

BUSINESS CONFIDENCE INDEX

Q1 2017

-0.1

DECREASE

**THE PRIVATE SECTOR
ANTICIPATES A PRICE
INCREASE**

Participating Companies

Large



59

SMEs



159

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- The Georgian Business Confidence Index (BCI)* continues to decline, albeit at a slower pace. The first quarter decrease in the Index was mostly driven by a significant decline in past performance.
- After three quarters of continuous improvement, the Past Performance Index, which reflects businesses' self-assessment of their own economic performance in the previous quarter, posted a significant drop. Compared to others, the agriculture sector assessed its performance most negatively.
- Business optimism about the overall economy has recovered slightly. In other words, a small majority of business respondents expect their economic performance to improve in the next quarter. The highest increase in expectations was recorded in the retail trade sector.
- The Sales Price Expectation Index increased substantially. Businesses in the construction sector predict the highest price increases in the next quarter.
- Large businesses demonstrate more positive outlook compared to Small and Medium Enterprises.
- Irrespective of their size, businesses name lack of demand and finances as the main factors that limit their activity.

* In the first quarter of 2017, the Business Confidence Index registered 17.5 on a scale of [-100; 100] points. The positive number on the index indicates that confidence among businesses is about 17.5 index points more positive than negative or neutral. 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 0.1 points (on a [-100/100 scale]) compared to Q4 2016. Expectation in the private sector in Georgia strengthened by 6.0 percentage points, and reached 31.0 index points (up from 25.0 points in Q4). Businesses' performance over the past three months decreased significantly and reached nearly 10.0 points (dropping from 30.8), indicating a reduction in production/turnover/sales. Despite of improved expectations, the fall in past performance balanced an increase in expectations and as a result the overall BCI remained unchanged.

BCI QoQ change by sector

Unlike other sectors, the construction (rising by 13.6), retail trade (rising by 31.9) and financial (rising by 8.9) sectors' BCIs significantly improved.

Sectors	Q1/17		Change
Manufacturing	18.6	▼	-3.5
Construction	28.7	▲	13.6
Retail Trade	12.0	▲	31.9
Service	10.9	▼	-12.2
Agriculture	23.0	▼	-12.7
Financial	50.9	▲	8.2
Other	11.1	▼	-9.4

SME

Large



Q1/17	Change	Q1/17	Change
11.0	▼ -8.4	18.5	▲ 2.1

Business confidence in the first quarter of 2017 slightly improved for large size firms and decreased for SMEs. The overall trend for large size firms is stable and positive.

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 more likely to have a positive outlook.

Production/Turnover/Sales Past 3 Months



The actual performance of businesses significantly decreased compared to the fourth quarter of 2016. In the Q1 2017** reporting period, sales (production or turnover) of the 218 firms surveyed decreased but remained positive, declined from 30.8 (Q4 2016) to 10.0 (Q1 2017).

Past 3 Months QoQ change by sector

Sectors	Q1/17	Change
Manufacturing	78.0	▲ 12.0
Construction	10.2	▼ -14.3
Retail Trade	-15.3	▼ -10.2
Service	-4.5	▼ -36.5
Agriculture	7.2	▼ -60.0
Financial	60.0	▲ 25.0
Other	11.9	▼ -4.9

The current situation for firms operating in the manufacturing and financial sectors significantly improved, meaning that in these sectors, more firms assessed their performance as positive in the first quarter of 2017 than as either negative or neutral (for more information, see Appendix 1). However, in all other sectors, production/turnover/sales of the past three months worsened, with the highest drop in the agricultural sector (-60.0 percentage points).

The positive improvements in the manufacturing and financial sectors could not overcome the slow performance in other sectors and led to a significant overall reduction in business performance.

