

# BUSINESS CONFIDENCE INDEX

## 5.5

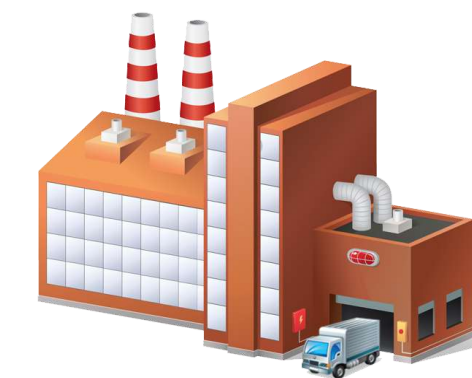
DECREASE

Winter is coming!

# Q4 2018

## Participating Companies

Large



28

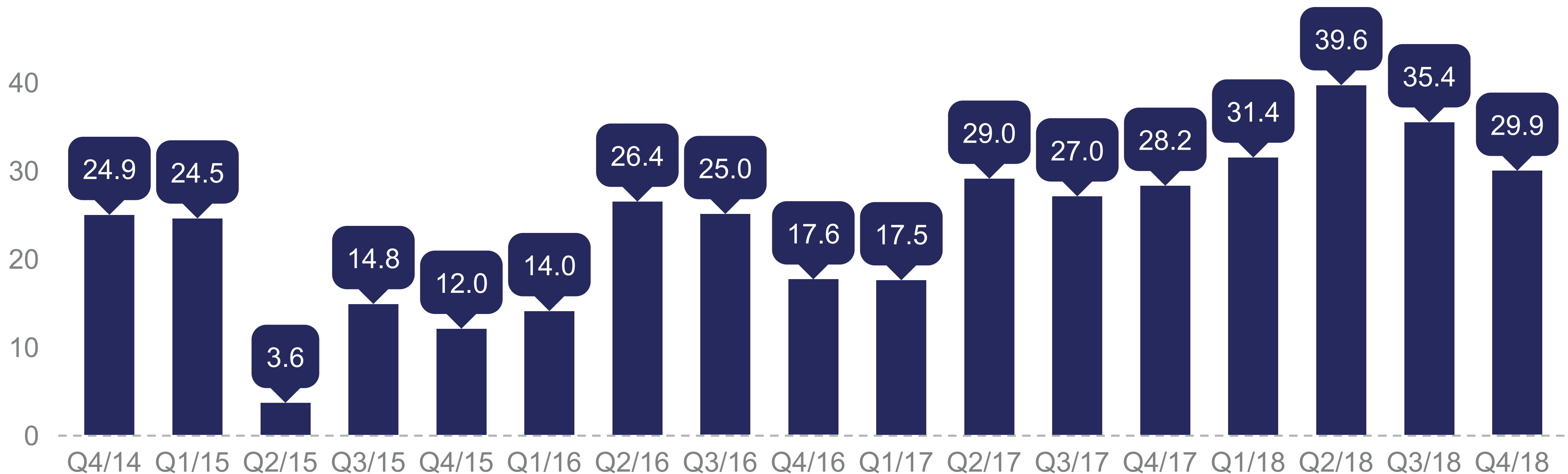
SMEs



103

## SURVEY HIGHLIGHTS

### Business Confidence Index (BCI)



- BCI in the fourth quarter of 2018 has worsened, dropping to 29.9 index points, which is an 5.5 index point loss over the previous quarter. The BCI drop is based on worsening of past performance and expectations in many business sectors. Compared to other sectors, manufacturing and agriculture assessed their past performance and expectations the most pessimistically. In contrast, the retail trade sector is the most positive.

- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing by 10.2 points in Q4 2018.

- Business optimism about the overall economy decreased significantly, reaching 50.1 index points. Other than manufacturing, the financial sectors and agriculture have contributed the most to this decrease in business optimism.

- The Sales Price Expectation Index increased moderately and standing higher than last year's expectations. Businesses in the service and retail trade sectors predict high price increases in the next quarter.

- Expectations and past performance worsened for large businesses and improved for SMEs.

- For large-sized firms, the main factors that continue to limit business activities are access to finance, labor force, while SMEs chose access to finance and lack of demand as the main limiting factors for further business development.

\* 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



Overall, the BCI lost 5.5 points compared to Q3 2018. Expectations in the private sector in Georgia decreased by 14.1 percentage points, and dropped to 50.1 index points (up from 64.2 points in Q3). Business performance over the past three months decreased, reaching nearly 28.0 points (decreasing from 38.2), indicating a downturn in production/turnover/sales. The synergy of worsening performance in the past three months and lower expectations have led to a drop in overall BCI.

The BCI index worsened in manufacturing (-55.0), construction (-12.4), agriculture (-10.7) and other (-13.5) sectors. The retail trade, service and financial sectors improved by 5.8, 2.3 and 1.3 points, respectively.

### BCI QoQ change by sector

| Sectors              | Q4/18        |   | Change       |
|----------------------|--------------|---|--------------|
| <b>Manufacturing</b> | <b>-38.2</b> | ▼ | <b>-55.0</b> |
| <b>Construction</b>  | <b>24.8</b>  | ▼ | <b>-12.4</b> |
| <b>Retail Trade</b>  | <b>30.9</b>  | ▲ | <b>5.8</b>   |
| <b>Service</b>       | <b>50.7</b>  | ▲ | <b>2.3</b>   |
| <b>Agriculture</b>   | <b>19.0</b>  | ▼ | <b>-10.7</b> |
| <b>Financial</b>     | <b>15.9</b>  | ▲ | <b>1.3</b>   |
| <b>Other</b>         | <b>4.1</b>   | ▼ | <b>-13.5</b> |

#### SME



**Q4/18**  
**14.7** ▲ **8.0**

#### Large

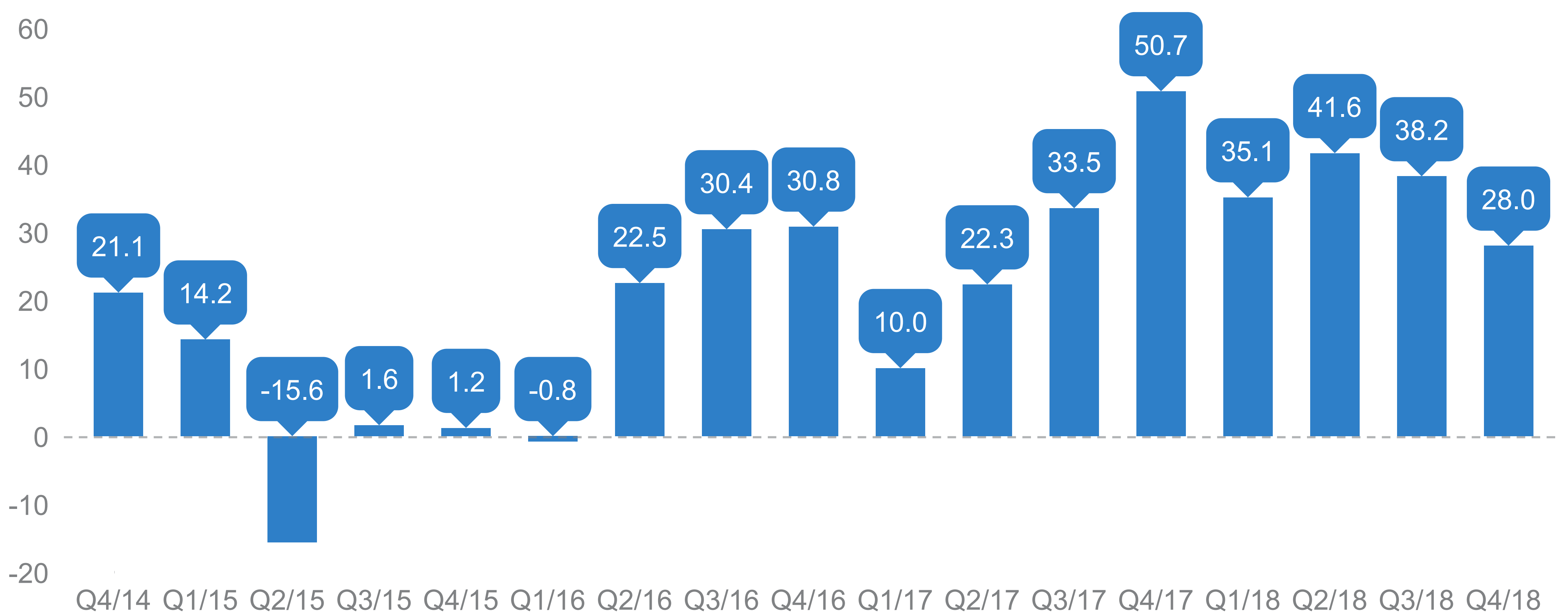


**Q4/18**  
**32.7** ▼ **-8.1**

Business confidence in the fourth quarter of 2018 decreased for large firms (-8.1) and improved for SMEs (+8.0). Less optimism and weak performance of the large firms outweighed the improved performance of SMEs and resulted in a decrease of -5.5 in overall BCI.

