

BUSINESS CONFIDENCE INDEX

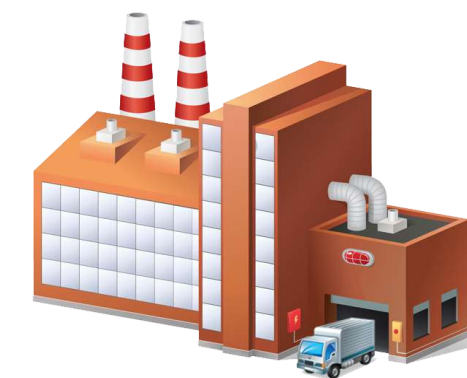
4.4
INCREASE

Financial and Construction Sectors out of Spring Vibes!

Q2 2019

Participating Companies

Large



27

SMEs



60

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- BCI in the second quarter of 2019 has improved, reaching 27.0 index points, which is 4.4 index points higher than the previous quarter. The highest growth in BCI was observed in retail trade and manufacturing. In the case of retail trade this advancement in BCI is mostly due to good past performance, while in manufacturing the driver is positive expectations.
- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed a downward trend, decreasing by 1.4 points in Q2 2019.
- Business optimism increased significantly after a downward trend over the last three consecutive quarters and reached 45.5 index points. Other than manufacturing, retail trade and service have contributed the most to this improvement in business optimism. In construction and the financial sector, expectations have deteriorated significantly.
- The Sales Price Expectation Index increased moderately. Businesses in retail trade, service, and agriculture predict higher prices in the next quarter while the other sectors are expecting the same prices as in the previous quarter.
- Expectations and Past Performance improved for large businesses and worsened for SMEs.
- The main factor that continues to limit business activities for large businesses is access to finance, while for small and medium businesses the limiting factor is lack of demand.

* 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).

Overall, the BCI has gained 4.4 points compared to Q1 2019. Expectations in the private sector in Georgia increased significantly by 9.2 percentage points, reaching 45.5 index points. Business performance over the past three months decreased, reaching nearly 23.0 points (down from 24.4), indicating a downturn in production/turnover/sales. At the same time, business expectations boosted to a higher rate and past performance experienced a slight reduction, which together have led to a lift in the overall BCI.

The BCI index increased in the retail trade (16.6), manufacturing (14.8), service (9.2) and agriculture (0.4) sectors. The construction and financial sectors declined by 27.9 and 24.5 points respectively.

BCI QoQ change by sector

Sectors	Q2/19		Change
Manufacturing	15.2	▲	14.8
Construction	-3.2	▼	-27.9
Retail Trade	36.0	▲	16.6
Service	35.9	▲	9.2
Agriculture	14.1	▲	0.9
Financial	17.5	▼	-24.5
Other	8.9	▲	0.9

SME



Q2/19 **Change**
6.6 ▼ **-7.8**

Large

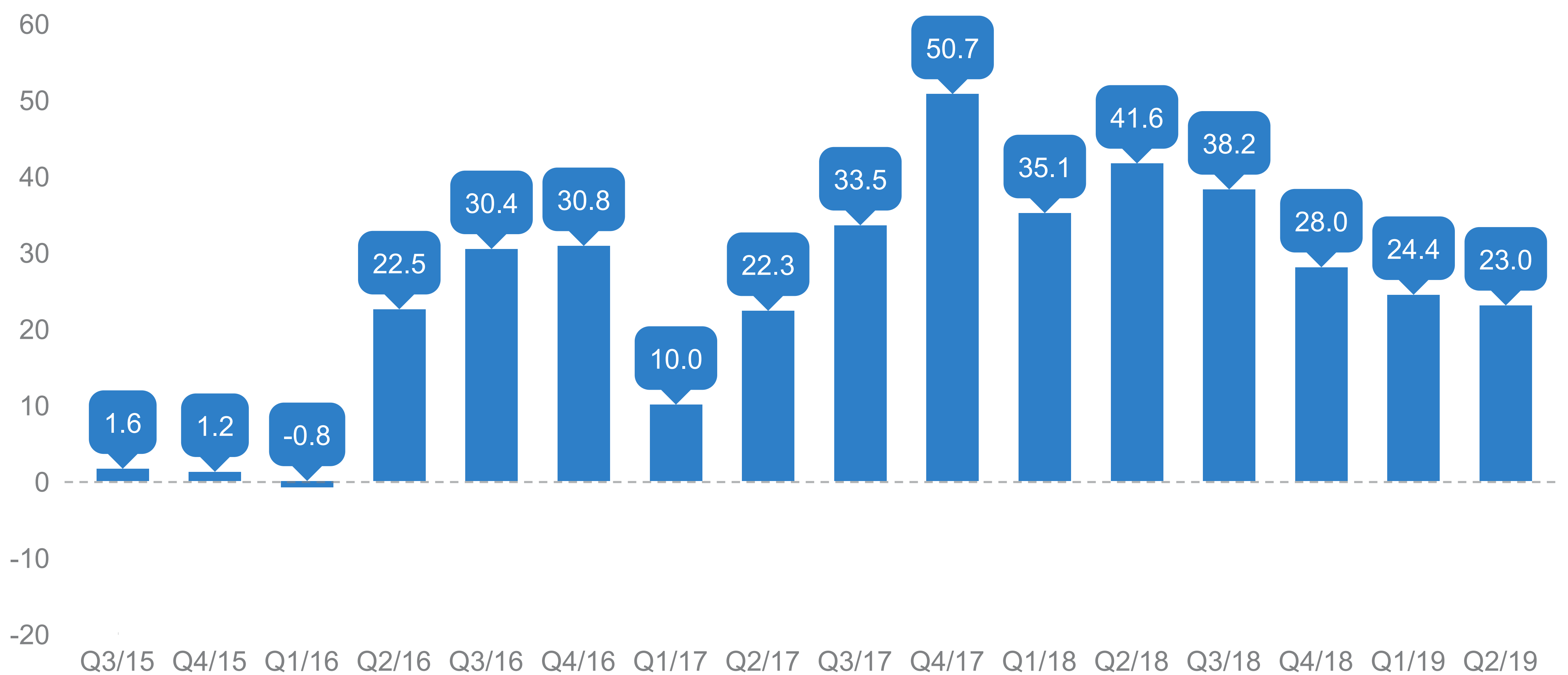


Q2/19 **Change**
29.4 ▲ **5.7**

Business confidence in the second quarter of 2019 increased for large firms (5.7) and dropped for SMEs (-7.8).

