

BUSINESS CONFIDENCE INDEX

1.7
DECREASE

Looking Forward

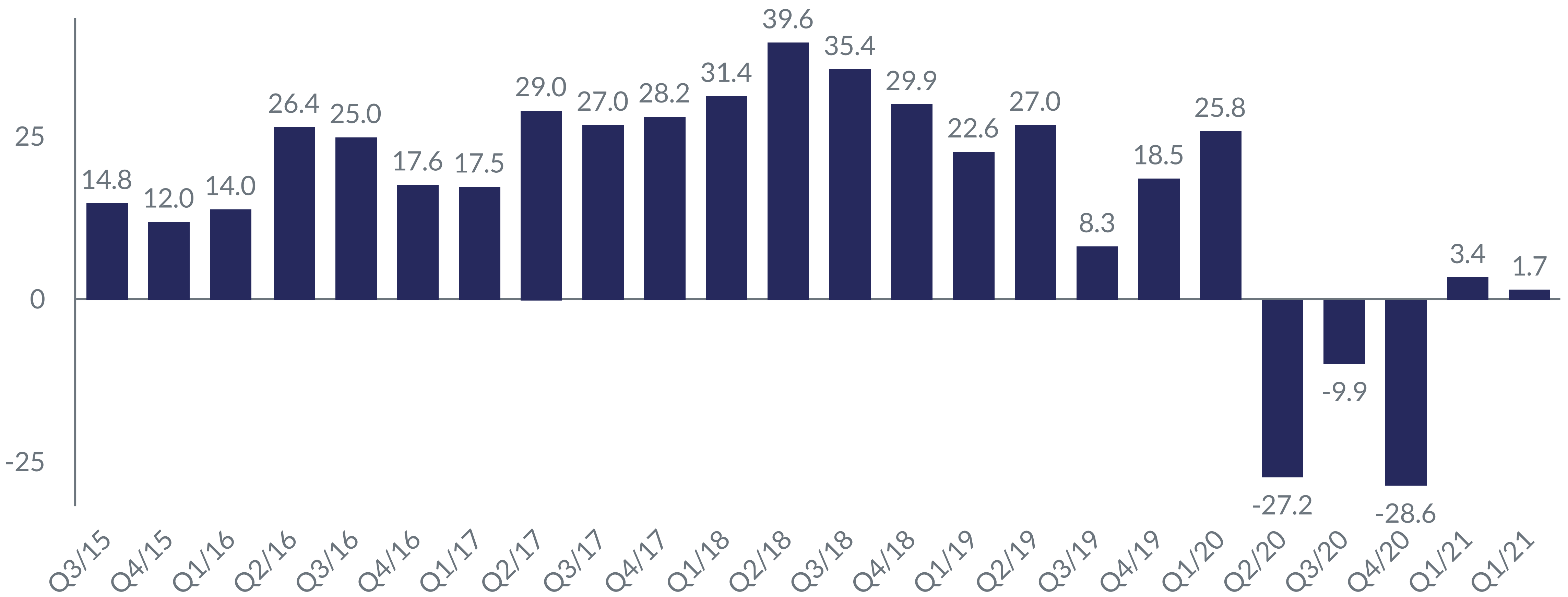
Q2 2021

Participating Companies

Large	SMEs
	
19	93

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the second quarter of 2021, BCI decreased slightly by 1.7 index points and reached 1.7 after a significant increase in the previous quarter. The highest decline in business confidence is observed in retail trade, followed by agriculture and construction sectors. The negative change in BCI for Q2 2021 is driven by pessimistic future expectations.
- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, increased by 25.0 points compared to Q1 2021 and reached -4.1 in Q2 2021. The finance sector has the greatest improvement in past performance.
- Expectations Index, which reflects business optimism, decreased after the drastic increase in Q1 2021, amounting to 9.0 points. Expectations for Q2 2021 declined for retail trade, construction, and service sectors.
- The Sales Price Expectations Index decreased by 12.4 and reached 17.2 points, indicating a decreased share of businesses that anticipate increasing prices on their products. Service and construction are the only sectors where a higher share of businesses predicts increasing prices in the future.
- Limited access to financing and a lack of demand continues to be one of the most significant obstacles for both large companies and SMEs. Access to financing turns out to be a more important problem for SMEs compared to large companies.

* 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).

Following a significant jump in the first quarter, BCI has decreased slightly by 1.7 points for Q2 2021 compared to Q1 2021 and reached 1.7. Expectations in the Georgian private sector have decreased by 13.5 index points, reaching 9.0. As for business performance over the past three months, it has increased, reaching -4.1 points, indicating an upturn in production, turnover, and sales. Compared to the previous quarter, the Sales Price Expectation Index has decreased, showing decline in the market share of business owners who expect higher sales prices.

Compared to Q1 2021, BCI decreased in retail trade (-52.6), agriculture (-26.9), and construction (-16.3) sectors, while it increased in manufacturing (18.1), service (12.1), and financial (3.6) sectors.