SME



Large

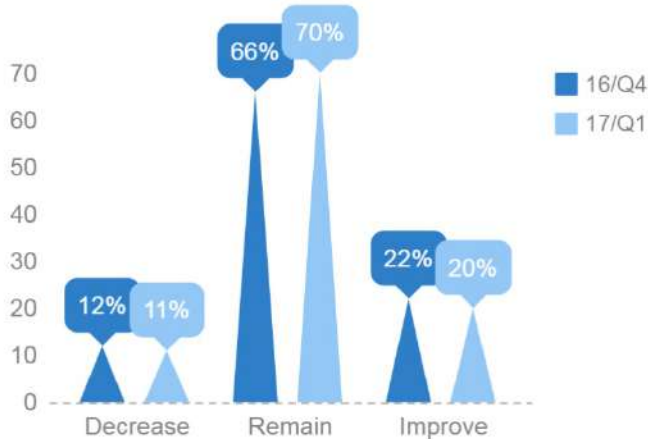


Q1/17	Change	Q1/17	Change
-2.42	▼ -23.6	13.18	▼ -19.0

Business activities weakened both for large businesses and SMEs. For large firms, the business activities indicator decreased from 32.2 points in Q4 2016, to 13.2 in Q1 2017; for SMEs, the same indicator dropped from 21.2 to -2.4 over the same period.

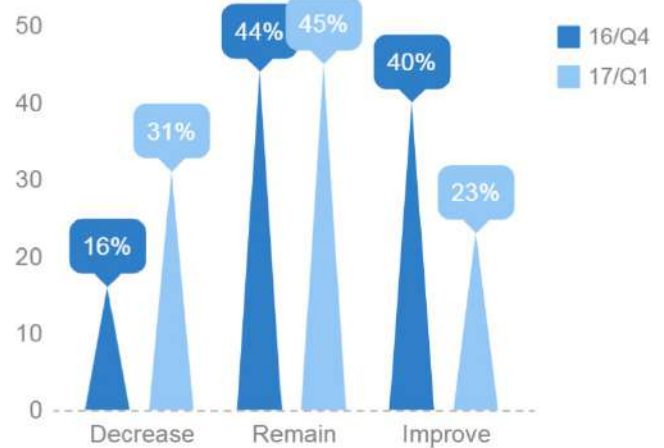
** This indicator describes the activities of businesses in October, November and December.

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



For the majority of surveyed firms (70%), employment remained the same over the past three months, and was higher compared to the previous quarter (66%). It is also worth noting that employment over the past three months decreased in 2017/Q1, from 12% to 11% of the firms surveyed.

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 23% of participants stated that they had improved their performance (which was a decrease from 40% in the previous quarter).

Expectations Index



The Expectations Index increased by 6.0 points in the first quarter of 2017. Expectations about the next three months weakened in manufacturing, service and other sectors. The highest decrease was reported in the manufacturing sector (for more information, see Appendix 1).

Aside from the huge drop in the manufacturing sector, the construction, retail trade, agriculture and financial sectors seem to be optimistic about the future (with the highest improvement in expectations in the retail trade sector).

Expectations QoQ change by sector

Sectors	Q4/16	Change
Manufacturing	0.0	-22.7
Construction	57.1	3.7
Retail Trade	38.2	80.2
Service	19.0	-13.3
Agriculture	85.6	18.4
Financial	53.9	2.9
Other	35.9	-14.1