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, to some extent, more likely to have a negative outlook.

Production/Turnover/Sales Past 3 Months

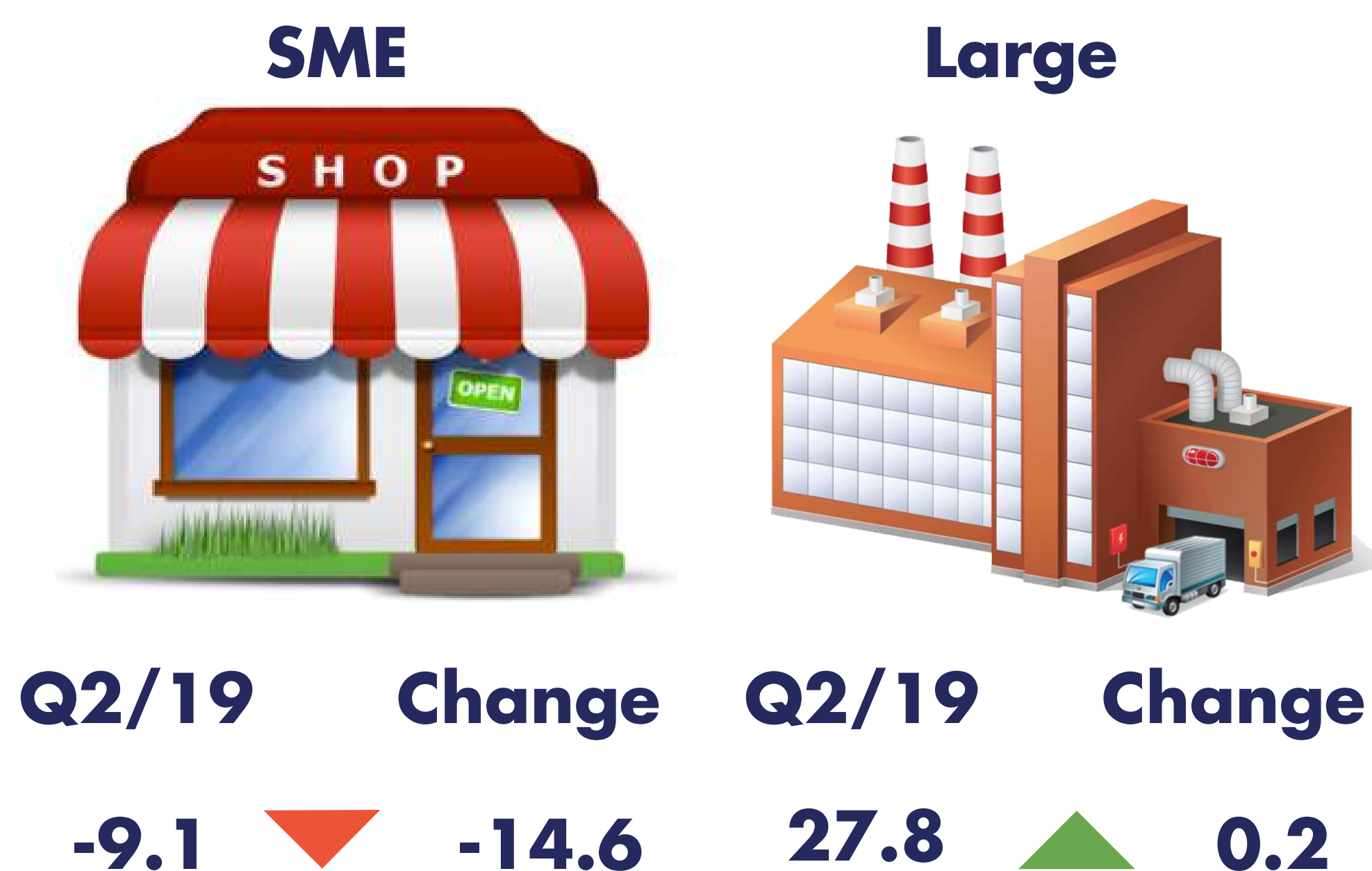


Businesses' actual performance decreased by 1.4 points compared to Q1 of 2019. In Q2 2019, sales (production or turnover) of the 87 firms surveyed decreased from 24.4 (Q1 2019) to 23.0 (Q2 2019).

A significant drop in performance was observed in finance (-30.2), manufacturing (-6.7) and service (-4.1). 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 sectors, production/turnover/sales for the past three months improved or remained unchanged: retail trade (20.7), agriculture (6.0) and construction (no change).