BCI QoQ change by sector

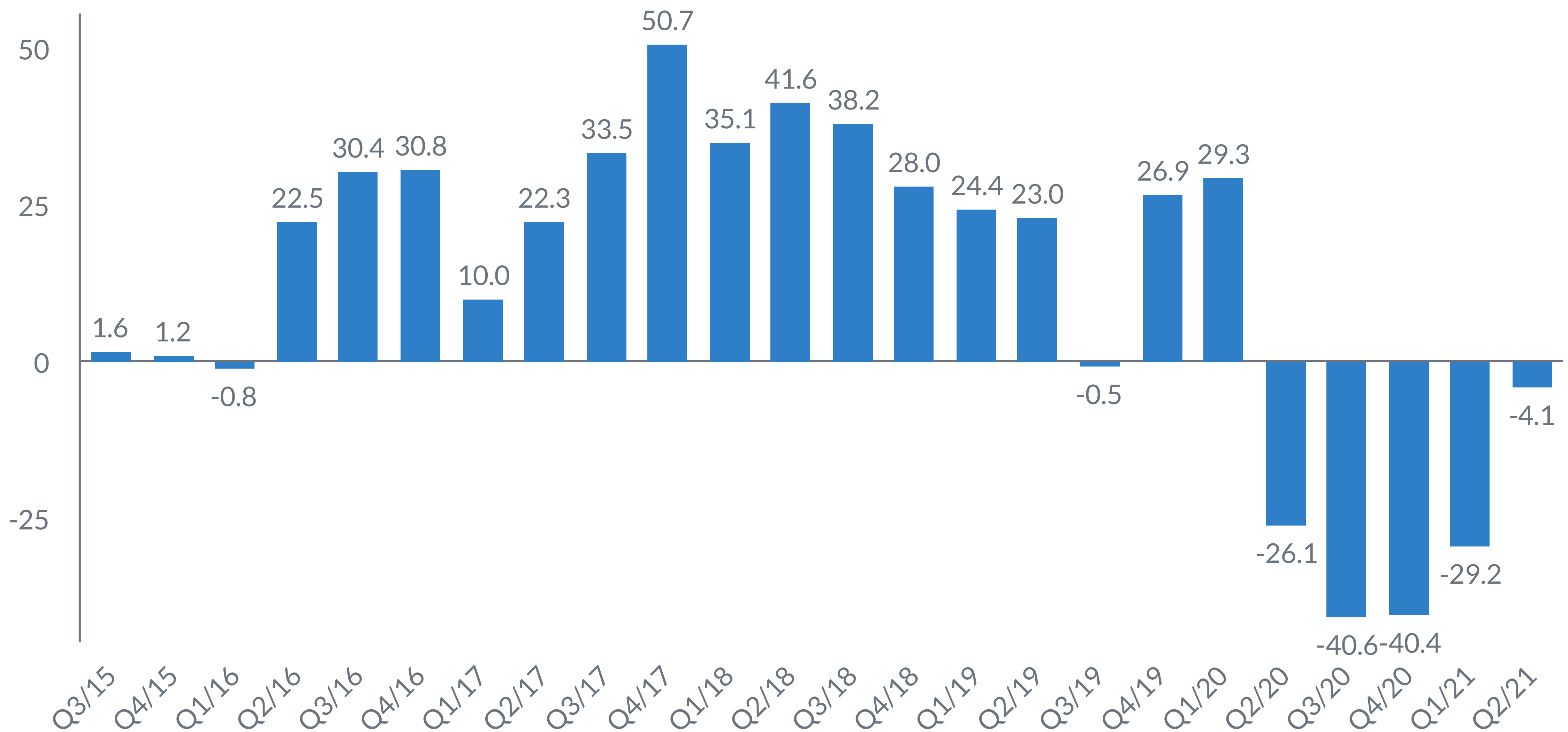
Sectors	Q2/21		Change
Manufacturing	1.1	▲	18.1
Construction	-2.8	▼	-16.3
Retail Trade	-51.5	▼	-52.6
Service	18.9	▲	12.1
Agriculture	-13.7	▼	-26.9
Financial	17.7	▲	3.6
Other	32.5	▲	79.0



Business confidence for the second quarter of 2021 has decreased for large companies (-3.8) and increased moderately for SMEs (0.6).

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, 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 Q1 of 2021 and reached -4.1 for Q2 2021. Significant improvement in performance was observed in the financial sector (79.2), followed by manufacturing (75.0) and service (34.7) sectors. A decrease in past performance was observed in agriculture (-52.0), retail trade (-38.9), and construction (-6.2) sectors.

