

BUSINESS CONFIDENCE INDEX

-53.0

DECREASE

Businesses in the Lockdown

Q2 2020

Participating Companies

Large



35

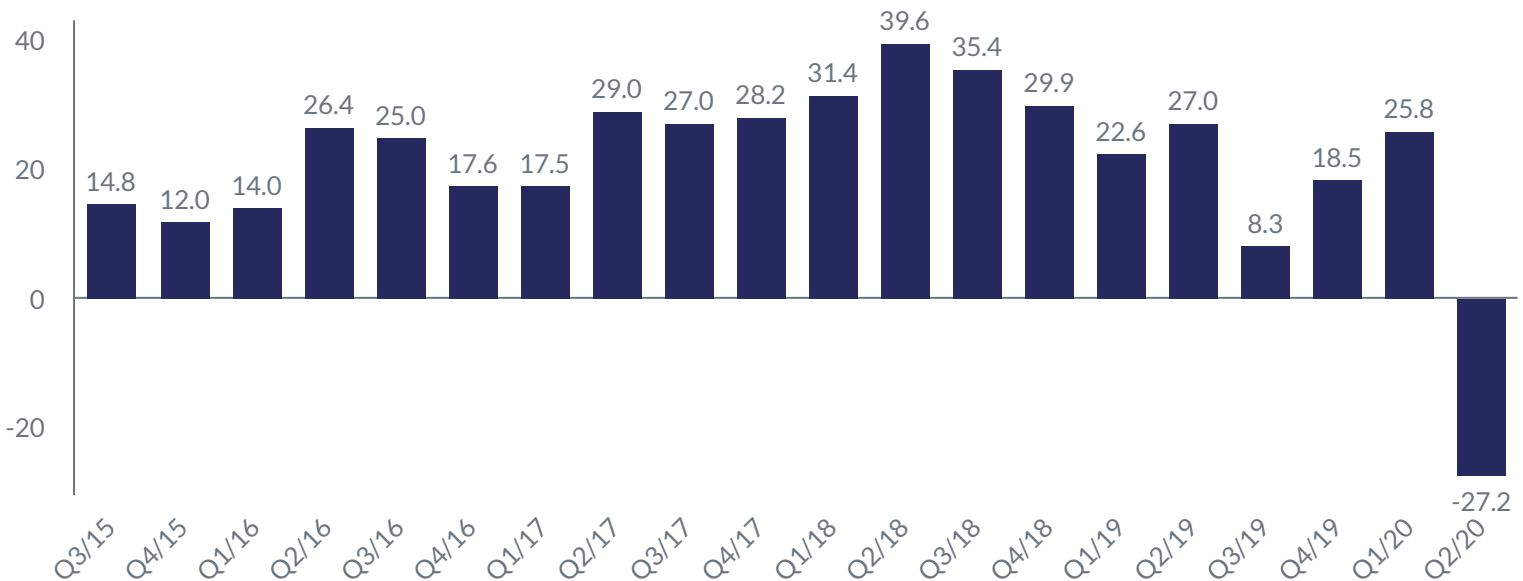
SMEs



123

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- In the second quarter of 2020, BCI decreased by 53.0 index points reaching an all-time low of -27.2 points. Business confidence deteriorated significantly across all sectors. The largest decline was observed in retail trade, followed by the service industry. The decrease in BCI was driven by worsened past performance as well as drastically pessimistic 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 by 55.5 points in Q2 2020. The service and agriculture industries had the greatest decline in past performance.
- After recovering from a sharp drop in Q3 2019, the Expectations Index, which reflects business optimism, showed the biggest downturn and reached its all-time low: -41.4 index points. In Q2 2020 all sectors have demonstrated reduced expectations.
- The Sales Price Expectations Index took the smallest hit, however, it also reached its lowest value (-5.3), indicating a higher share of businesses who expect lower prices. Manufacturing and agriculture are the only sectors where a higher share of businesses predict increasing prices in the future.
- Analysis of these indices by firm size shows that overall the Business Confidence, Past Performance, Expectations, and Sales Price Expectations indices have decreased for both large companies and SMEs.
- The main factors that limit business activities for firms of all sizes remain lack of demand and limited access to finance. "Other" factors have also become a further significant hindrance that could indicate a link to the government's state of emergency constraints due to COVID-19.