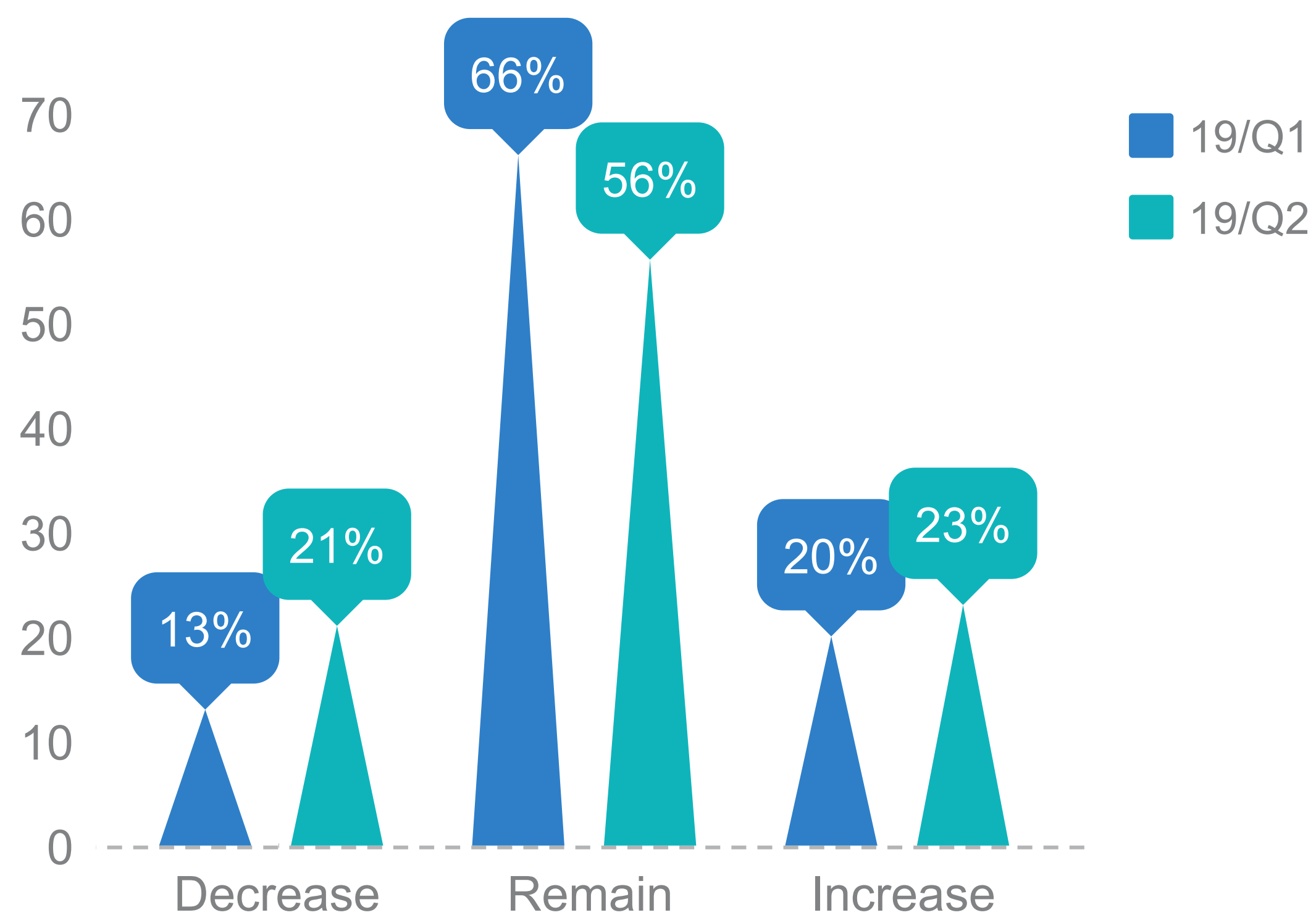
Past 3 Months QoQ change by sector

Sectors	Q2/19	Change	Change
Manufacturing	-6.7	▼	-6.7
Construction	-6.9	■	0.0
Retail Trade	53.7	▲	20.7
Service	30.2	▼	-4.1
Agriculture	15.6	▲	6.0
Financial	-0.7	▼	-30.2
Other	0.0	■	0.0



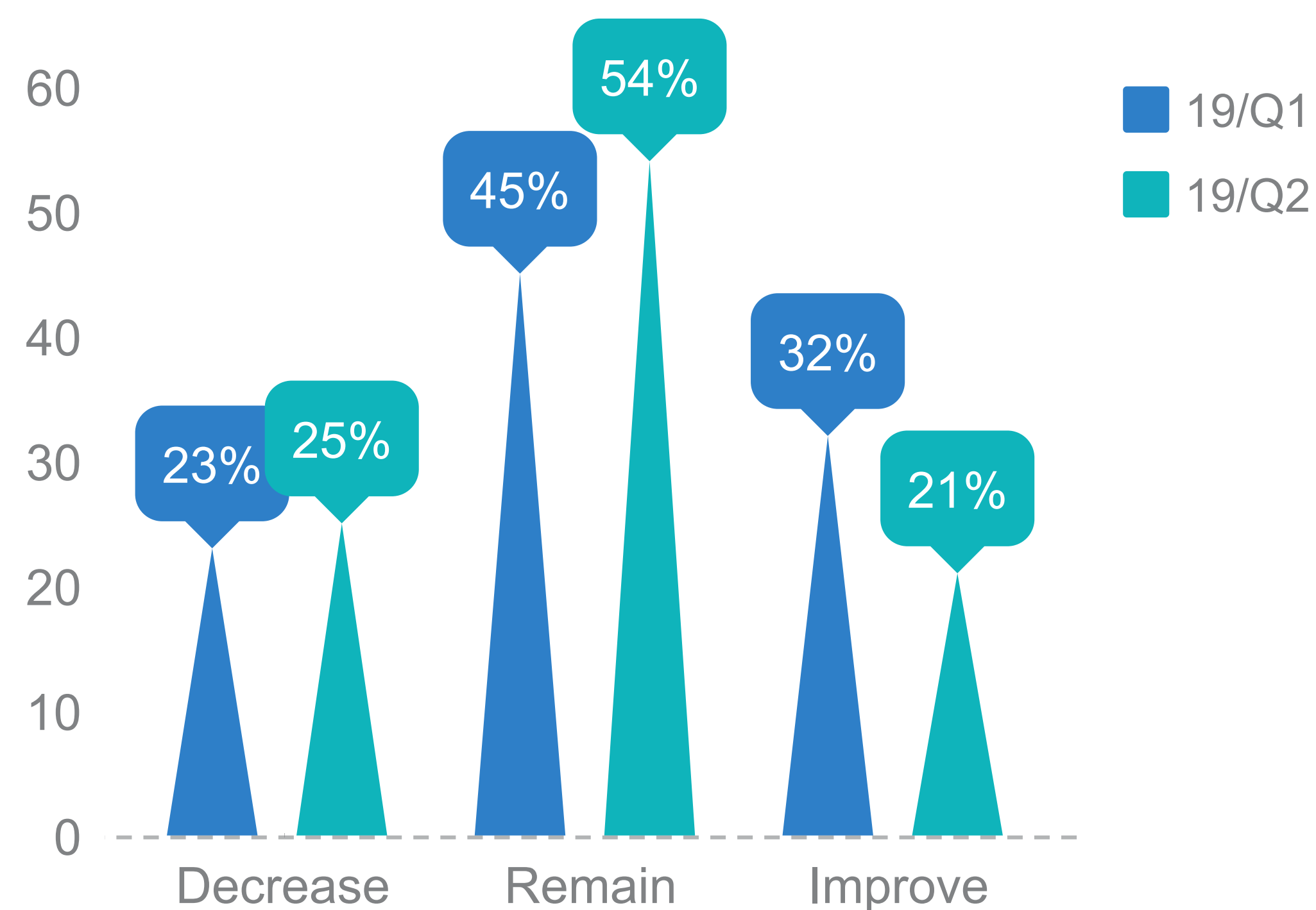
Business activities improved for large businesses and declined for SMEs. For large firms, the business activity indicator increased by 0.2 points and reached 27.8 in Q2 2019; for SMEs, the same indicator decreased by 14.6 and stopped at -9.1 index points.