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 negative outlook to some extent

## Production/Turnover/Sales Past 3 Months



Businesses' actual performance decreased by -10.2 compared to the second quarter of 2018. In the Q4 2018 reporting period, sales (production or turnover) of the 131 firms surveyed decreased from 38.2 (Q3 2018) to 28.0(Q4 2018).

A significant decrease in performance was observed in the manufacturing (-79.9), construction (-59.1), agriculture (-48.7) and other (-43.9) 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: retail trade (+13.4) and service (10.1) sectors.

The negative developments in many sectors outweighed the insignificant positive performance of the two positive sectors, and led to an overall decrease in business performance

### Past 3 Months QoQ change by sector

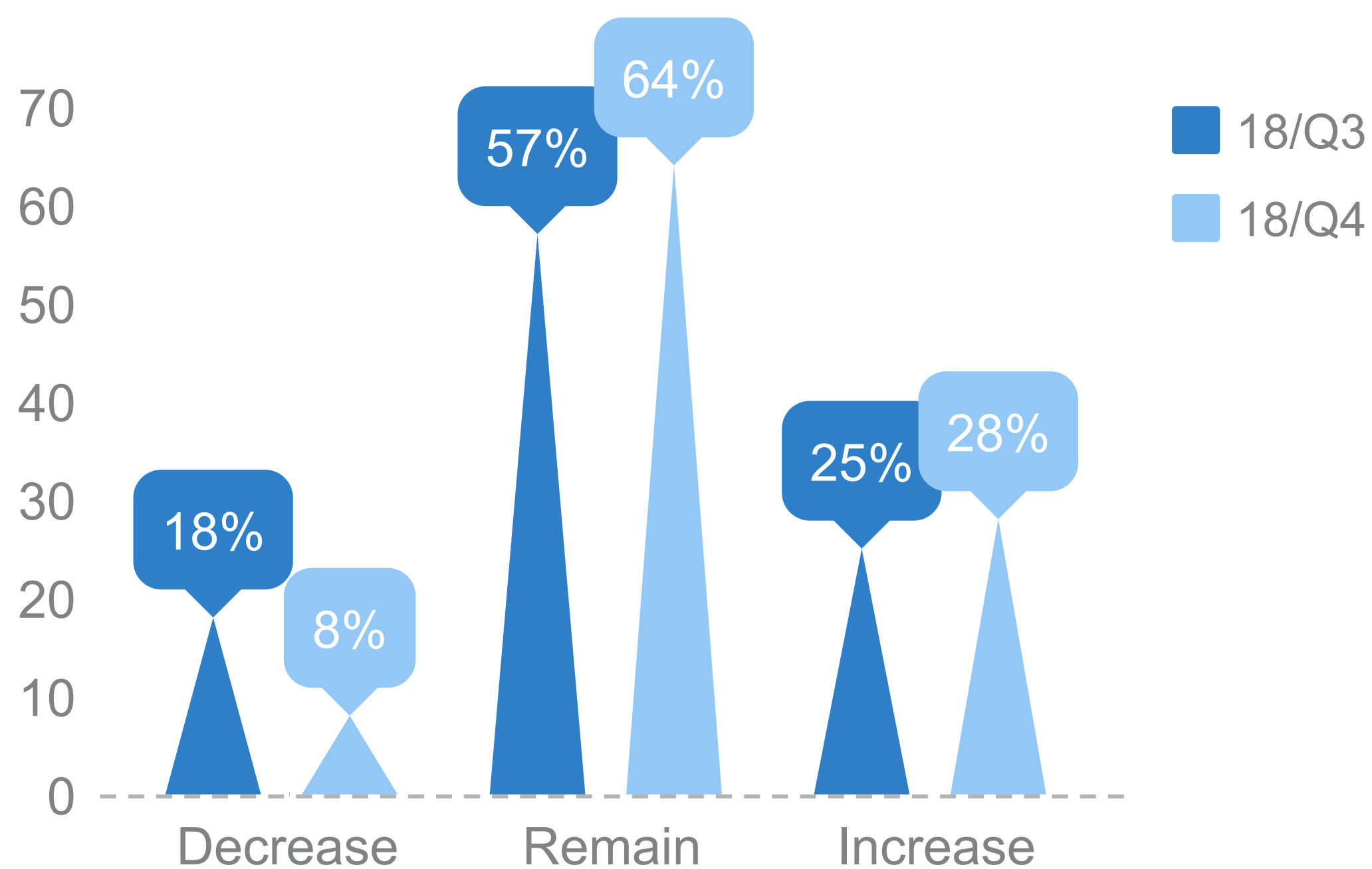
| Sectors              | Q4/18        |   | Change       |
|----------------------|--------------|---|--------------|
| <b>Manufacturing</b> | <b>-43.3</b> | ▼ | <b>-79.9</b> |
| <b>Construction</b>  | <b>-2.9</b>  | ▼ | <b>-59.1</b> |
| <b>Retail Trade</b>  | <b>48.0</b>  | ▲ | <b>13.4</b>  |
| <b>Service</b>       | <b>52.1</b>  | ▲ | <b>10.1</b>  |
| <b>Agriculture</b>   | <b>22.9</b>  | ▼ | <b>-48.7</b> |
| <b>Financial</b>     | <b>-4.9</b>  | ▼ | <b>-0.7</b>  |
| <b>Other</b>         | <b>-39.8</b> | ▼ | <b>-43.9</b> |



Business activities decreased for large businesses and improved for SMEs. For large firms, business activity indicators dropped by -12.4 points and stopped at 33.9 in Q4 2018; for SMEs, the same indicator grew up by 8.5 and reached 4.2 over the same period.

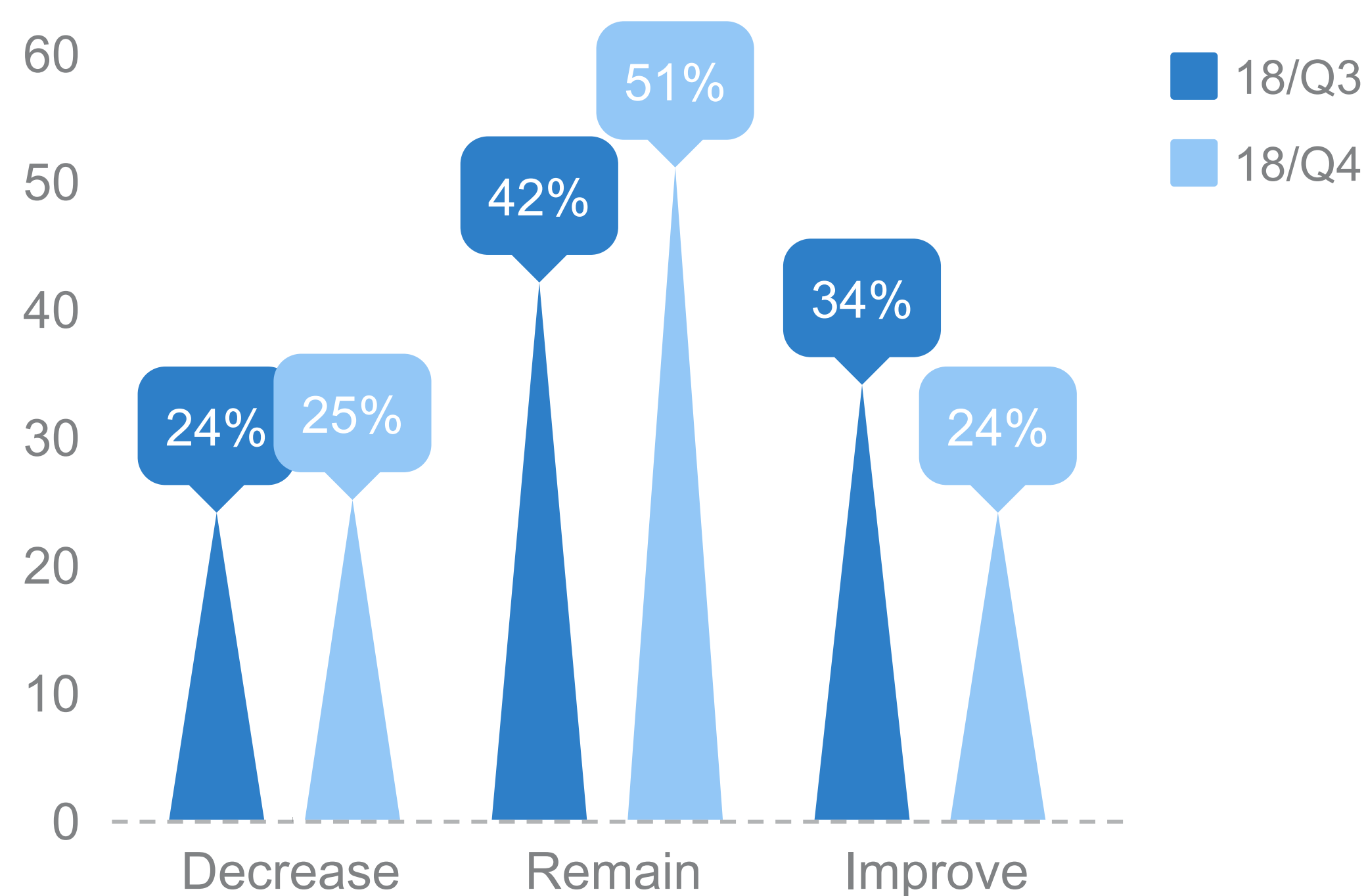
\*\* This indicator describes the activities of businesses in July, August and September