* 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 a recovery in the previous quarter, BCI has decreased drastically by 53.0 points compared to Q1 2020 and reached its all-time low at -27.2. Expectations in the Georgian private sector declined by 84.1 index points, dropping to -41.4. Moreover, business performance over the past three months has also decreased, reaching -26.1 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 decreased in every economic sector, with the highest decline in retail trade (-69.8), followed by service (-64.7), financial (-39.7), construction (-30.9) and agriculture (-30.8). The lowest decrease is seen in the manufacturing sector (-11.0)

BCI QoQ change by sector

Sectors	Q2/20		Change
Manufacturing	14.5	▼	-11.0
Construction	-15.0	▼	-30.9
Retail Trade	-30.8	▼	-69.8
Service	-42.1	▼	-64.7
Agriculture	19.3	▼	-30.8
Financial	-33.3	▼	-39.7
Other	-26.9	▼	-60.2

SME



Q2/20
-34.8

Change
▼ **-47.2**

Large



Q2/20
-24.6

Change
▼ **-54.0**

Business confidence in the second quarter of 2020 has decreased significantly both for SMEs (-47.2), and large firms (-54.0).

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 significantly by 55.5 points compared to Q1 of 2020 and reached its historic low of -26.31 in Q2 2020. A significant deterioration in performance was observed in the service sector (-75.2), followed by the agriculture (-62.8), retail trade (-55.2) and financial (-49.6) sectors. The smallest decrease in past performance is observed in the manufacturing (-16.9) sector. The substantial decline in these sectors highlights that the weighted balance between positive and negative responses decreased compared to the previous quarter.

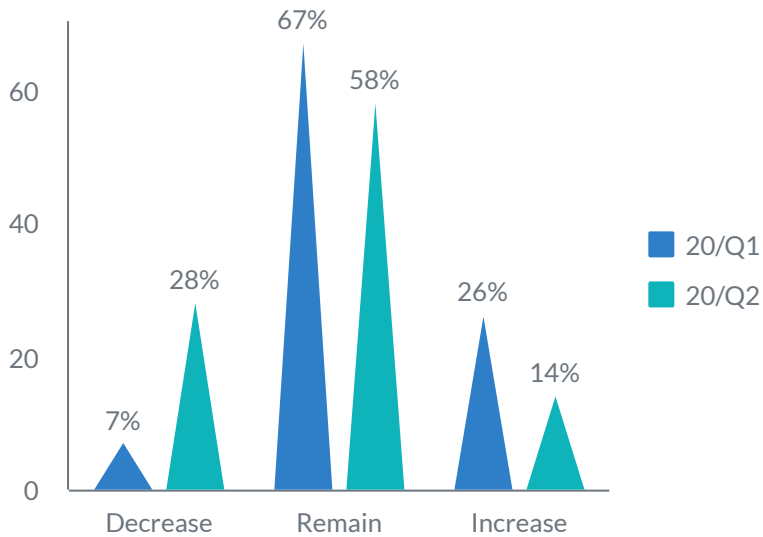
Past 3 Months QoQ change by sector

Sectors	Q2/20	Change
Manufacturing	-1.7	-16.9
Retail Trade	5.8	-55.2
Service	-47.3	-75.2
Agriculture	13.7	-62.8
Financial	-53.3	-49.6
Other	-30.6	-30.6



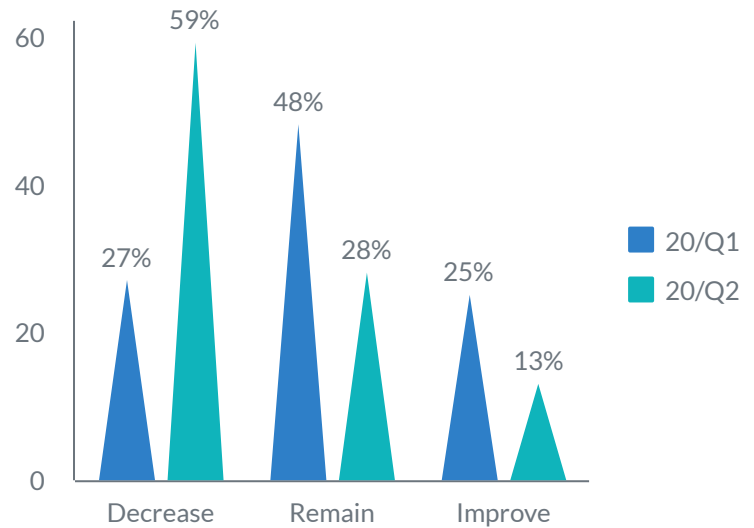
Business activities in the past 3 months have worsened for both SMEs and large businesses. For large firms, the index decreased by 58.4 points and reached -21.6 in Q2 2020; for SMEs, the same indicator declined by 40.9 and stopped at -42.2 index points.