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



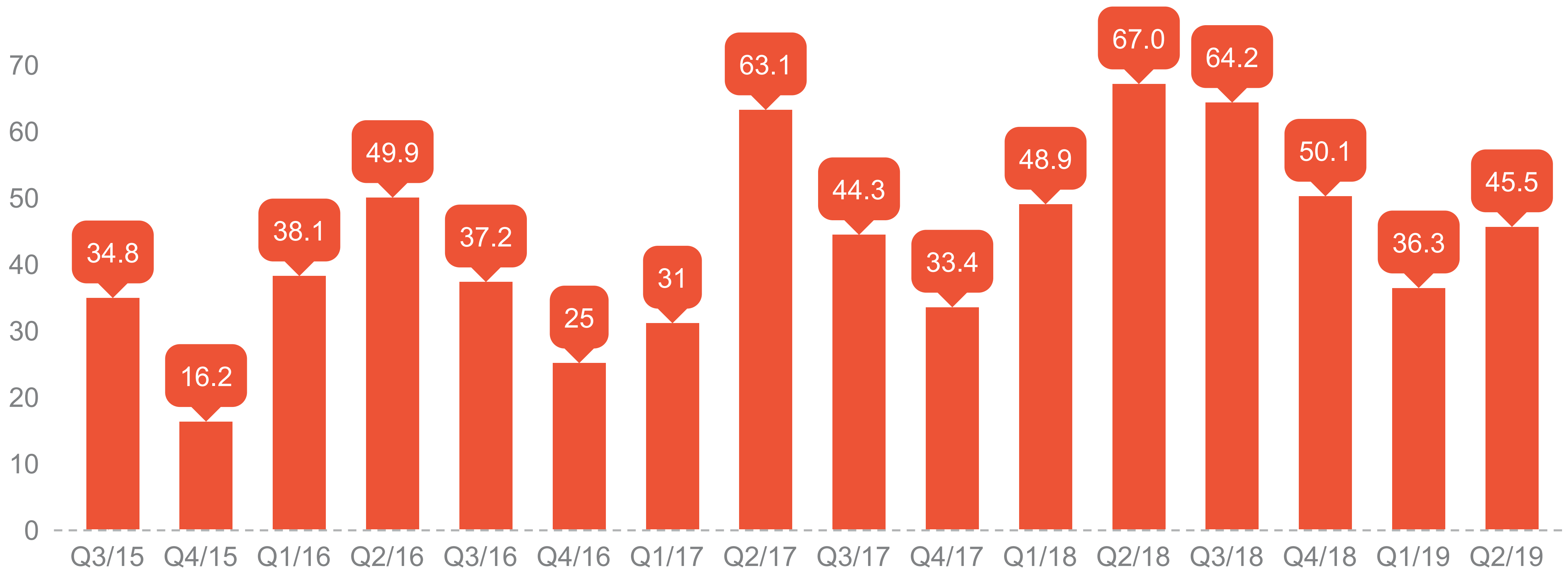
Compared to the previous quarter, a higher share of surveyed firms (56%) stated that employment remained the same over the past three months. More businesses reported an increase and fewer decreases in employment.

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



Moreover, 54% of firms claimed that their business activities remained unchanged over the past three months, while 25% of participants stated that their performance had deteriorated, and only 21% stated an improvement.

Expectations Index



Expectations QoQ change by sector

Sectors	Q2/19	Change
Manufacturing	64.9	▲ 60.5
Construction	22.1	▼ -46.5
Retail Trade	54.8	▲ 13.5
Service	57.0	▲ 16.8
Agriculture	23.5	▲ 6.6
Financial	-6.0	▼ -46.5
Other	0.0	■ 0.0

The Expectations Index increased by 9.2 index points in Q2 2019. Expectations about the next three months improved for all business sectors except the financial (-46.5) and construction (-46.5) sectors. The greatest jump was reported in manufacturing (60.5).