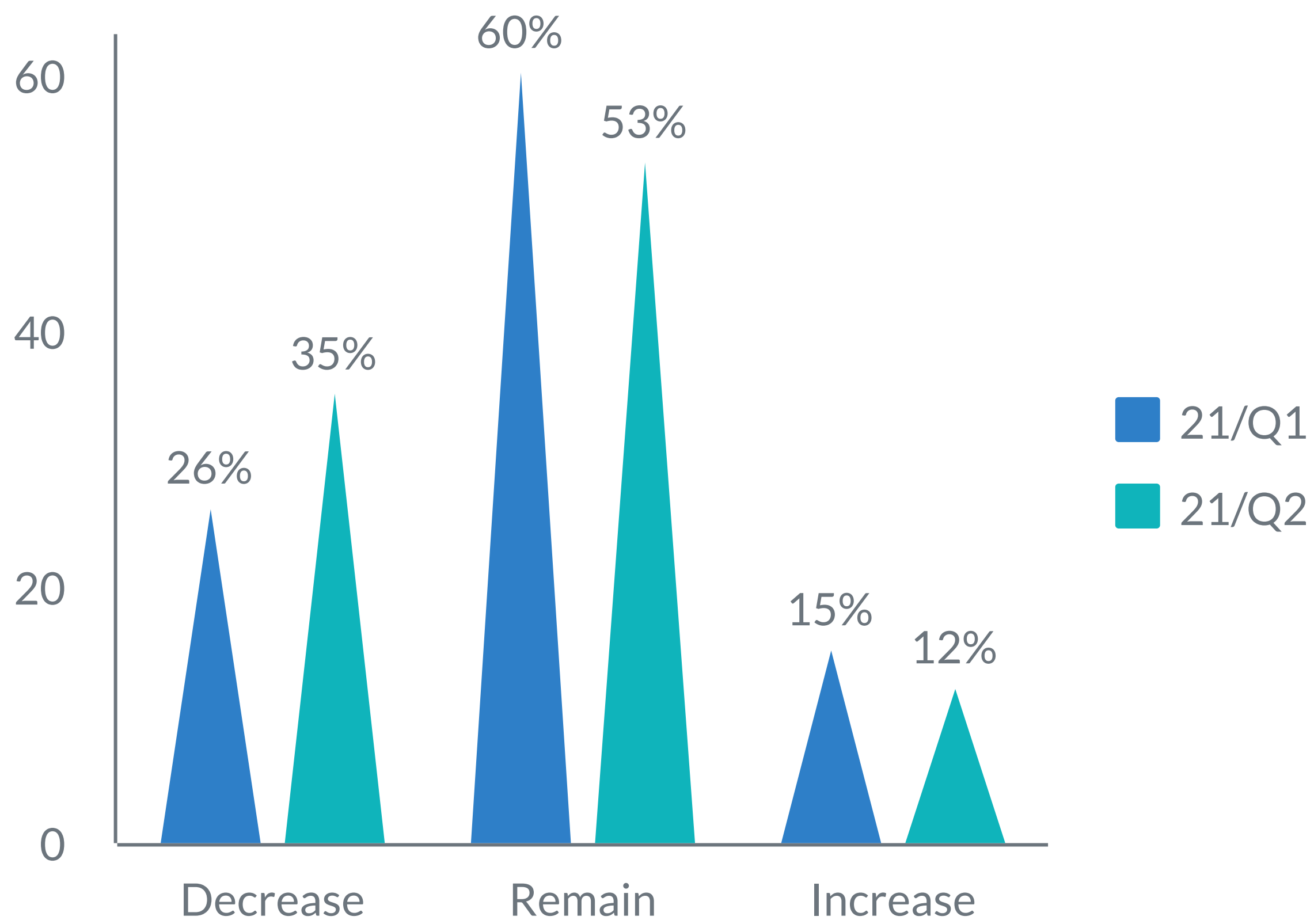
Past 3 Months QoQ change by sector

Sectors	Q2/21	Change
Manufacturing	25.0	75.0
Construction	-9.8	-6.2
Retail Trade	-84.8	-38.9
Service	13.0	34.7
Agriculture	-73.9	-52.0
Financial	55.8	79.2
Other	76.3	162.7



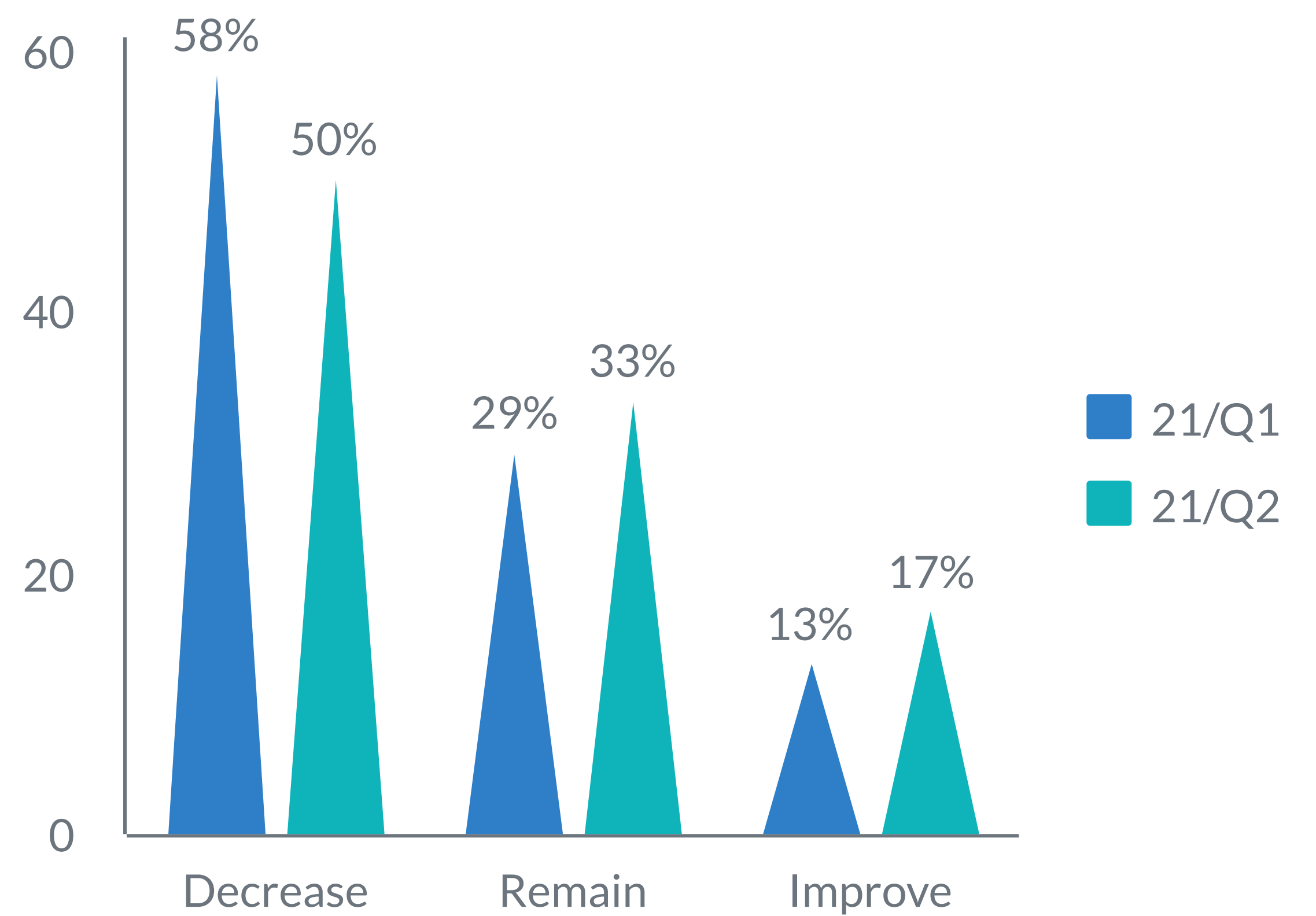
Business activities in the past 3 months have improved for large businesses and worsened for SMEs. For large firms, the index increased by 26.5 points and reached 0.5 for Q2 2021; for SMEs, the same indicator decreased by 0.1 and settled at -42.1 index points.