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



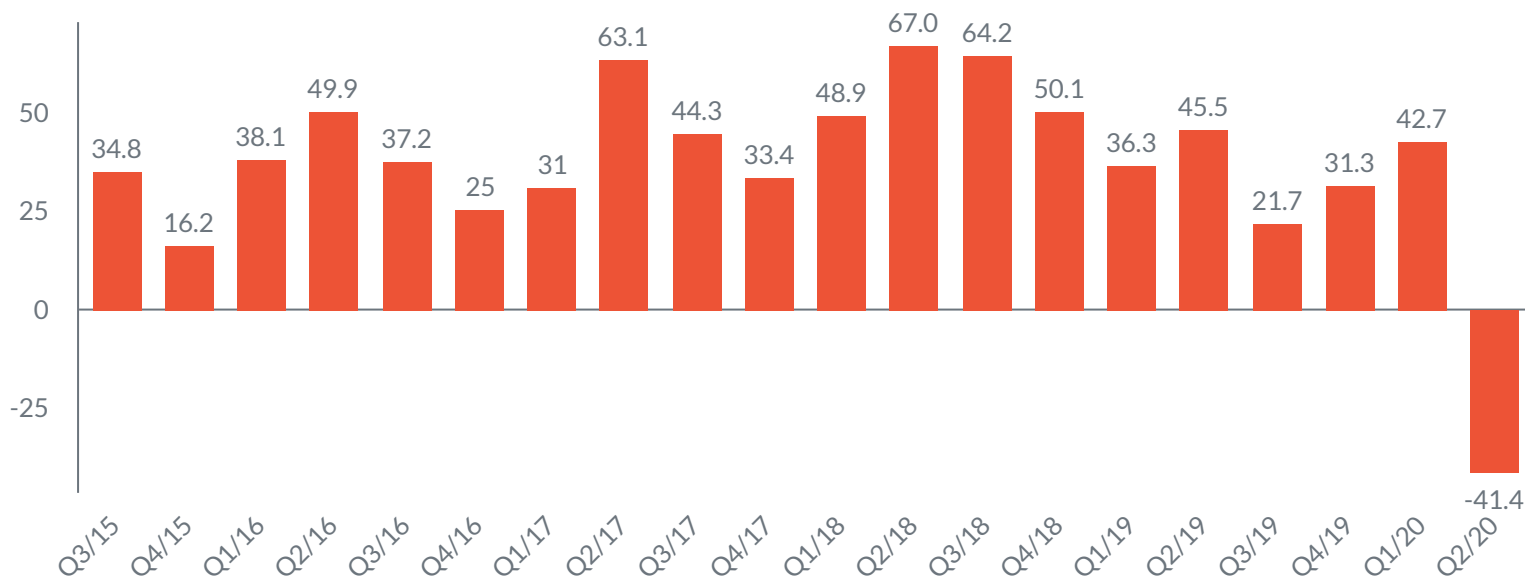
Compared to the previous quarter, a lower share of firms surveyed (58%) stated that employment had remained the same over the past three months. Significantly more businesses reported a decrease and fewer reported increases in employment.

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



Moreover, only 28% of firms claimed that their business activities remained unchanged over the past three months, the majority (59%) of respondents stated that their performance had deteriorated, and only 13% stated an improvement.

Expectations Index



The Expectations Index deteriorated drastically by -84.1 index points in Q2 2020 and stopped at -41.4. Prospects for the next three months have worsened for every sector. The most significant decrease is observed in retail trade (-134), followed by the financial (-96.7), service (-80.8), and agriculture (-78.3) sectors. The smallest decline is observed in the manufacturing sector (-8.4).