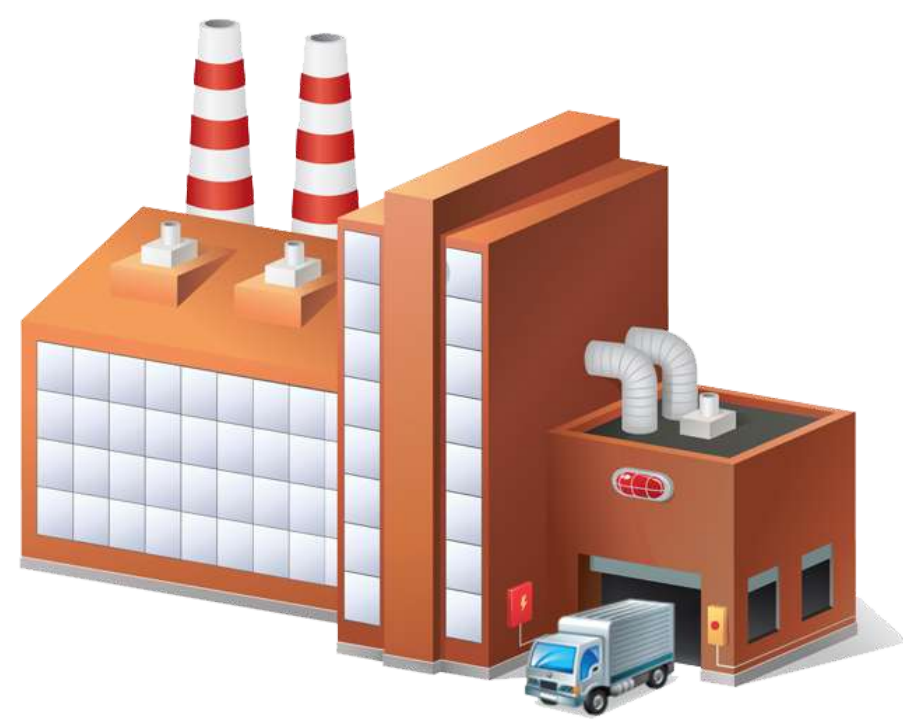
SME



Q2/19
20.9

Change
▼ -17.4

Large

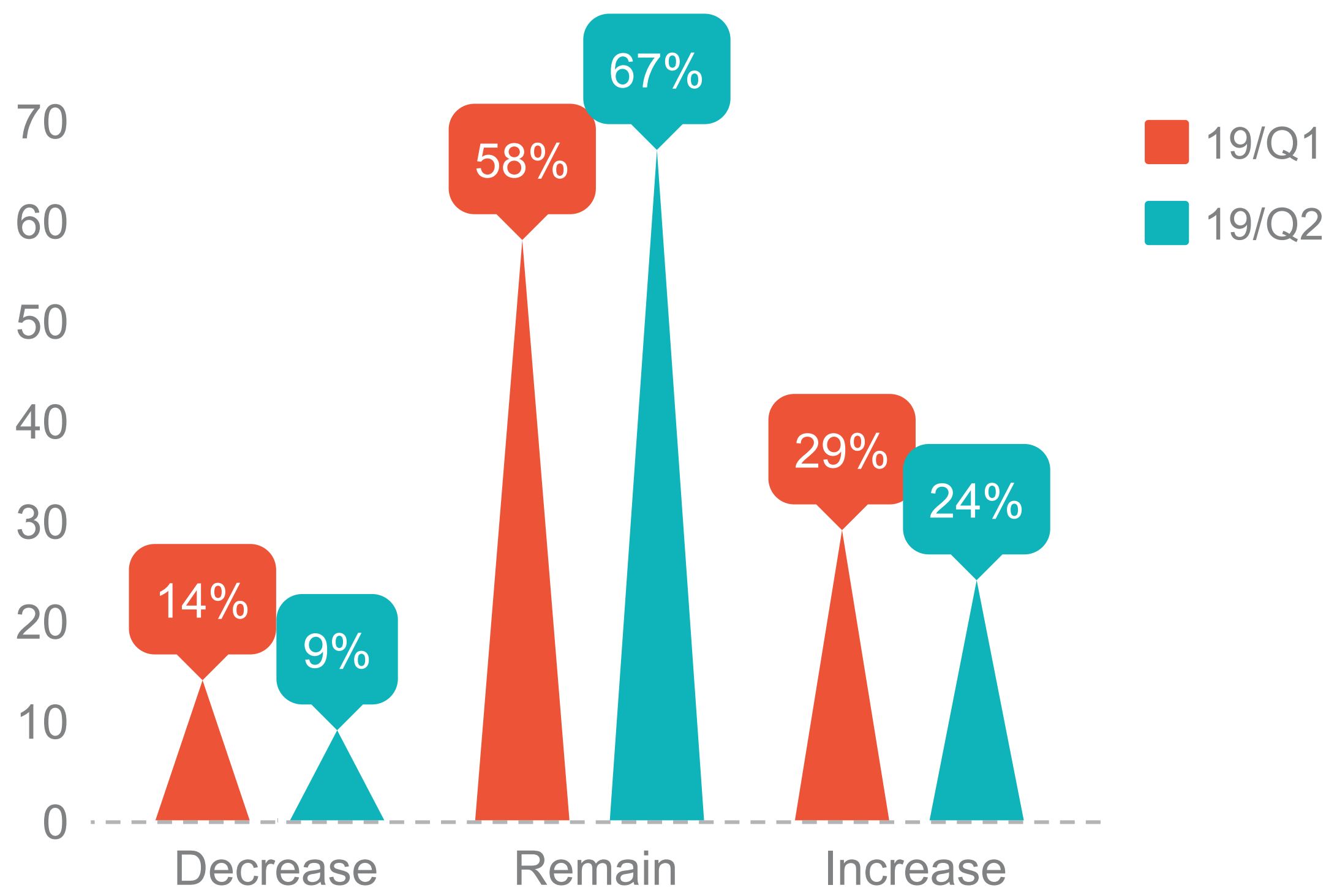


Q2/19
48.6

Change
▲ 13.1

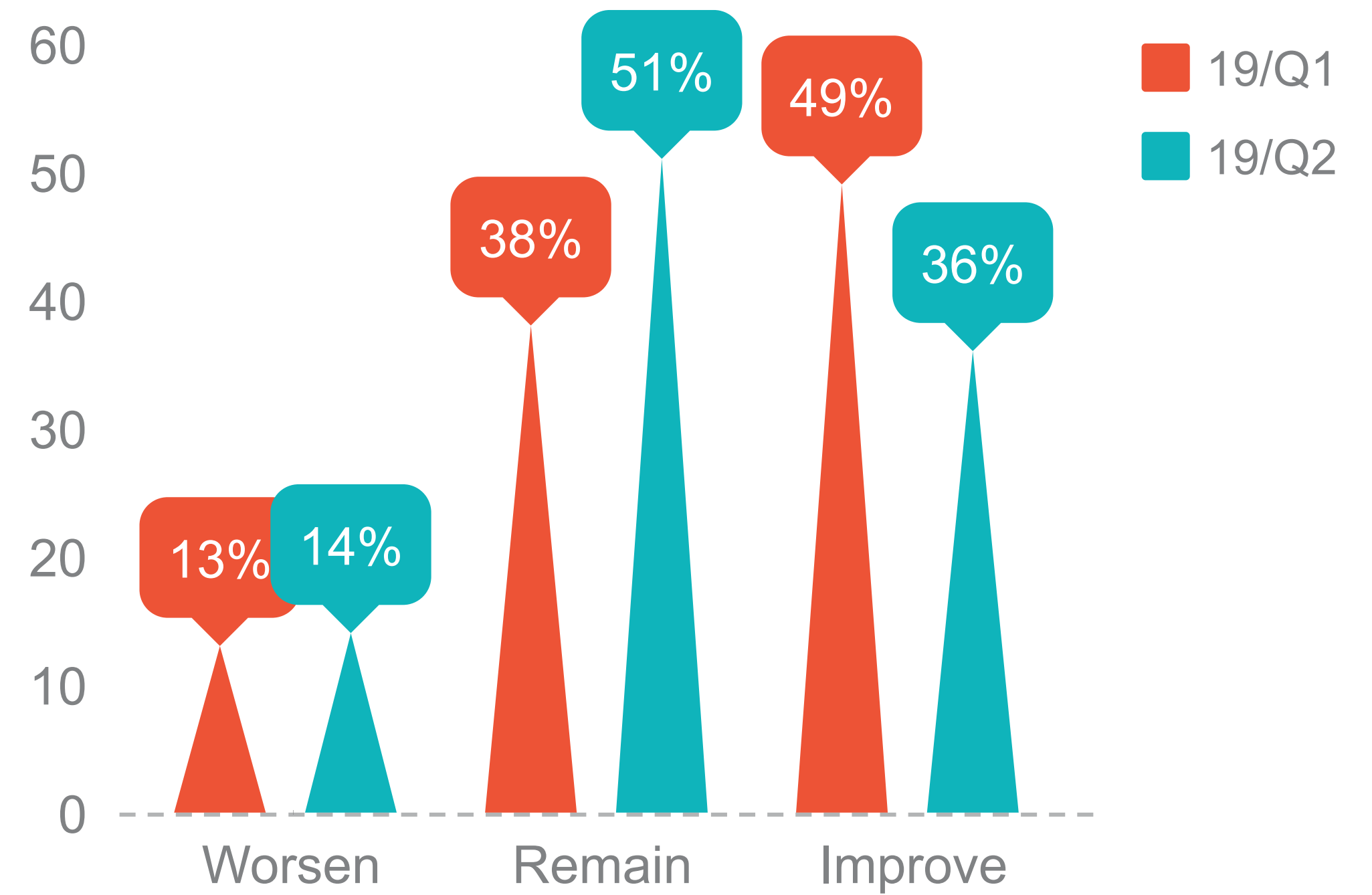
Business expectations increased for large firms and worsened for SME firms.