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



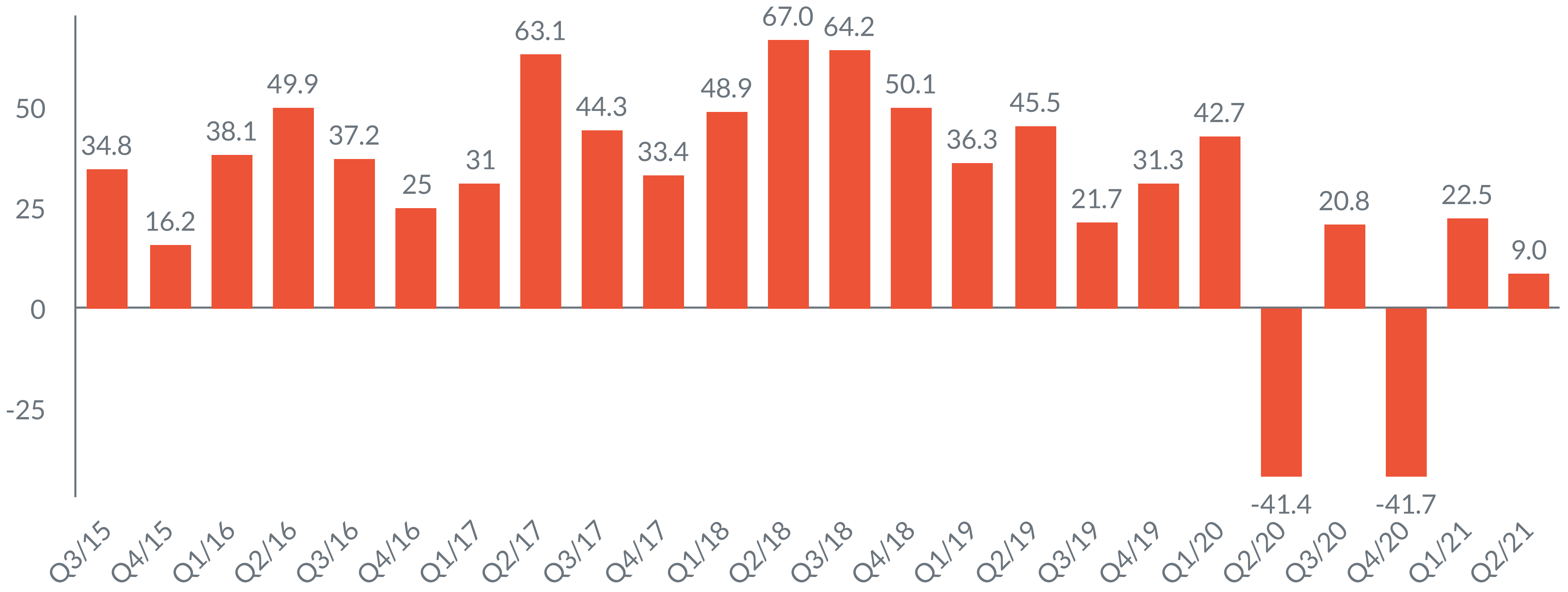
Compared to the previous quarter, a larger share of firms (35%) surveyed stated that employment had decreased over the past three months, 12% reported an increase, and 53% no changes in employment.

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



Moreover, half (50%) of firms claimed that their business activity worsened over the past three months. 33% of firms stated that their business activities remained unchanged and only 17% reported an improvement.

Expectations Index



Expectations QoQ change by sector

The Expectations Index decreased by 13.5 index points for Q2 2021 and settled at 9.0. Prospects for the next three months have improved for manufacturing (26.9), financial (6.7), and agriculture (6.3) sectors. The index has decreased for retail trade (-87.5), construction (-18.6), and service (-6.8) sectors.