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



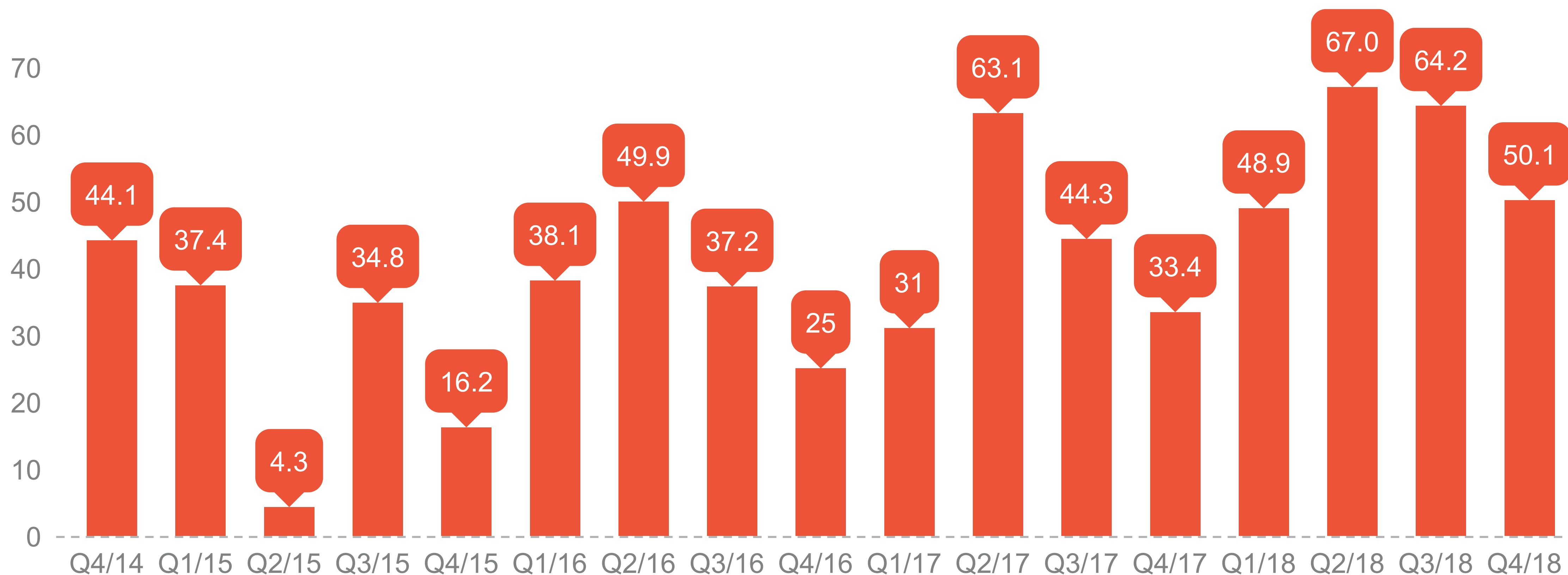
Compared to the previous quarter, a higher share of surveyed firms (64%) stated that employment remained the same over the past three months. More businesses reported an increase and less decreases in employment.

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



Moreover, 51% of firms claimed that their business activities remained unchanged over the past three months, while 24% of participants stated that they had improved their performance, and 25% stated the decline.

## Expectations Index



The Expectations Index decreased by 14.1 index points in the fourth quarter of 2018. Expectations about the next three months improved for the retail trade (+23.4), construction (+5.4) and other (+52.0) sectors. The remaining sectors expect worsening the situation. The highest decrease was reported in the manufacturing and financial sectors (for more information, see Appendix 1).

### Expectations QoQ change by sector

| Sectors       | Q4/18 | Change |
|---------------|-------|--------|
| Manufacturing | 5.7   | -57.7  |
| Construction  | 43.3  | 5.4    |
| Retail Trade  | 83.1  | 23.4   |
| Service       | 58.2  | -17.4  |
| Agriculture   | 55.4  | -21.8  |
| Financial     | -7.3  | -51.1  |
| Other         | 60.2  | 52.0   |