SME



Q1/17 **Change**
28.11 **-4.0**

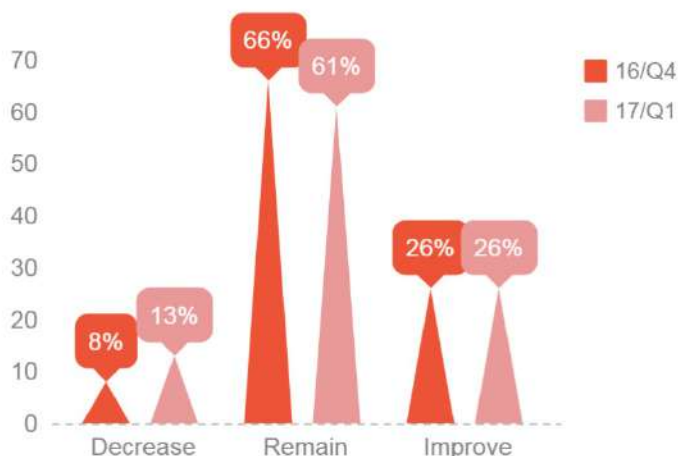
Large



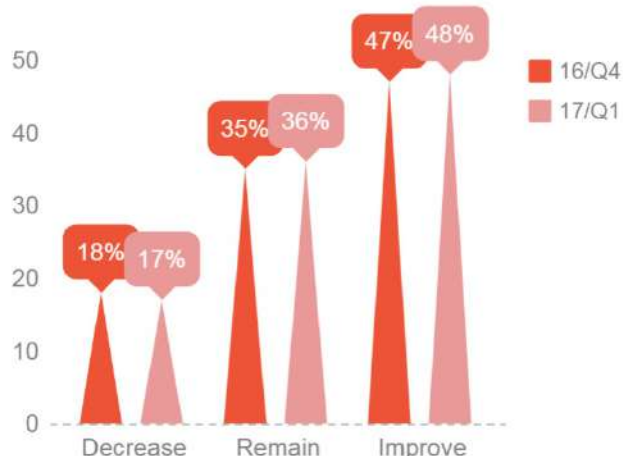
Q1/17 **Change**
32.6 **9.5**

As one can see from the table, business expectations for the three-month period January through March 2017 decreased for SMEs and increased for large size firms. The pessimism from SMEs is venturesome, since smaller companies are more vulnerable to fluctuations in external/internal conditions.

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



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



The majority (61%) of surveyed businesses did not expect any changes in employment over the next three months. Furthermore, 26% of firms thought that they will employ more employees in the future (although this is the same figure as in the previous quarter).

Given the pessimistic attitudes towards changes in total employment, 48% of the surveyed firms expected that the economic conditions of their business would improve over the next three months, and 36% did not expect any changes in the future.

Sales Price Expectations



The sales price expectation index significantly increased from 6.2 points (Q4 2016), to 24.3 points (Q1 2017).

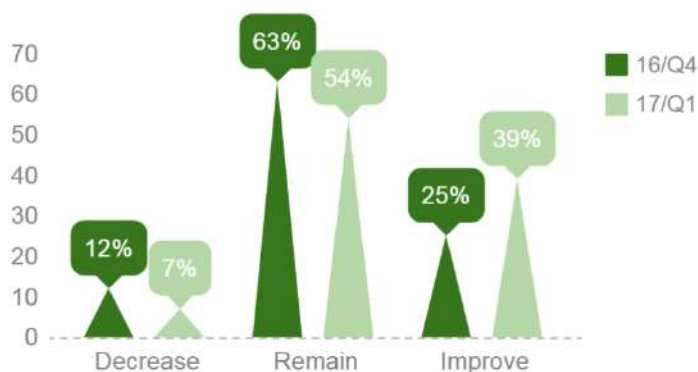
Sales prices increased for all sectors aside from the "other" category. The construction sector's sales price expectations turned positive, and moreover sales price expectations are the highest in this sector. The retail trade, service, agriculture and manufacturing sectors each expect noticeable improvements in prices in the next three months (for more information, see Appendix 1).

The overall sales price expectations index increased for both, large companies and SMEs. However, large companies appear to be planning a significant change in prices for their production/services in the near future, compared to SMEs.

Sales price QoQ change by sector

Sectors	Q1/17	Change
Manufacturing	20.2	▲ 14.8
Construction	40.1	▲ 52.0
Retail Trade	26.8	▲ 2.0
Service	28.2	▲ 26.9
Agriculture	19.3	▲ 6.7
Other	1.2	▼ -35.0