Sectors	Q2/21	Change
Manufacturing	26.9	▲ 26.9
Construction	0	▼ -18.6
Retail Trade	-76.5	▼ -87.5
Service	37.9	▼ -6.8
Agriculture	15.6	▲ 6.3
Financial	0	▲ 6.7
Other	3.4	▲ 76.3

SME



Q2/21

6.7



Change

5.6

Large



Q2/21

7.4

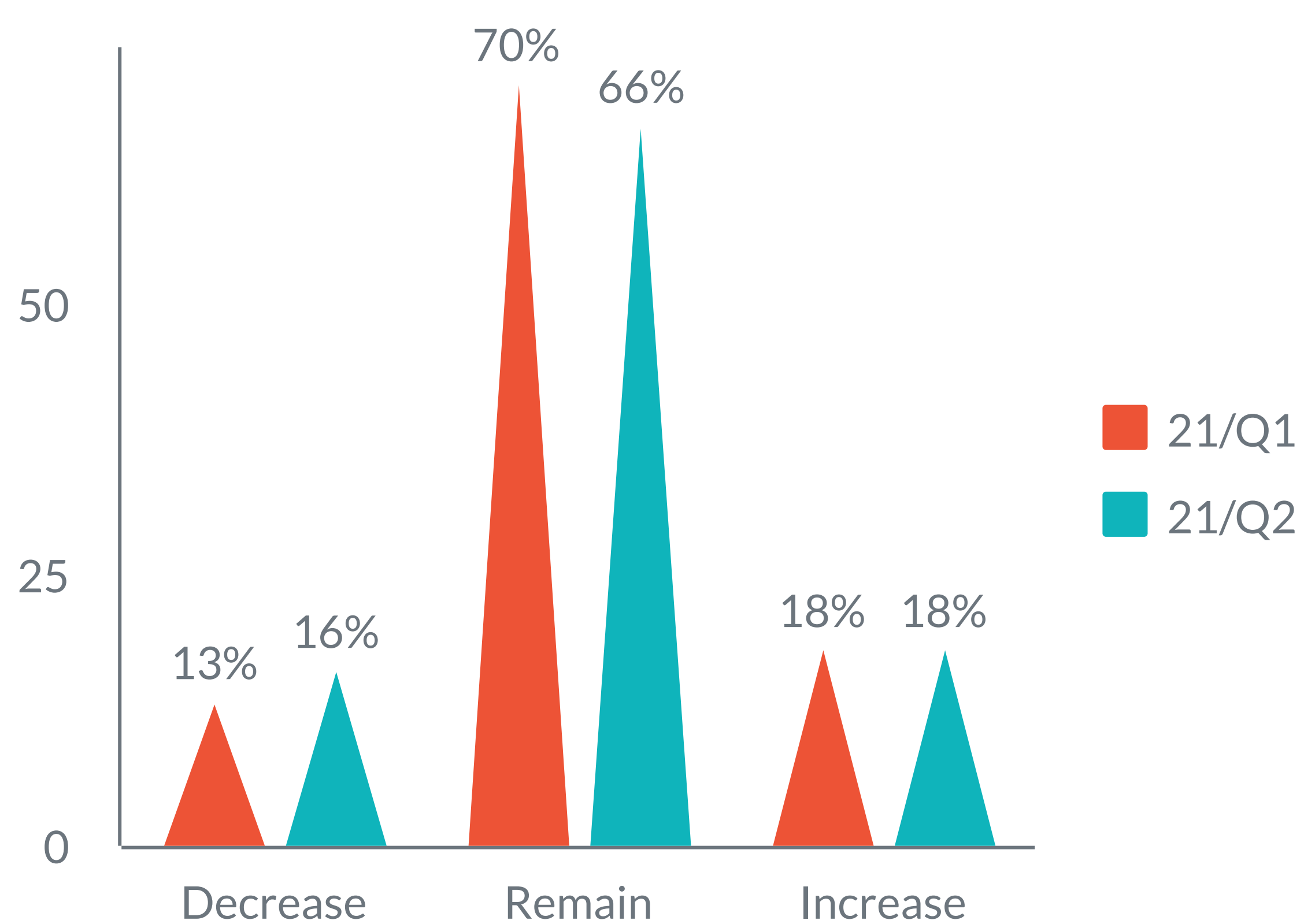


Change

-18.7

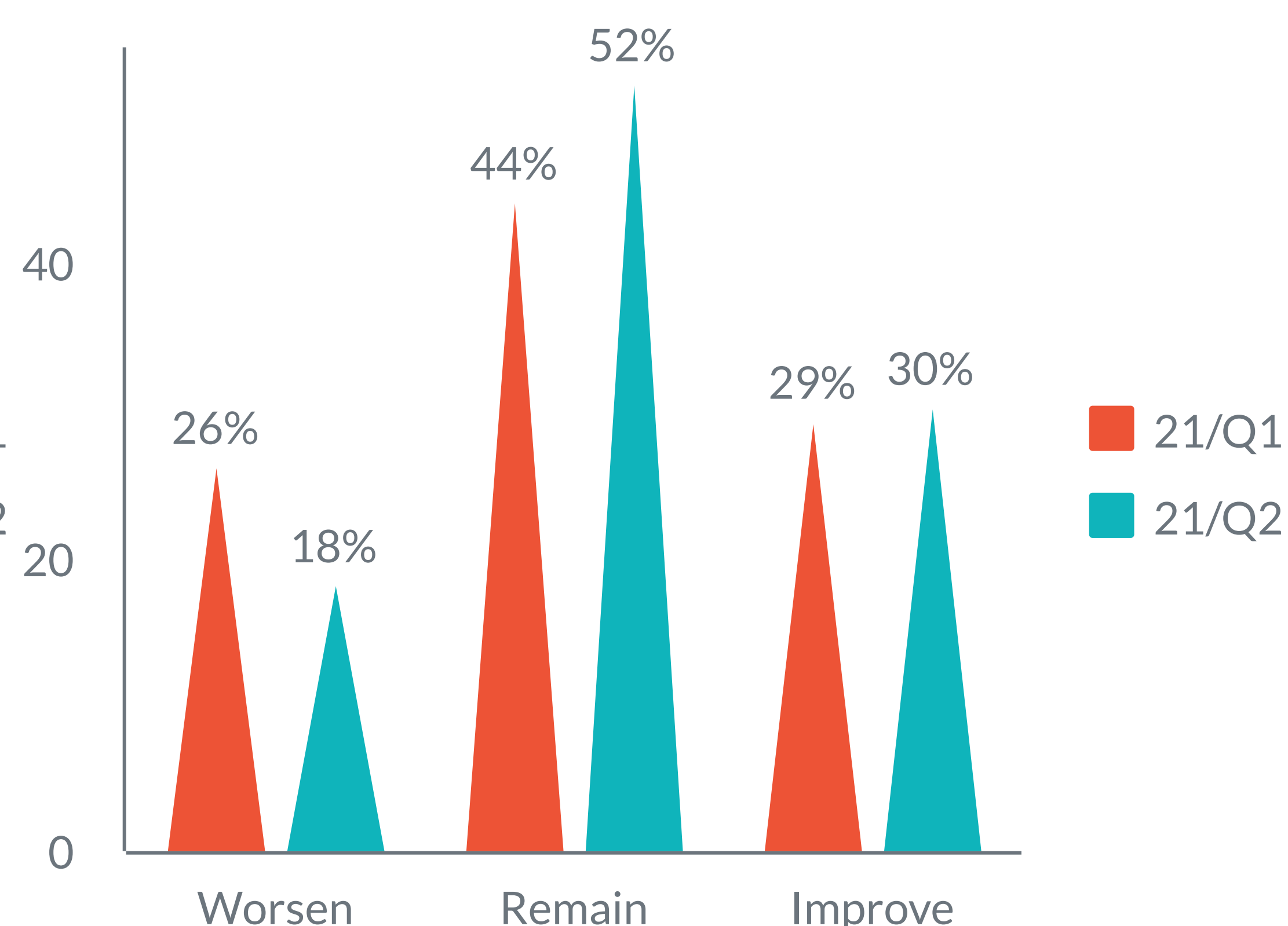
Business expectations have decreased for large firms (-18.7) and increased slightly for SMEs (5.6).