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



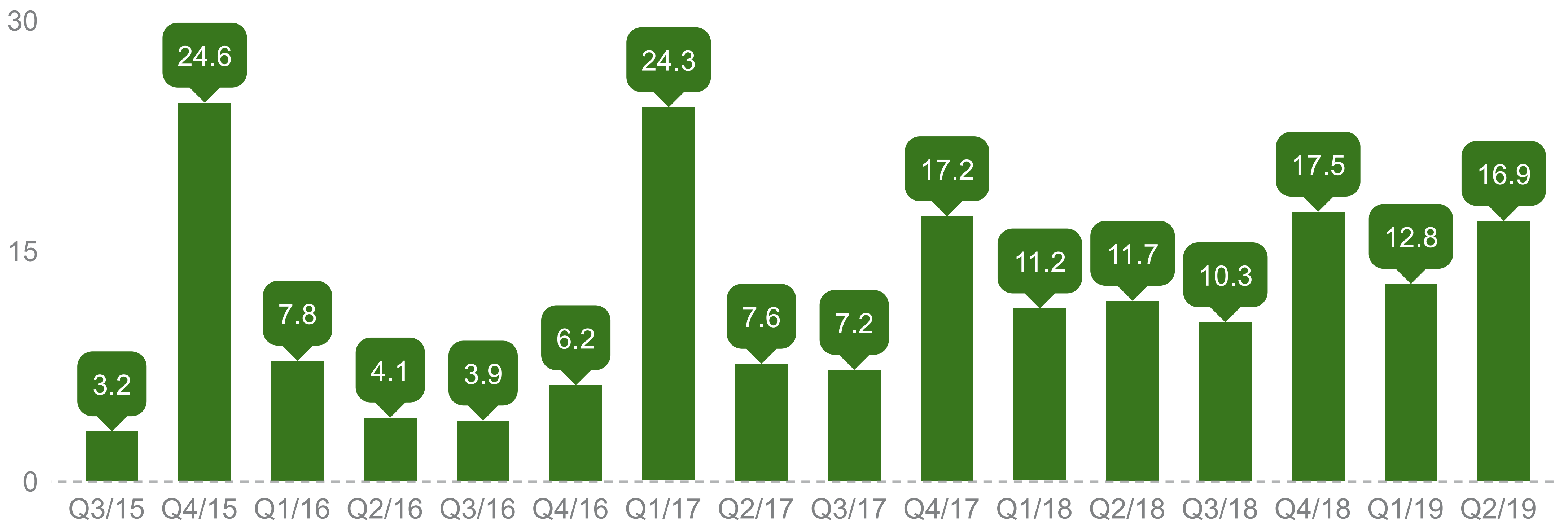
The majority (67%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 24% of firms stated that they would employ more employees in the future.