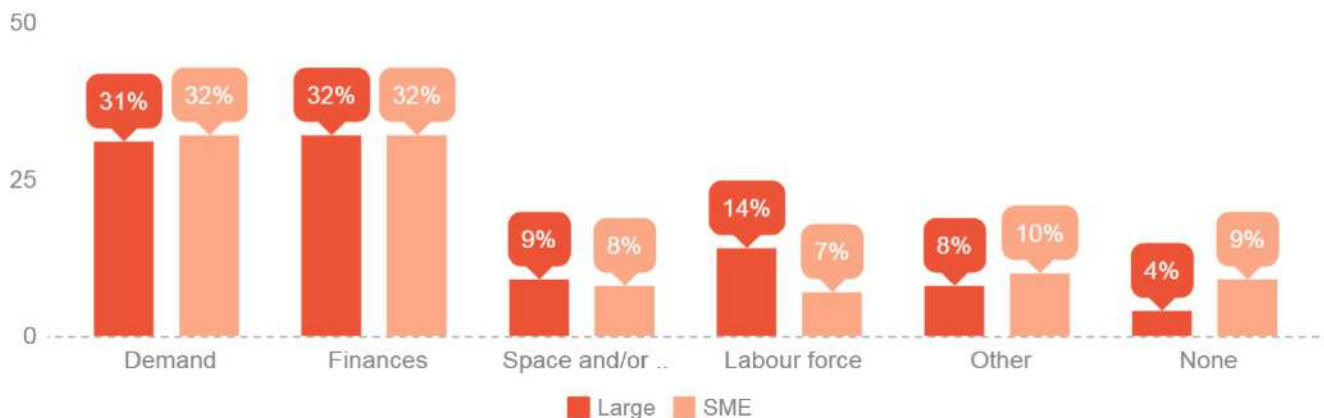
How do you expect the prices you charge to change over the next 3 months?



Q1/17	Change	Q1/17	Change
26.4	▲ 9.9	23.1	▲ 19.0

The majority (54%) of 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 39% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 1, 2017



Lower consumption activities and access to finance are the most significant problems for businesses. One of the most limiting factors in doing business for both large firms and SMEs in Q1 2017 was access to financing. A total of 32% of large companies and SMEs reported that lack access to financing was their main obstacle.

According to the survey SMEs have more trouble with consumer demand than larger companies, and this pattern was evident during the first quarter. Financial constraints were considered to be as problematic as insufficient demand for SME business operations.

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	17/Q1	17/Q1	16/Q4	16/Q4
Manufacturing	13	6%	10	5%
Construction	27	12%	23	11%
Retail Trade	50	23%	37	18%
Service	87	40%	92	44%
Agriculture	14	6%	14	7%
Financial	17	8%	18	9%
Other	10	5%	14	7%

Source: BCI Survey Data **218** % share **208** % 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	Large	17/Q1	SME
Manufacturing	4		9
Construction	10		17
Retail Trade	10		40
Service	21		66
Agriculture	1		13
Financial	8		9
Other	5		5