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



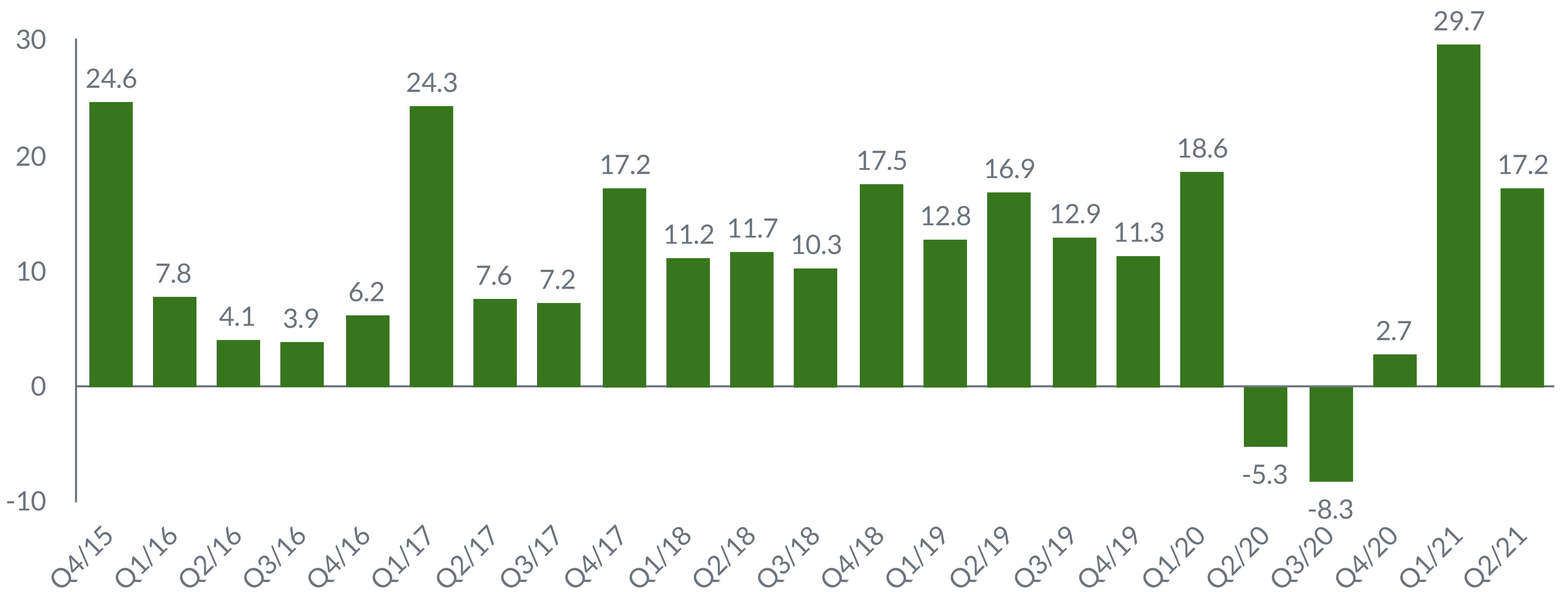
66% of the surveyed businesses do not expect any changes in employment over the next three months, 16% of firms stated that they would hire fewer employees in the future, and 18% think that they would hire more.

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



30% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 52% do not predict any changes, leaving 18% of businesses that believe their business conditions will worsen.