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



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

Sales Price Expectations

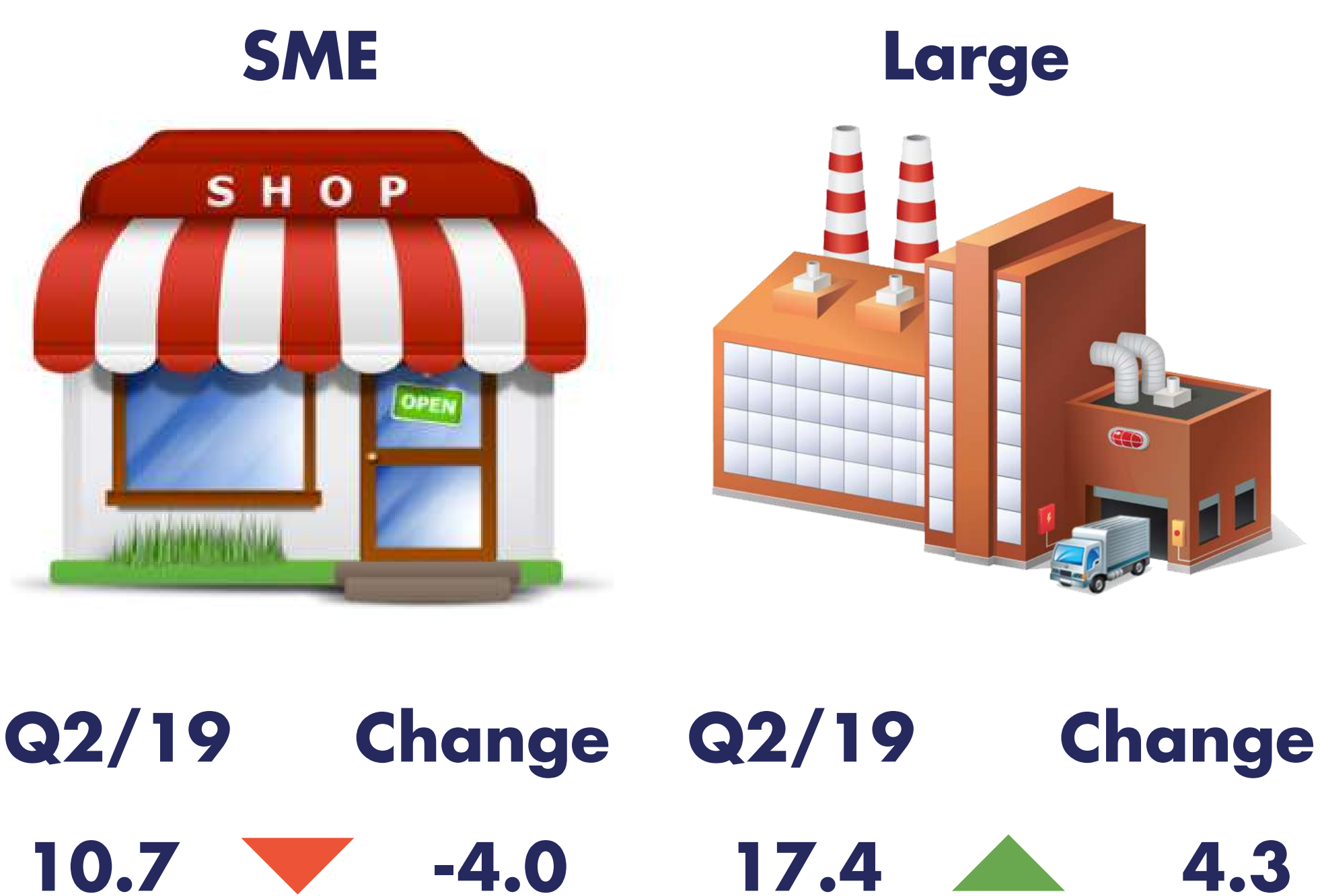
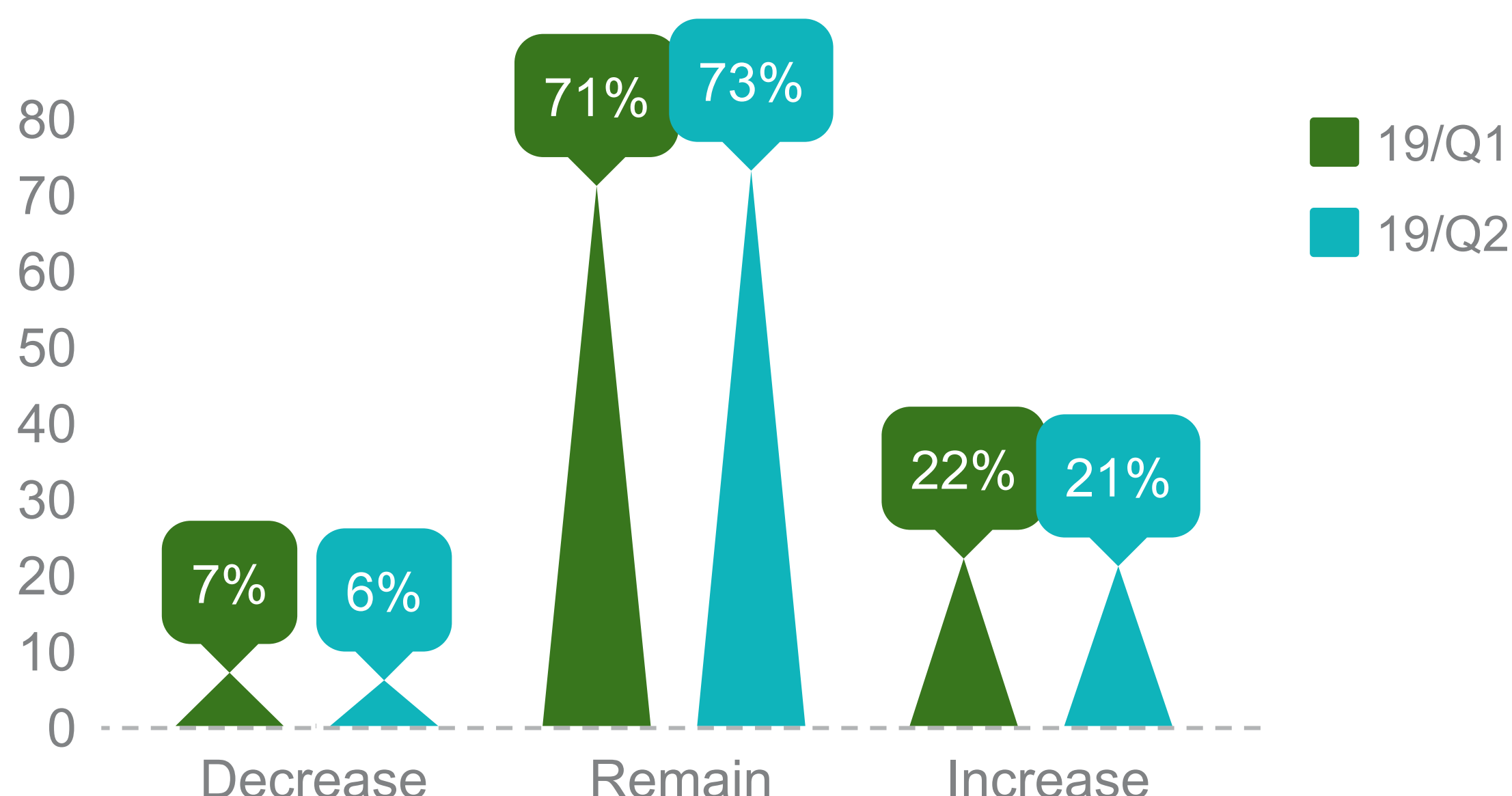