Source: BCI Survey Data **59** **159**

Maximum number of firms participating in the survey	
2016 Q2	
Large	SME
104	266

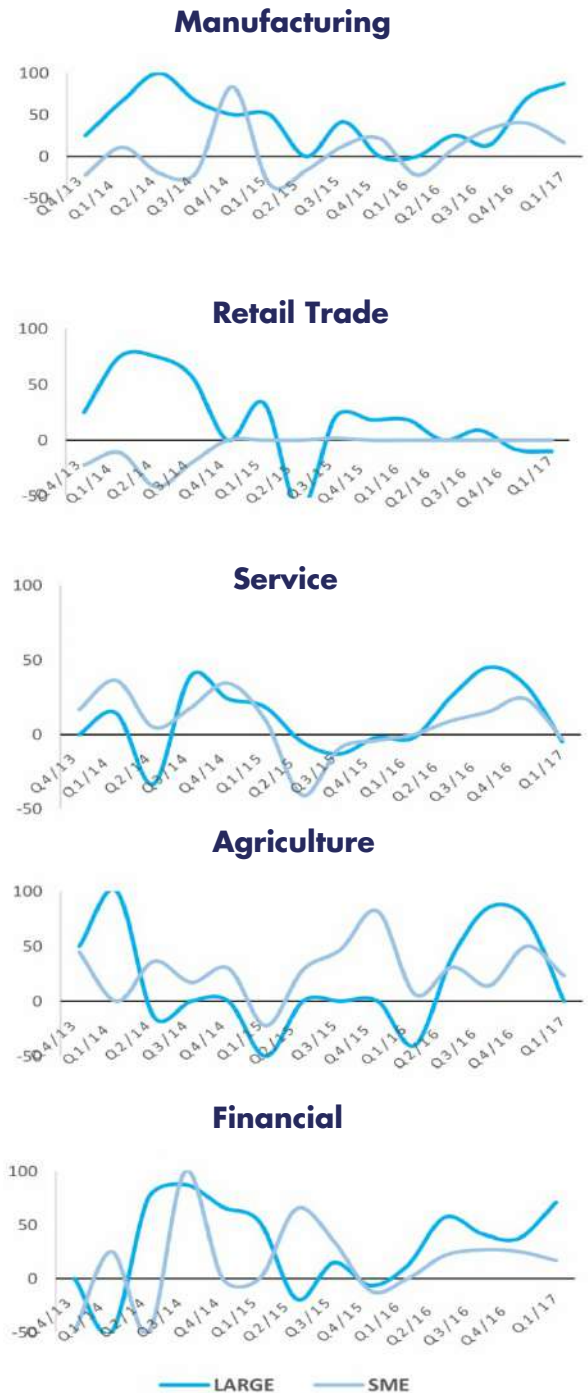
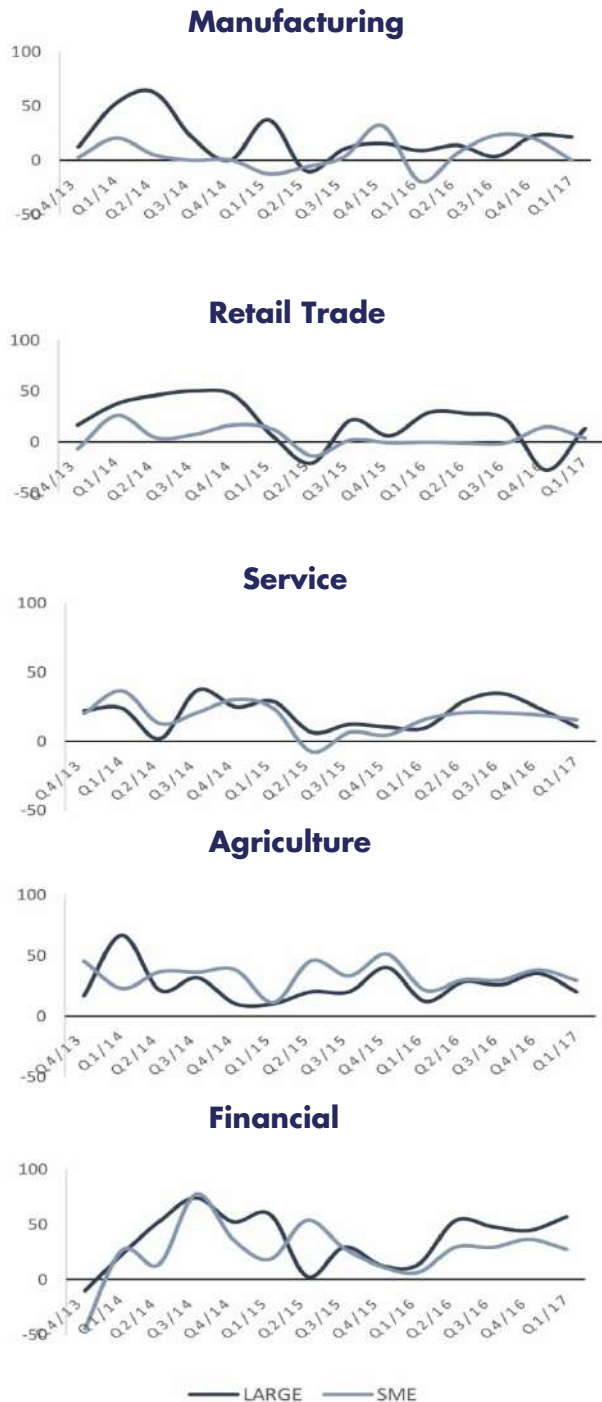
The number of firms participating in the BCI survey in Q1 2017 was 218. This is an increase of nearly 5% compared to the previous quarter's level of participation. Despite the increase in the number of participating firms, the distribution of the participating firms across sectors remained stable, and 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 with the economy, 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.