#### SME



**Q4/18**  
**38.2**

**Change**  
**0.2**

#### Large

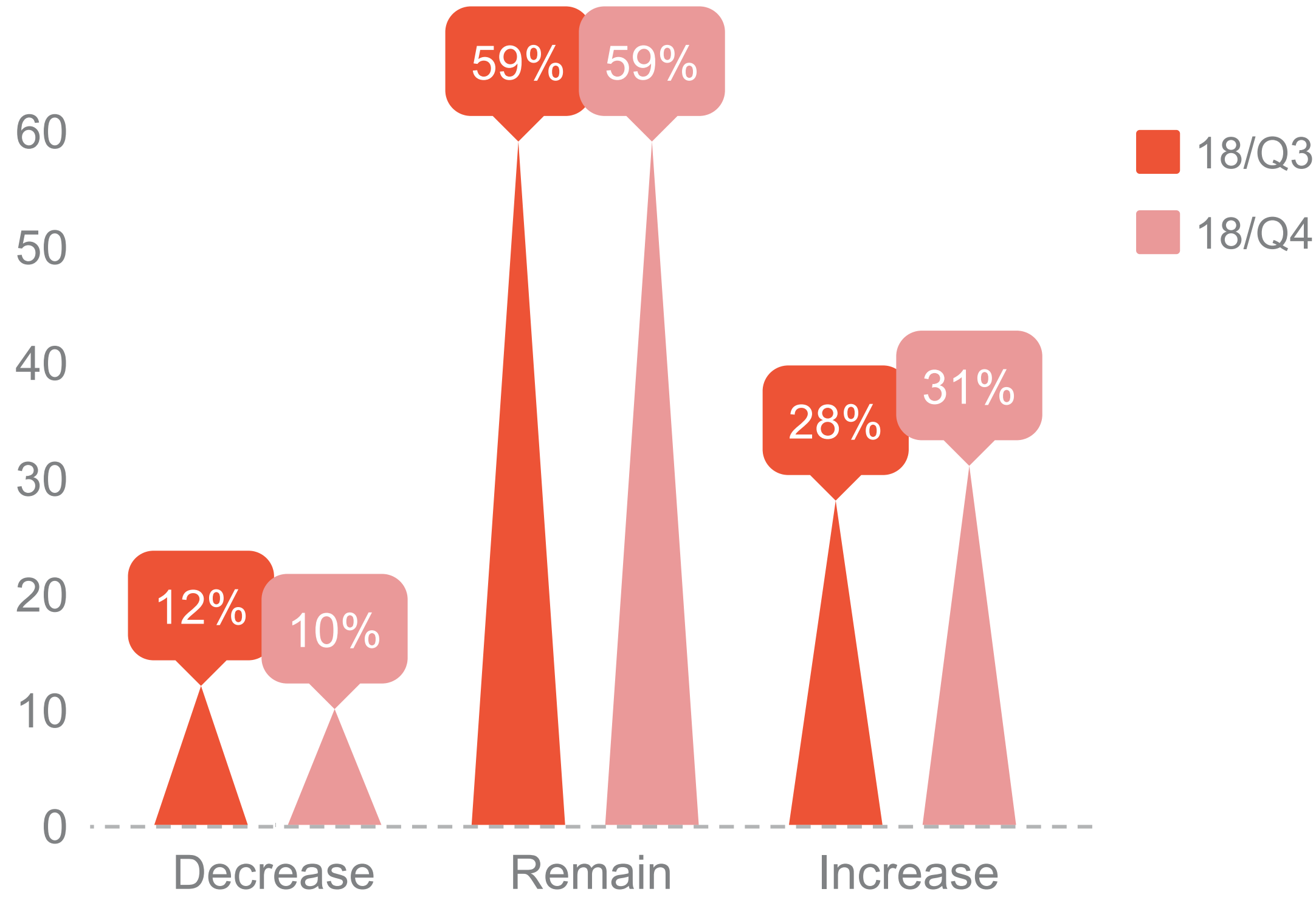


**Q4/18**  
**53.0**

**Change**  
**-17.2**

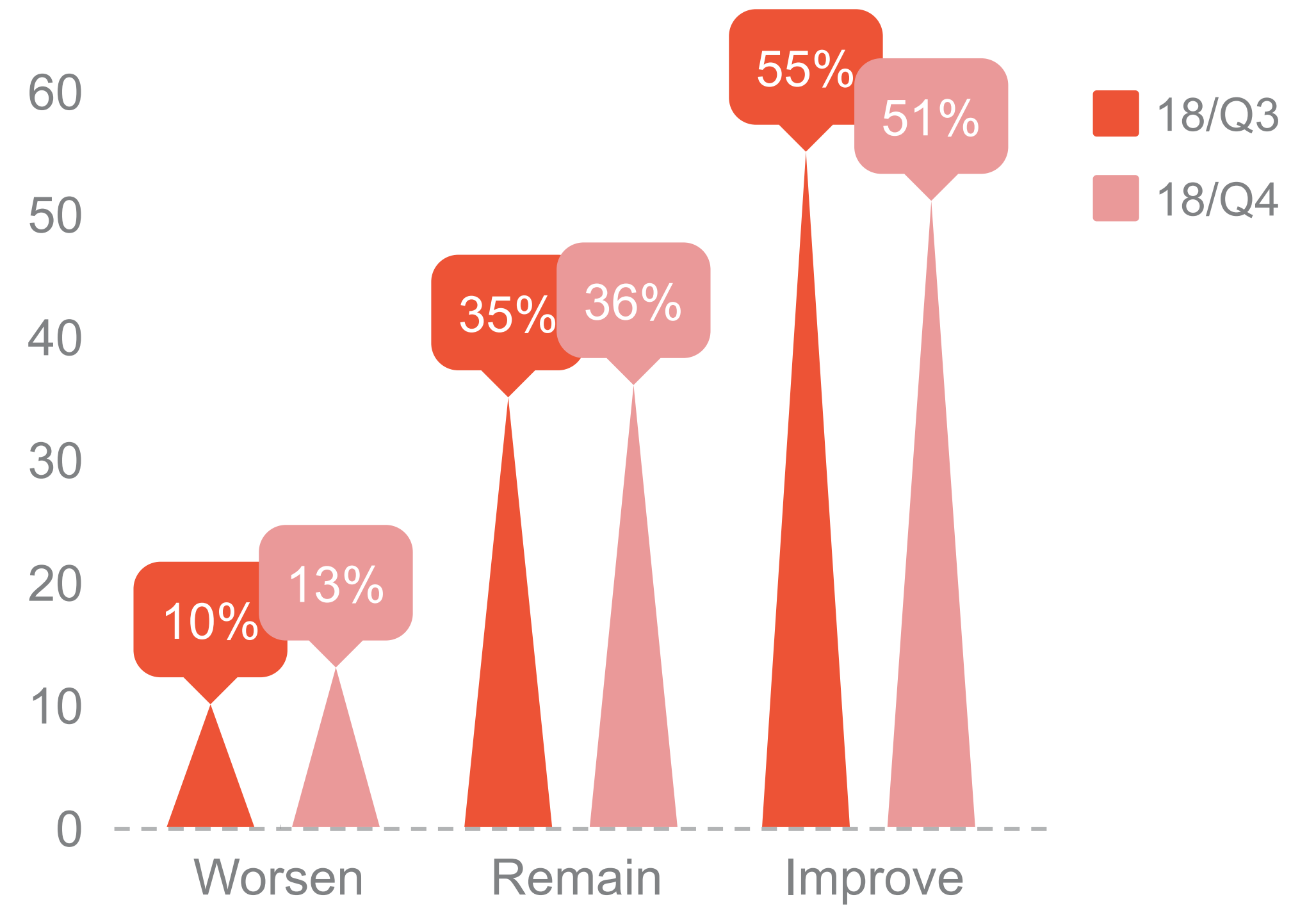
As one can see from the table, business expectations for the three-month period October through December 2018 decreased for large size and improved for SME firms.

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



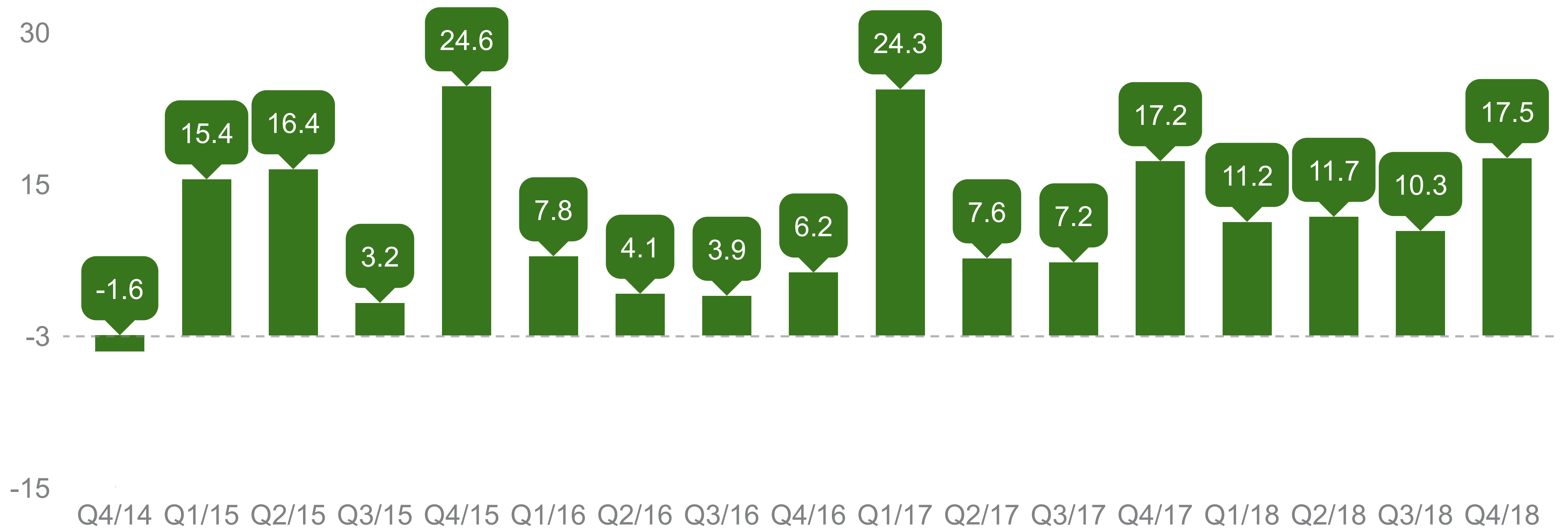
The majority (59%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 31% of firms stated that they would employ more employees in the future.

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



51% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 36% did not expect any changes in the future, while a lower share of businesses expect their business conditions to worsen.