The Sales Price Expectations Index increased from 12.8 points (Q1 2019) to 16.9 points (Q2 2019). This jump is mostly driven by an increase in the retail trade and service sectors. Interestingly, the manufacturing and construction sectors do not expect a price change. The overall Sales Price Expectations Index increased for large companies while the index decreased for SMEs.

Sales price QoQ change by sector

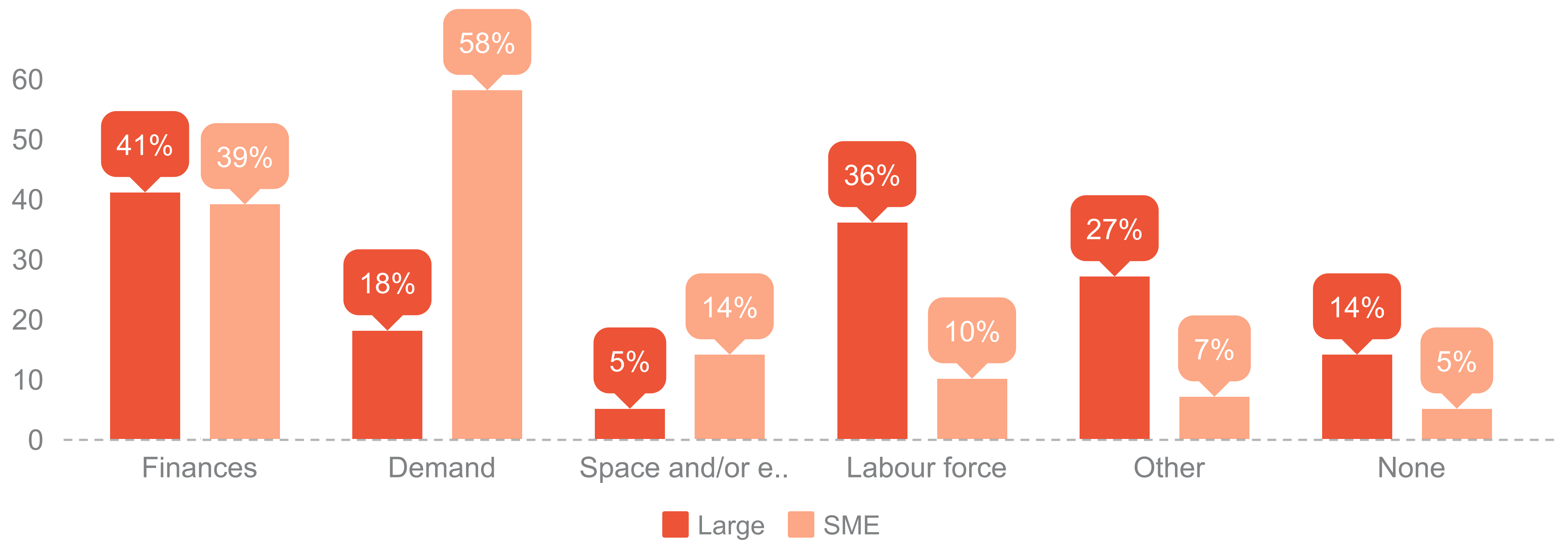
Sectors	Q2/19	Change
Manufacturing	0.0	▼ -23.1
Construction	0.0	▼ -48.8
Retail Trade	31.0	▲ 30.0
Service	22.7	▲ 13.7
Agriculture	15.6	▼ -18.7
Other	0.0	■ 0.0

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



The majority (73%) of all surveyed firms are not going to change the prices they charge over the next three months. Only 6% of firms expect to decrease prices, and 21% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 2, 2019



The lack of demand (58%) and limited access to finance (39%) continue to be two of the most significant obstacles for SMEs. Meanwhile, large companies named access to finance (41%) and labour force (36%) as main limiting factors.

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	19/Q1	19/Q1	19/Q2	19/Q2
Manufacturing	13	8%	8	9%
Construction	14	9%	9	10%
Retail Trade	30	19%	22	25%
Service	68	43%	32	37%
Agriculture	13	9%	5	6%
Financial	15	9%	6	7%
Other	5	3%	5	6%
Source: BCI Survey Data	160	% share	87	% 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	19/Q2	
	Large	SME
Manufacturing	4	4
Construction	4	5
Retail Trade	3	19
Service	8	24
Agriculture	1	4
Financial	5	1
Other	2	3
Source: BCI Survey Data	27	60

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 2019 was 87. This is an 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.

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