Sales Price Expectations Index

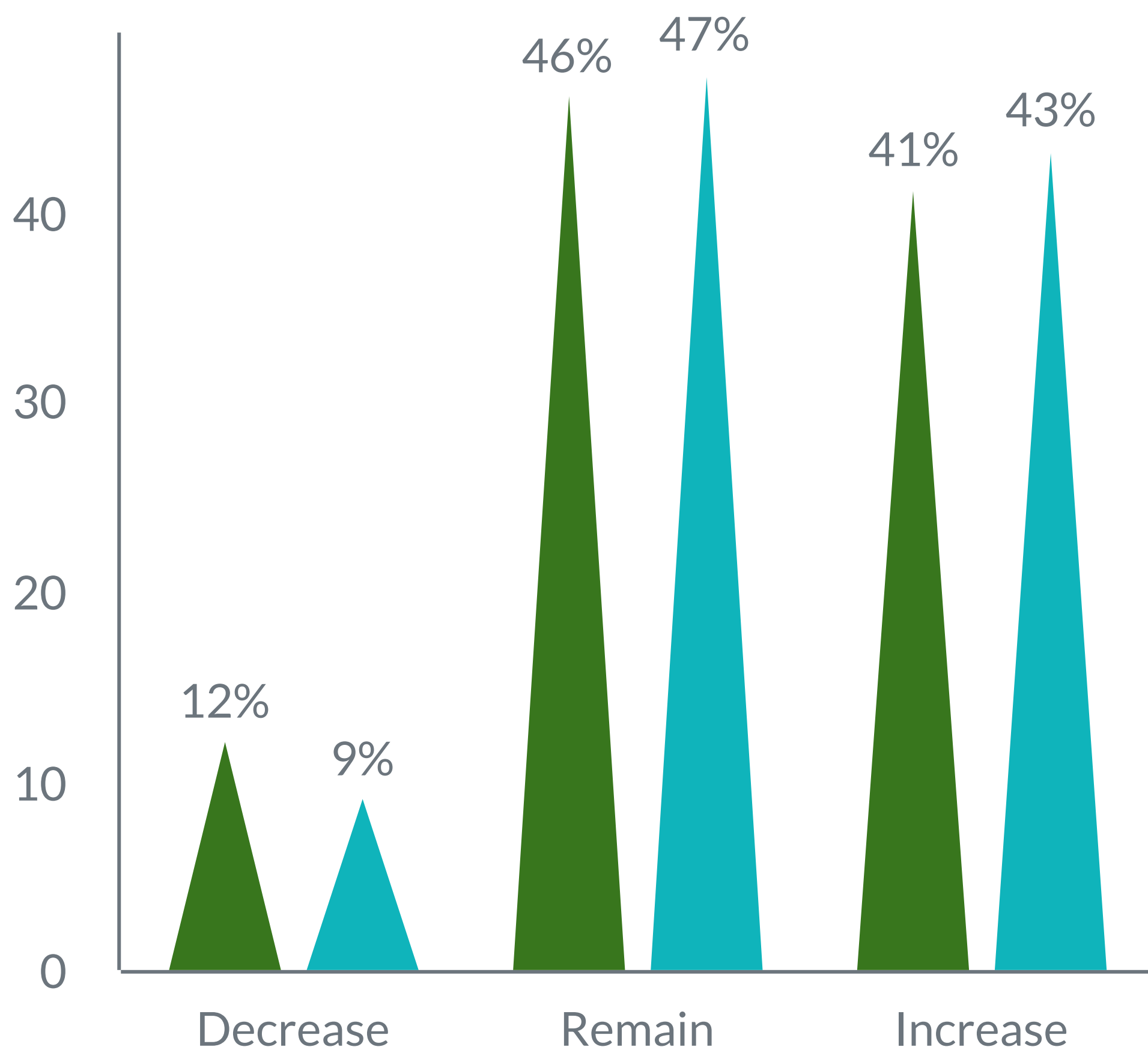


The Sales Price Expectations Index decreased from 29.7 points (Q1 2021) to 17.2 points for Q2 2021. The index decreased in every sector, except construction (9.7 points increase) and service (14.1) sectors. The overall Sales Price Expectations Index has increased for SMEs and decreased for large companies.

Sales price QoQ change by sector

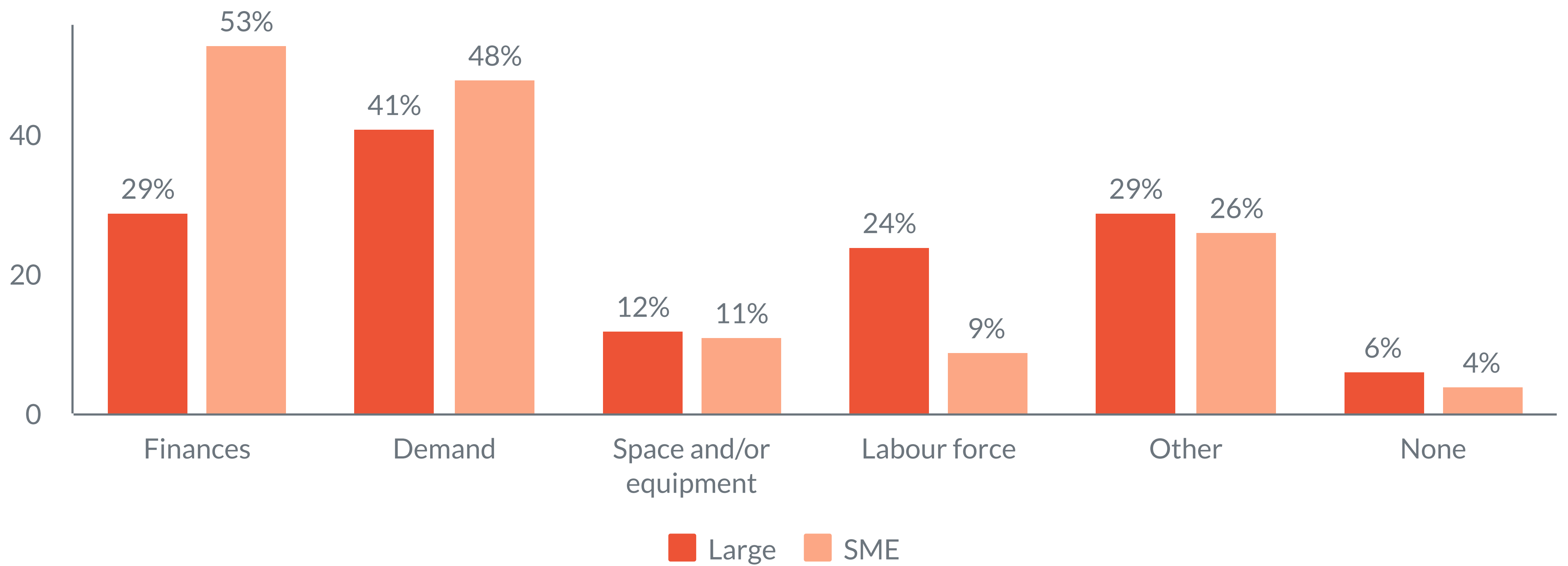
Sectors	Q2/21	Change
Manufacturing	-26.9	-125.0
Construction	49.6	9.7
Retail Trade	13.2	-38.3
Service	14.1	14.1
Agriculture	79.1	-5.2
Other	72.9	-15.2

