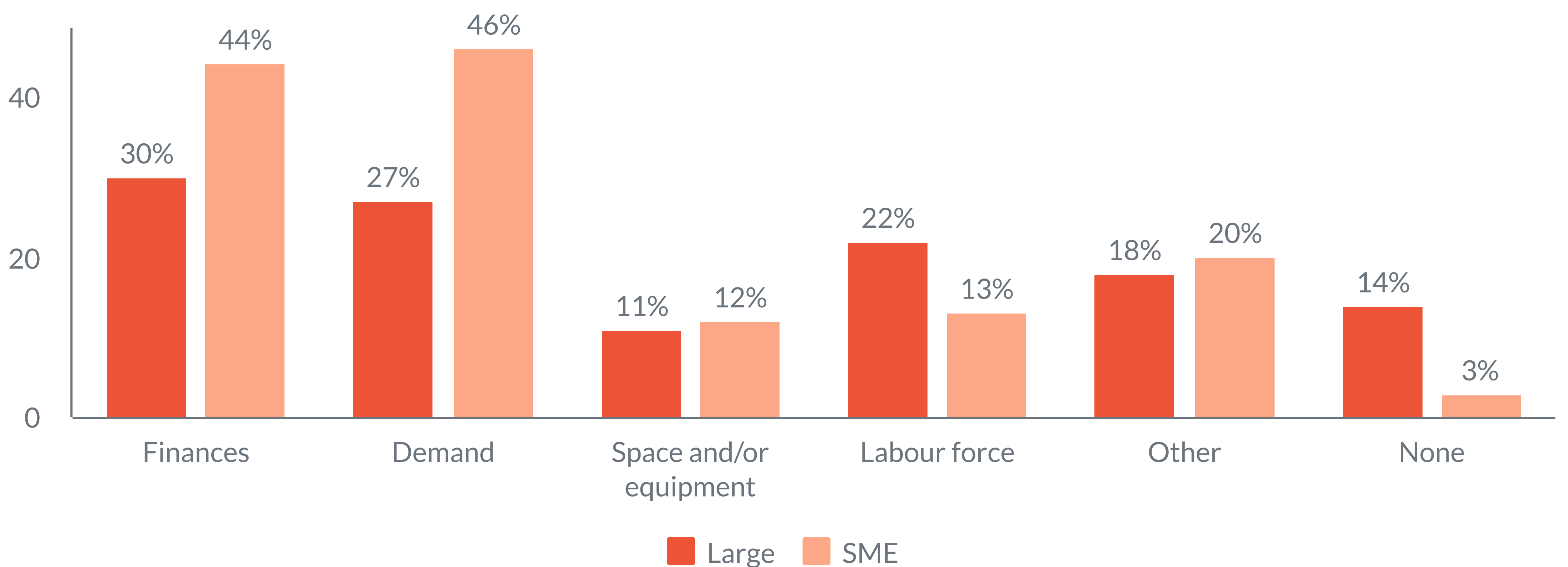
Around 64% of all firms surveyed do not intend to change their prices over the next three months. 21% of firms expect to increase their prices, and the remaining 15% will consider decreasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q3, 2020



A lack of demand and limited access to financing continues to be the most significant obstacles for both large companies and SMEs. For Q3 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, 30% of large companies mentioned access to finances as a limiting factor, while, 27% mentioned lack of demand), which could reflect the post-Covid-19 situation that business sector is currently facing.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q3 2019 - Q2 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**

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/Q2	20/Q2	20/Q3	20/Q3
Manufacturing	10	6%	12	7%
Construction	8	5%	20	12%
Retail Trade	40	25%	29	18%
Service	67	42%	63	39%
Agriculture	13	8%	17	11%
Financial	12	8%	10	6%
Other	8	5%	10	6%
Source: BCI Survey Data	158	% 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/Q3	
	Large	SME
Manufacturing	4	8
Construction	2	18
Retail Trade	7	22
Service	7	56
Agriculture	2	15
Financial	3	7
Other	1	9
Source: BCI Survey Data	26	135

Maximum number of firms participating in the survey

2016 Q2

Large	SME
104	266

The number of firms participating in the BCI survey in Q2 2020 was 161. This is an increase of 2% 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.

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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