## Sales Price Expectations



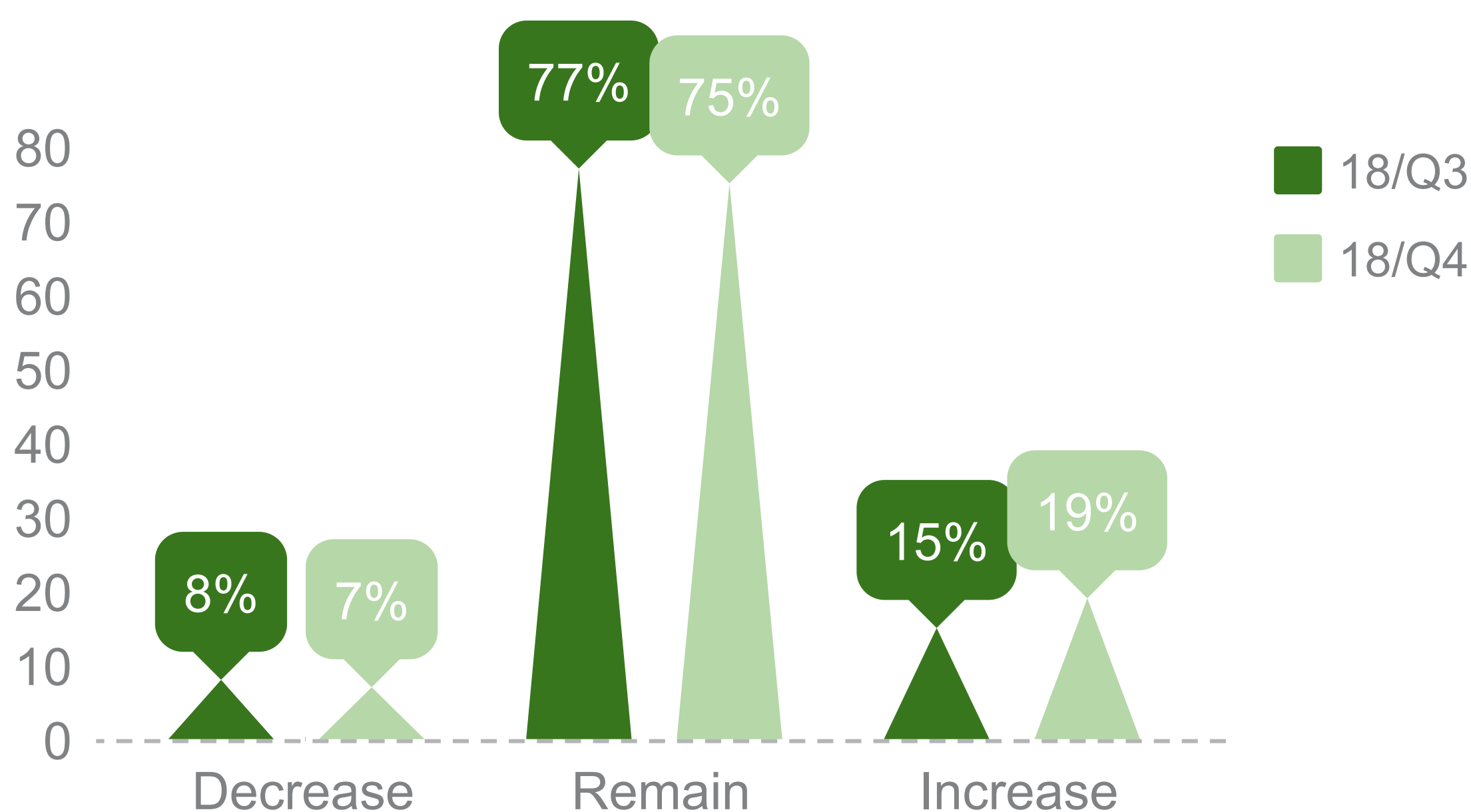
The Sale Price Expectation Index increased from 10.3 points (Q3 2018) to 17.5 points (Q4 2018). The improvement in the Index is driven by an increase in the manufacturing, retail trade and agriculture sectors. The manufacturing, construction and other sector expects a noticeable decrease in prices over the next three months (for more information, see Appendix 1).

The overall Sales Price Expectations Index increased for both large companies and SMEs.

## Sales price QoQ change by sector

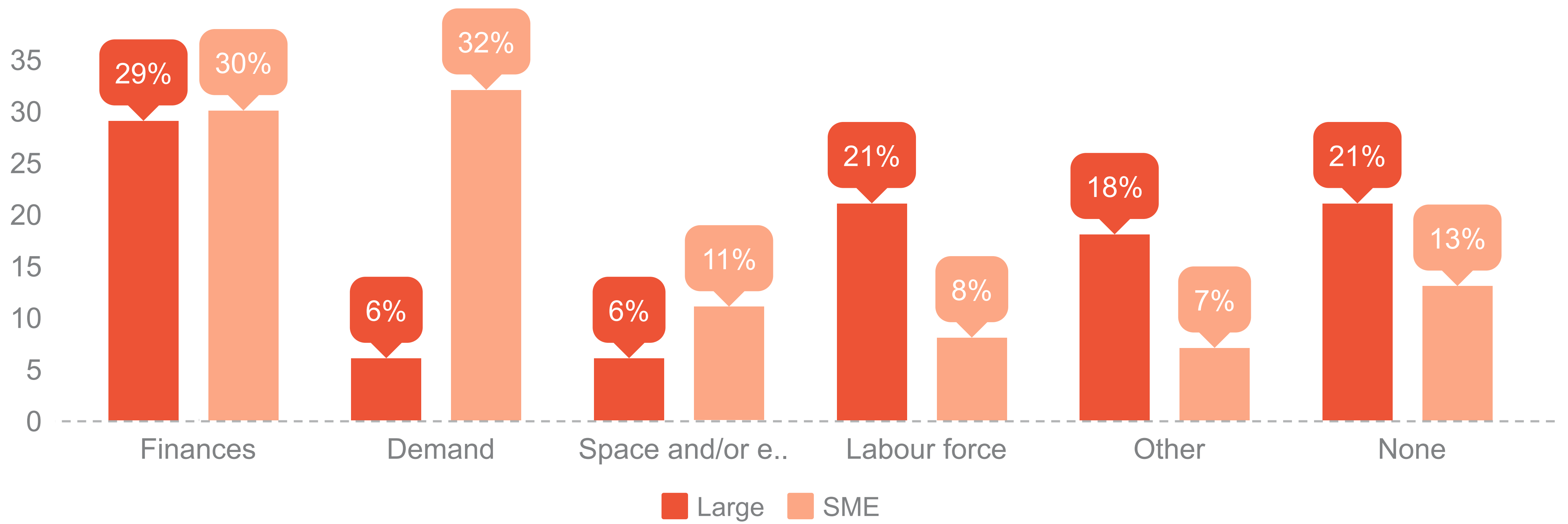
| Sectors              | Q4/18        | Change         |
|----------------------|--------------|----------------|
| <b>Manufacturing</b> | <b>-43.3</b> | <b>▼ -29.8</b> |
| <b>Construction</b>  | <b>22.1</b>  | <b>▼ -15.8</b> |
| <b>Retail Trade</b>  | <b>1.4</b>   | <b>▲ 13.8</b>  |
| <b>Service</b>       | <b>41.7</b>  | <b>▲ 23.4</b>  |
| <b>Agriculture</b>   | <b>2.4</b>   | <b>▼ -3.3</b>  |
| <b>Other</b>         | <b>0.0</b>   | <b>▼ -62.5</b> |

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



The majority (75%) 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 19% expect to increase prices in the future.

# WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 4, 2018



A low level of consumption activities and lack of access to financing continue to be two of the most significant obstacles for businesses. From a total of 131 firms participating in the survey, 29% of large sized firms and 30% of SMEs noted that lack of access to finance was their main obstacle. Meanwhile, 6% of large firms and 32% of SMEs chose lack of demand 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 -<br>Number of firms | 18/Q3      | 18/Q3          | 18/Q4      | 18/Q4          |
|------------------------------|------------|----------------|------------|----------------|
| Manufacturing                | 12         | 9%             | 9          | 7%             |
| Construction                 | 12         | 9%             | 16         | 12%            |
| Retail Trade                 | 30         | 23%            | 30         | 23%            |
| Service                      | 46         | 35%            | 48         | 37%            |
| Agriculture                  | 12         | 9%             | 16         | 12%            |
| Financial                    | 12         | 9%             | 8          | 6%             |
| Other                        | 6          | 5%             | 4          | 3%             |
| Source: BCI Survey Data      | <b>130</b> | <b>% share</b> | <b>131</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 | 18/Q4     |            |
|-----------------------------------|-----------|------------|
|                                   | Large     | SME        |
| Manufacturing                     | 2         | 7          |
| Construction                      | 4         | 12         |
| Retail Trade                      | 3         | 27         |
| Service                           | 11        | 37         |
| Agriculture                       | 3         | 13         |
| Financial                         | 3         | 5          |
| Other                             | 2         | 2          |
| Source: BCI Survey Data           | <b>28</b> | <b>103</b> |