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



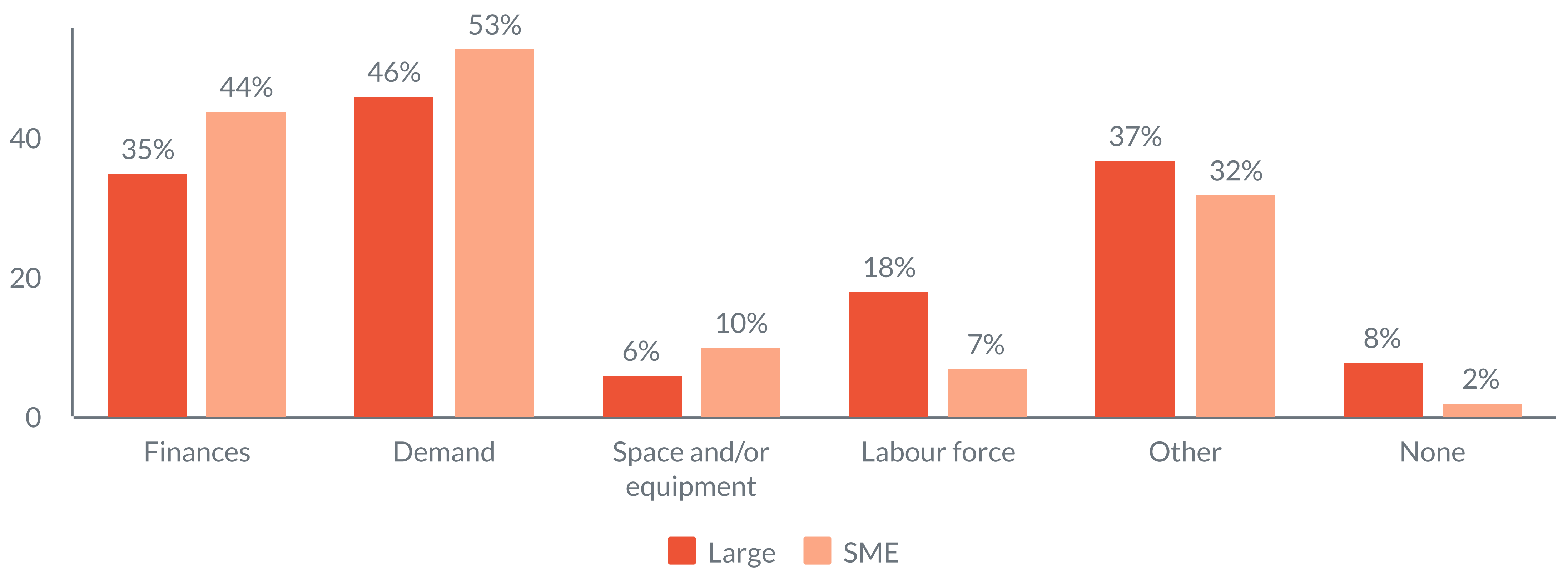
Around 47% of all firms surveyed do not intend to change their prices over the next three months. 43% of firms expect to increase their prices, and the remaining 9% will consider decreasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2, 2021



Limited access to financing and a lack of demand continues to be one of the most significant obstacles for both large companies and SMEs. Access to financing turns out to be a more important problem for SMEs compared to large companies. For Q2 2021 "other" factors became less important for both, large companies and SME's (the last four-quarter average was 37% and 32%, respectively), which could indicate to relative mitigation of Covid-19 restrictions for businesses.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2 2020 - Q1 2021, 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	21/Q1	21/Q1	21/Q2	21/Q2
Manufacturing	8	5%	10	9%
Construction	18	12%	15	13%
Retail Trade	43	28%	30	27%
Service	46	30%	37	33%
Agriculture	12	8%	7	6%
Financial	11	7%	6	6%
Other	13	9%	7	5%
Source: BCI Survey Data	151	% share	112	% 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/Q2	
	Large	SME
Manufacturing	3	7
Construction	2	13
Retail Trade	2	28
Service	8	29
Agriculture	1	6
Financial	2	4
Other	1	6
Source: BCI Survey Data	19	93

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 2021 was 112. This is a decrease 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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