Expectations QoQ change by sector

Sectors	Q2/20	Change
Manufacturing	81.6	▼ -8.4
Retail Trade	-78.1	▼ -134.2
Service	-56.3	▼ -80.8
Agriculture	3.5	▼ -78.3
Financial	-90.0	▼ -96.7
Other	-87.8	▼ -170.9

SME



Q2/20

-52.5

Change

▼ -80.3

Large



Q2/20

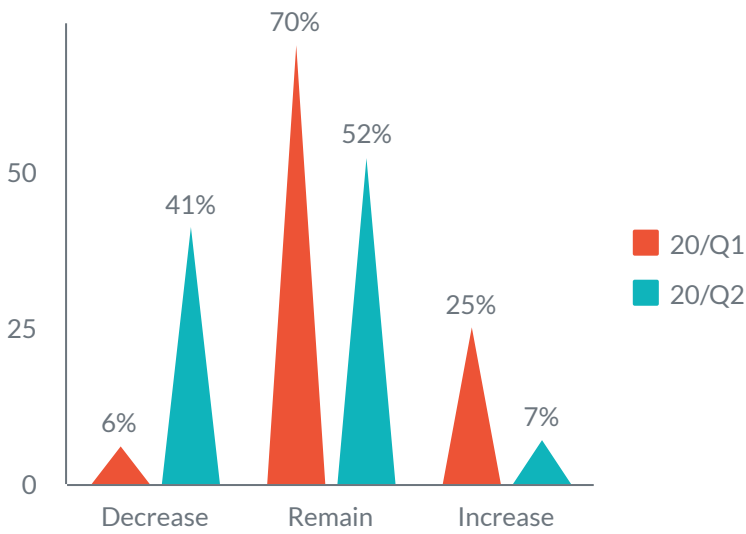
-40.7

Change

▼ -87.5

Business expectations have, on the whole, decreased for both large firms (-87.5) and SMEs (-80.3).

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



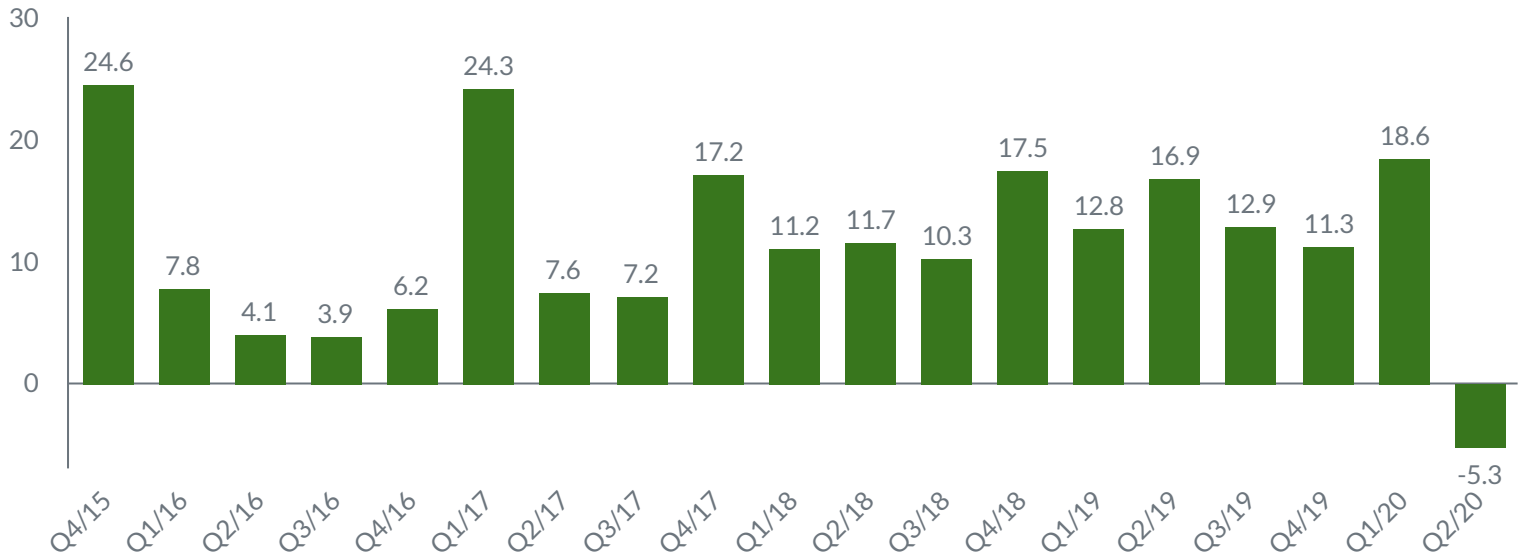
52% of the surveyed businesses do not expect any changes in employment over the next three months, however, 41% of firms stated that they would hire fewer employees in the future and only 7% think that they would hire more.