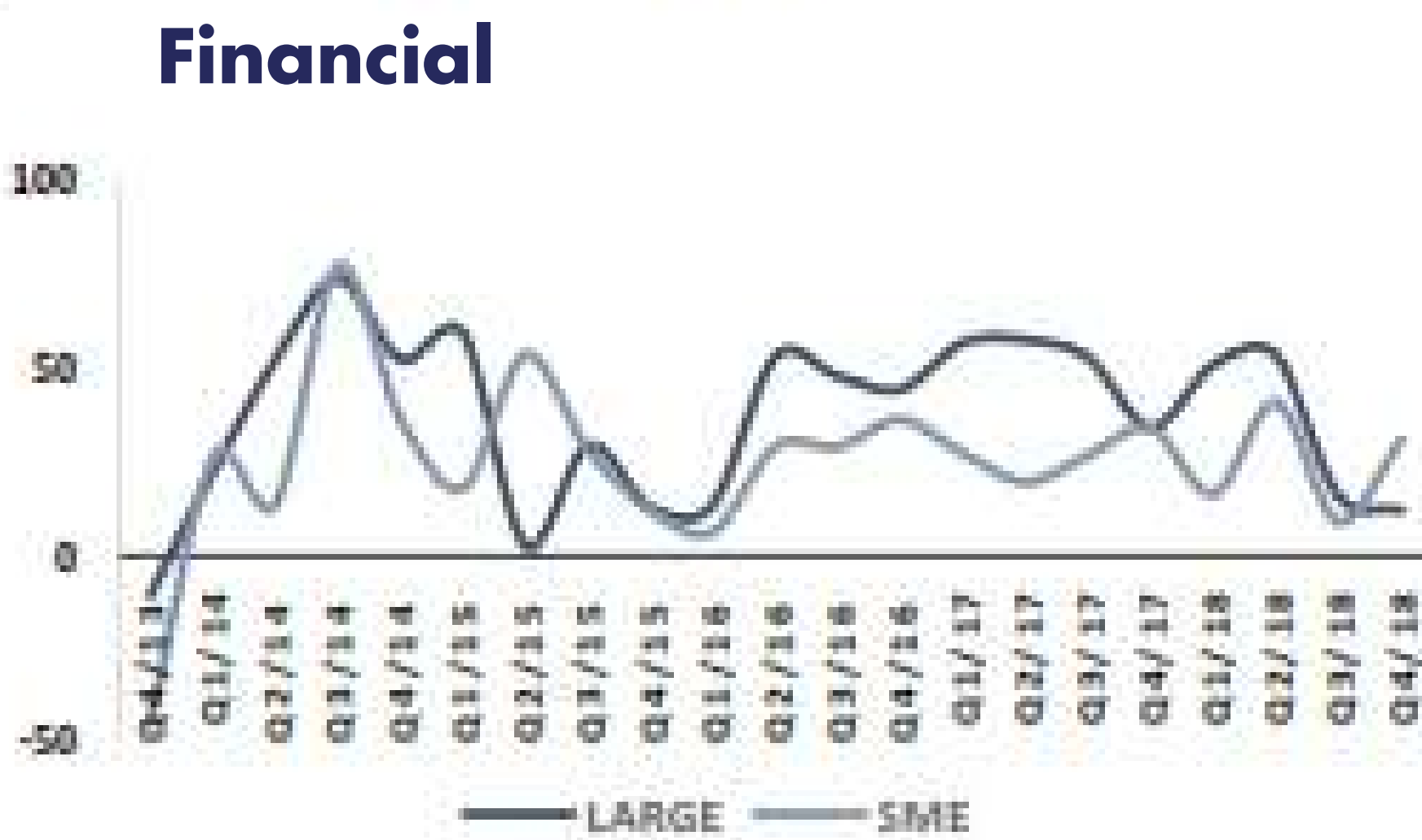
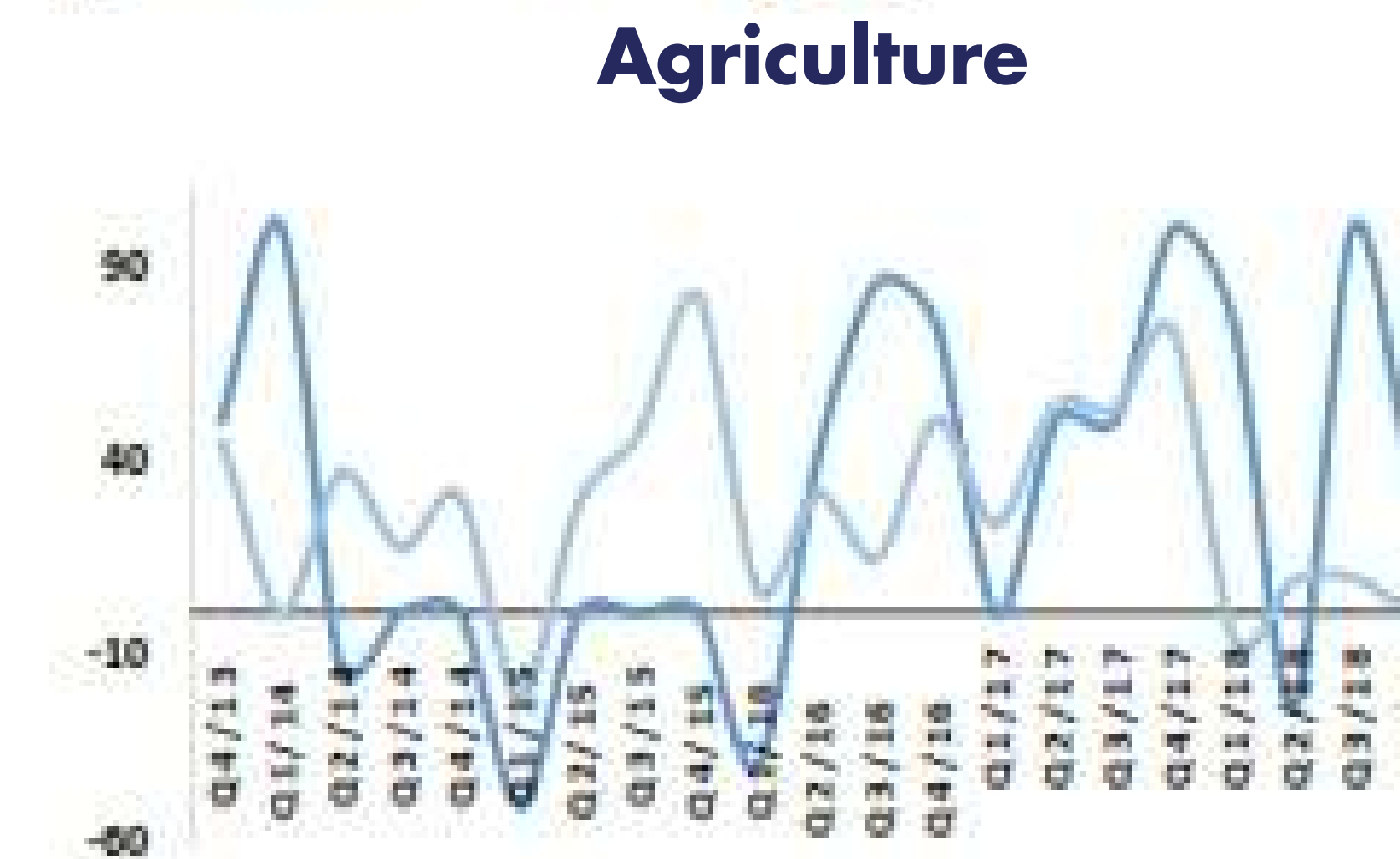
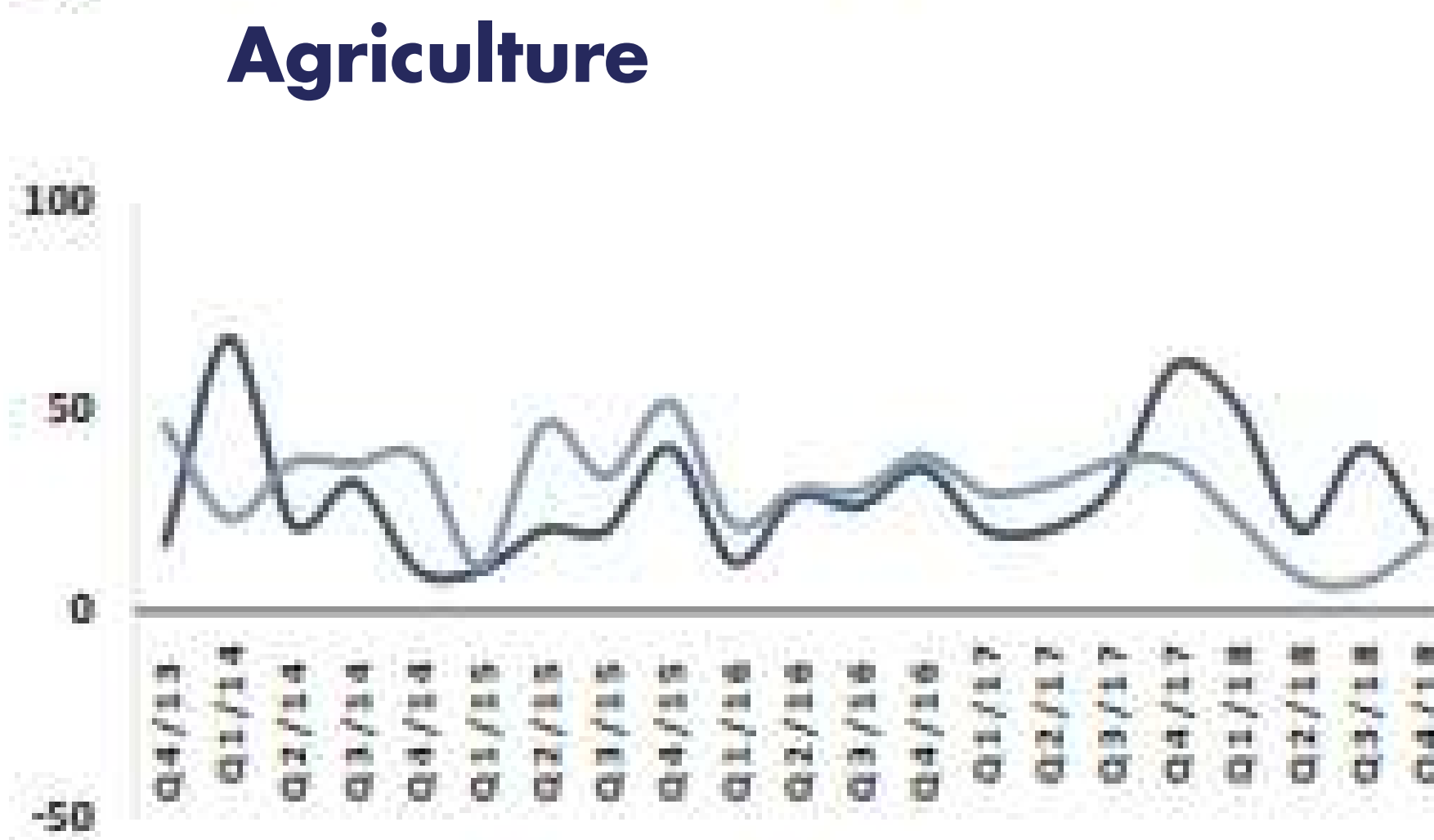
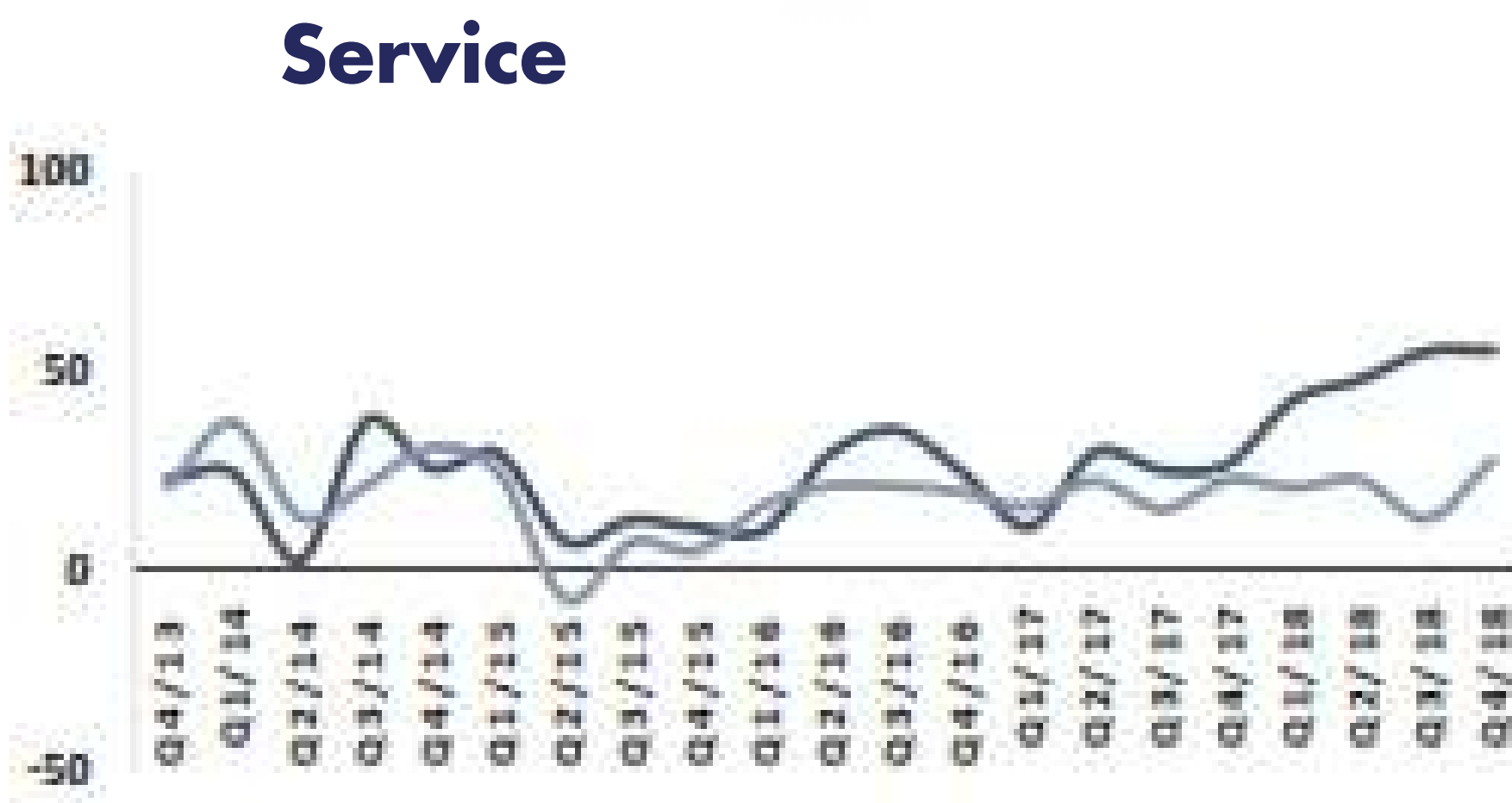