APPENDIX 1 – BCI, Production/Turnover/Sales, Expectations, Sales Expectations by Sectors and Sizes

Overall BCI

Sales/Production/Turnover for past 3 months



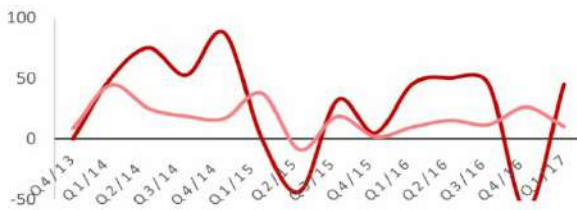
Expectations Index

Sales Price Expectations Index

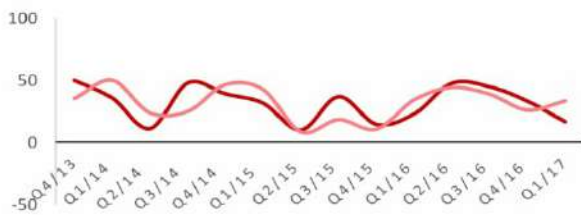
Manufacturing



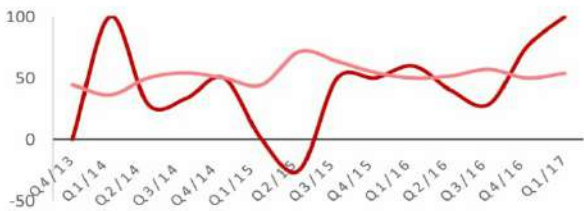
Retail Trade



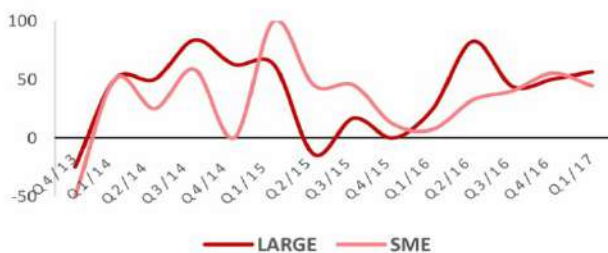
Service



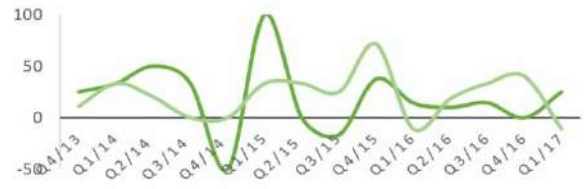
Agriculture



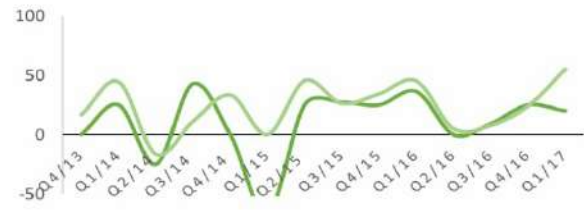
Financial



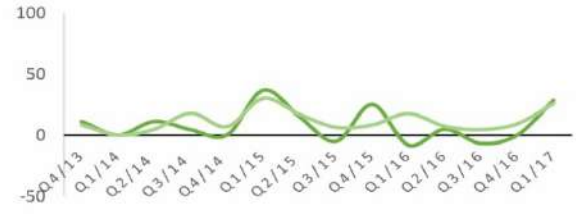
Manufacturing



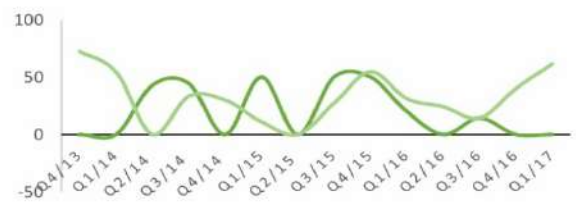
Retail Trade



Service



Agriculture



— LARGE — SME

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<http://iset-pi.ge/index.php/en/business-confidence>