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



69% of the firms surveyed expect the economic condition of their businesses to worsen over the next three months. 19% do not predict any changes in the future, leaving a small proportion (12%) of businesses that believe their business conditions will improve.

Sales Price Expectations Index

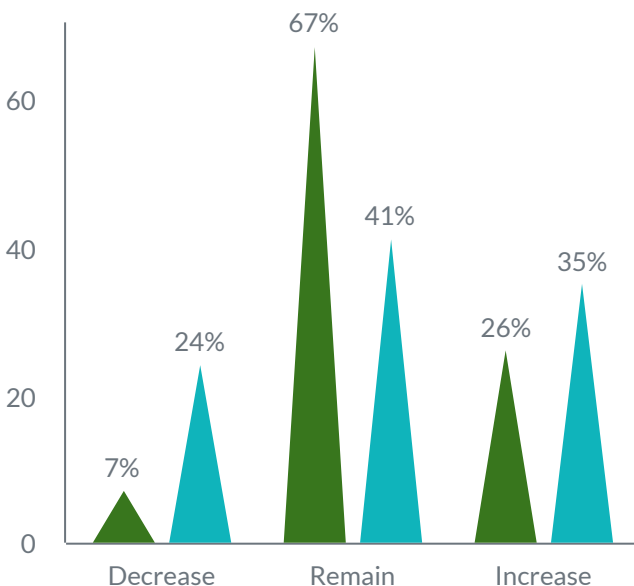


The Sales Price Expectations Index decreased from 18.6 points (Q1 2020) to -5.3 points in Q2 2020. This decline is driven by retail trade, and service sectors. The overall Sales Price Expectations Index has decreased for both SMEs and large companies.

Sales price QoQ change by sector

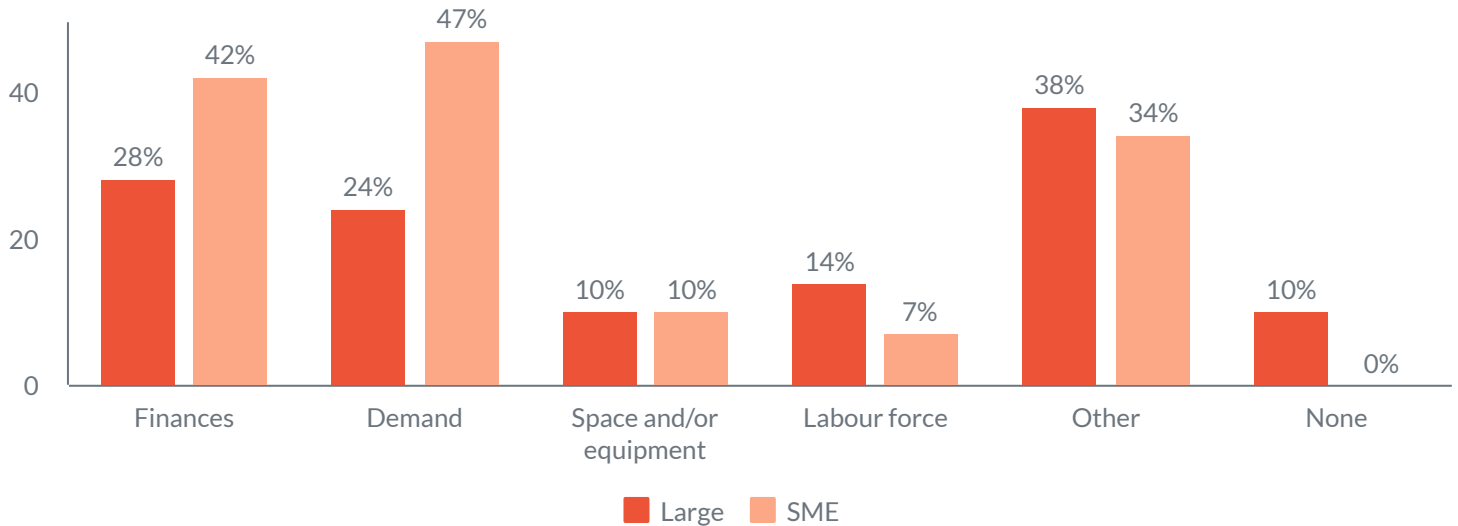
Sectors	Q2/20	Change
Manufacturing	45.0	▲ 17.8
Retail Trade	15.8	▼ -2.7
Service	-36.9	▼ -52.9
Agriculture	51.7	▲ 7.0
Other	56.2	▼ -17.7