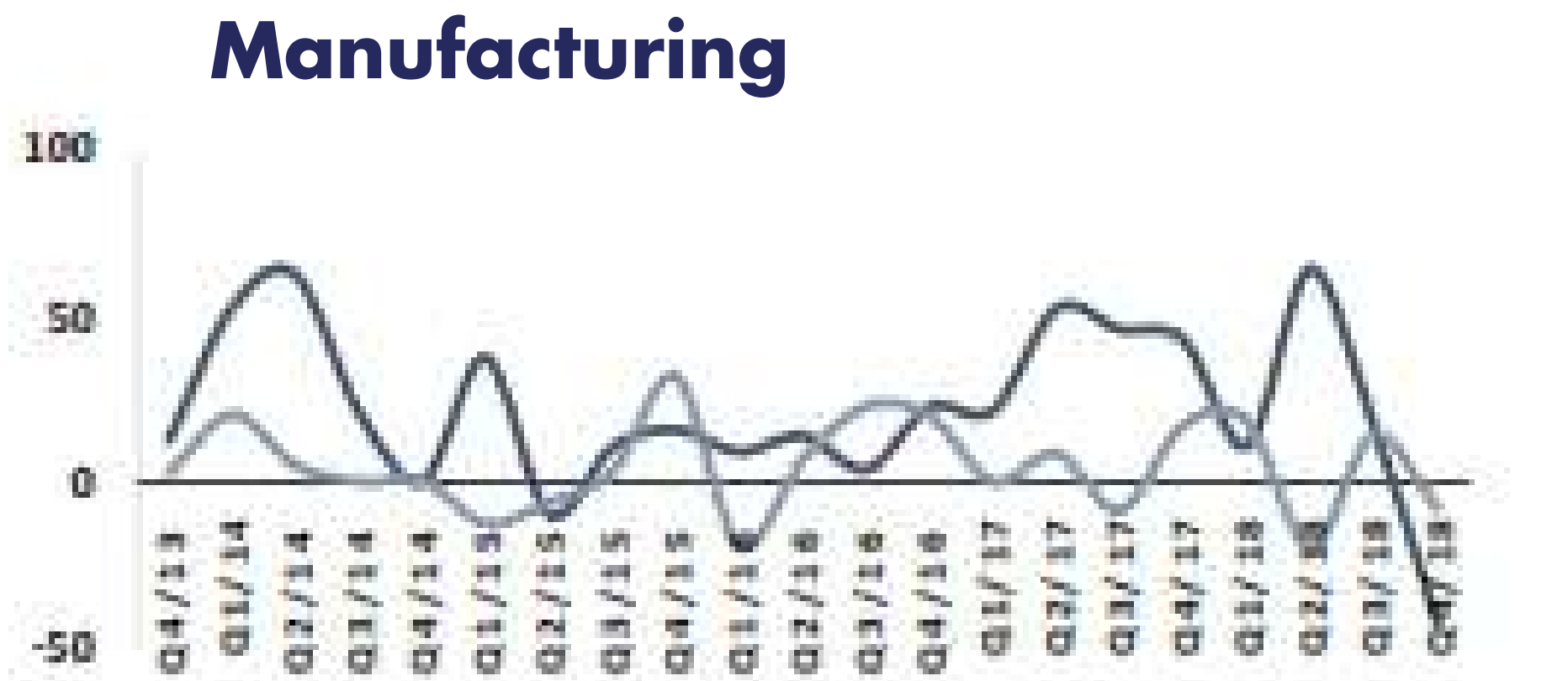
| Maximum number of firms participating in the survey |     |
|---|-----|
| 2016 Q2   |     |
| Large   | SME |
| 104   | 266 |

The number of firms participating in the BCI survey in Q3 2018 was 130. This is a decrease of -45% compared to the previous quarter's level of participation. Despite the decrease 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.

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

## Overall BCI

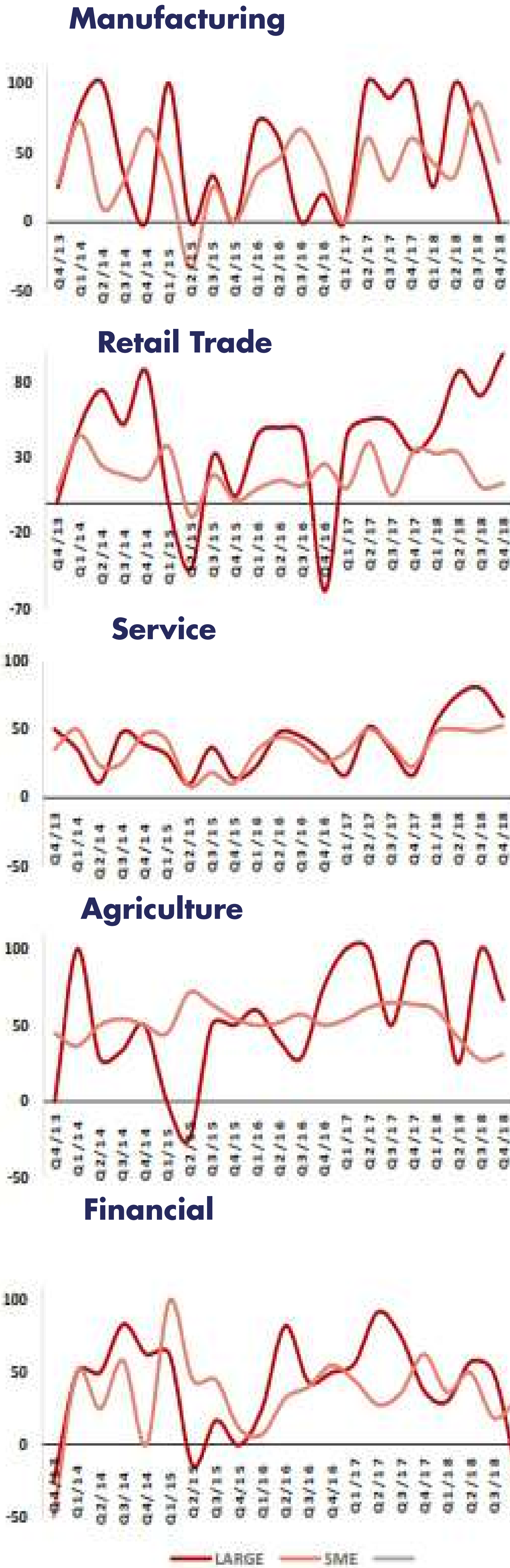
## Sales/Production/Turnover for past 3 months



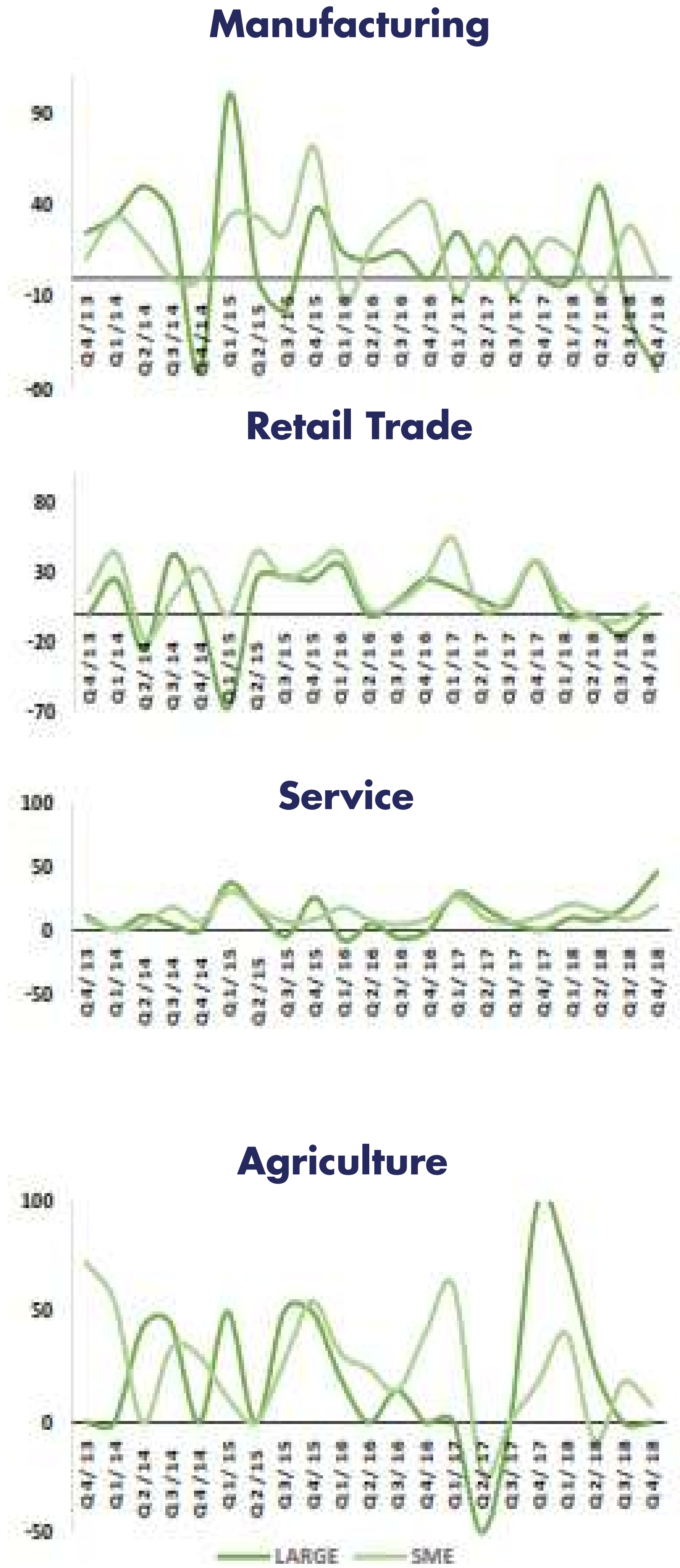
— LARGE — SME

— LARGE — SME

# Expectations Index



# Sales Price Expectations Index



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