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



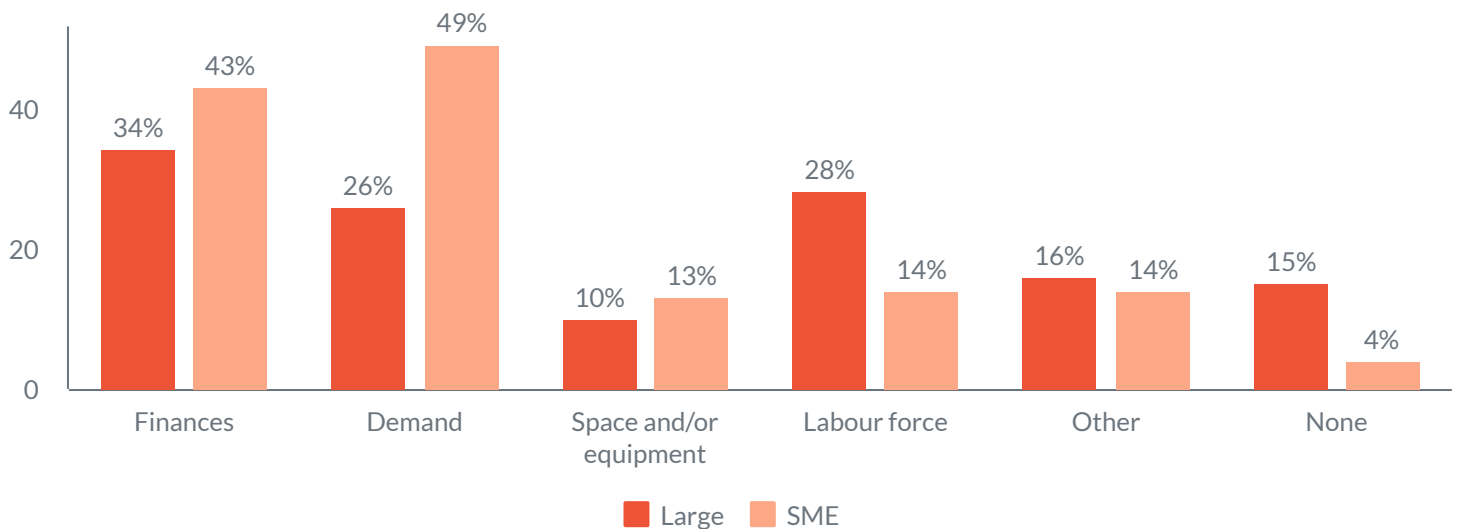
Around 41% of all firms surveyed do not intend to change their prices over the next three months. 24% of firms expect to decrease their prices, and the remaining 35% will consider increasing their prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2, 2020



A lack of demand and limited access to financing continue to be the most significant obstacles for both large companies and SMEs. In Q2 2020, "other" factors also became a further hindrance for both large companies and SMEs. As "other" factors have been significantly less important in the past (mentioned by 16% of large companies and 14% of SMEs on average in the last four quarters), the sudden increase could indicate a link to the government's state of emergency constraints due to COVID-19.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2 2019 - Q1 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
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/Q1	20/Q1	20/Q2	20/Q2
Manufacturing	11	7%	10	6%
Construction	18	11%	8	5%
Retail Trade	38	24%	40	25%
Service	59	37%	67	42%
Agriculture	14	9%	13	8%
Financial	14	9%	12	8%
Other	7	4%	8	5%
Source: BCI Survey Data	161	% share	158	% 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	20/Q2	SME
Manufacturing	2		8
Construction	0		8
Retail Trade	10		30
Service	10		57
Agriculture	4		9
Financial	6		6
Other	3		5
Source: BCI Survey Data	35		123

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 158. This is a decrease 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.

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Business Confidence Index

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