

BUSINESS CONFIDENCE INDEX

8.3
INCREASE

Manufacture in Georgia !

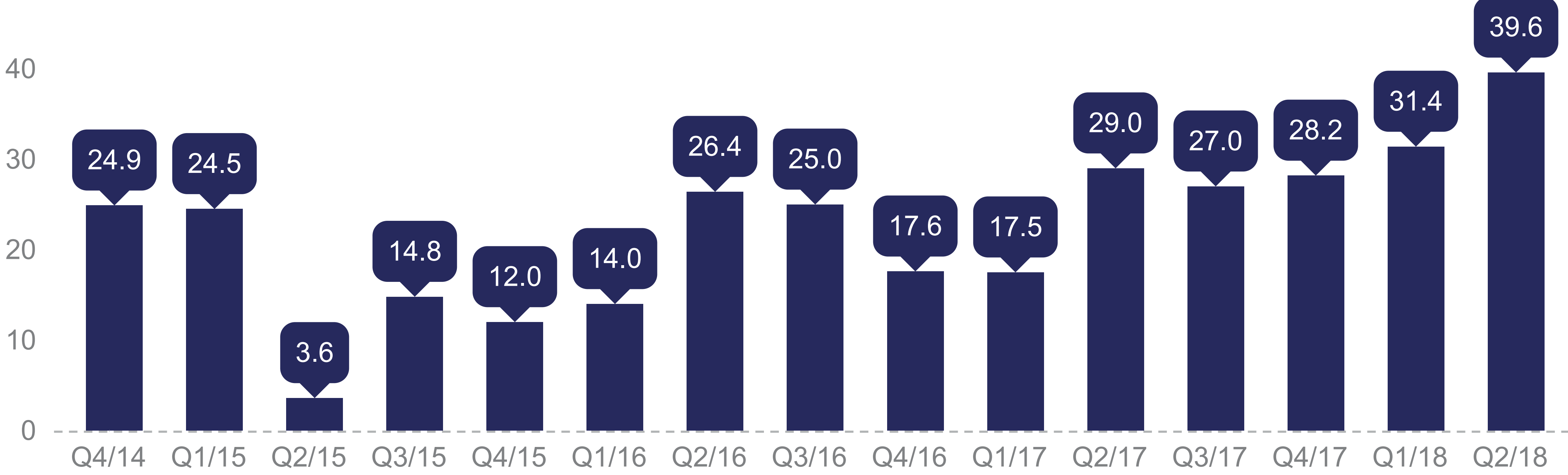
Q2 2018

Participating Companies

<p>Large</p>  <p>75</p>	<p>SMEs</p>  <p>161</p>
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SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- BCI in the second quarter of 2018 has improved, reaching 39.6 index points, which is an 8.3 index point gain over the previous quarter. The improvement in Business Confidence is in line with the overall positive country performance (Geostat estimated 5.2% GDP growth in Q1 2018). The BCI increase is based on very high expectations and profitable past performance in almost in all business sectors. Compared to other sectors, manufacturing assessed their past performance and expectations the most positively. In contrast, the agriculture sector is the most pessimistic, reflecting a low season in production.
- The Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, showed an upward trend, increasing by 6.5 points in Q2 2018.
- Business optimism about the overall economy increased significantly, reaching an historical maximum of 67.0 index points. Other than manufacturing, the retail trade and financial sectors have contributed the most to this increase in business optimism.
- The Sales Price Expectation Index increased moderately, still standing higher than last year's expectations. Businesses in the construction sector predict high price increases in the next quarter as a result of ongoing regulations in this sector.
- Compared to large businesses, SMEs' expectations and past performance worsened. As a result, the BCI for SMEs went down by 4.5 index points.
- Irrespective of their size, the main factors that continue to limit business activities are lack of demand and access to finance.

* 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 gained 8.3 points compared to Q1 2018. Expectations in the private sector in Georgia increased significantly, by 18.1 percentage points, and reached 67.0 index points (up from 48.9 points in Q1). Business performance over the past three months increased, reaching nearly 41.6 points (increasing from 35.1), indicating an upturn in production/turnover/sales. The synergy of improved performance in the past three months and higher expectations have led to a raise in overall BCI.

The BCI index increased in all sectors except agriculture: manufacturing (+41.6), retail trade (+14.6), construction (+10.0), financial (+2.6), service (+4.1) and other (+7.1). The agriculture sector worsened by -28.0 points.

BCI QoQ change by sector

Sectors	Q2/18		Change
Manufacturing	53.0	▲	41.6
Construction	20.8	▲	10.0
Retail Trade	35.2	▲	14.6
Service	43.7	▲	4.1
Agriculture	16.3	▼	-28.0
Financial	50.8	▲	5.6
Other	21.7	▲	7.1

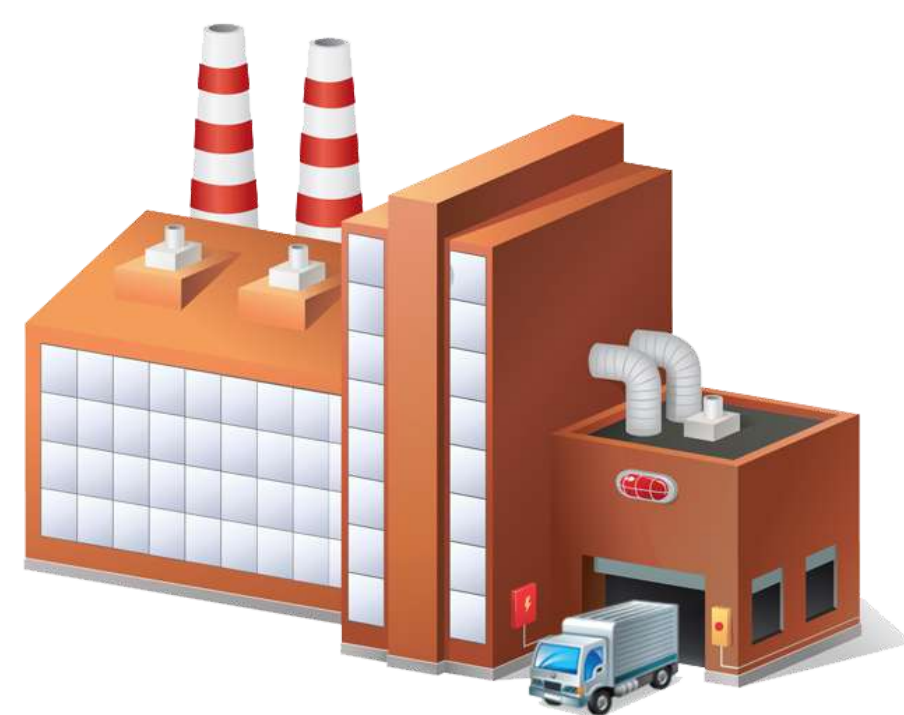
SME



Q2/18
12.56

Change
▼ **-4.5**

Large



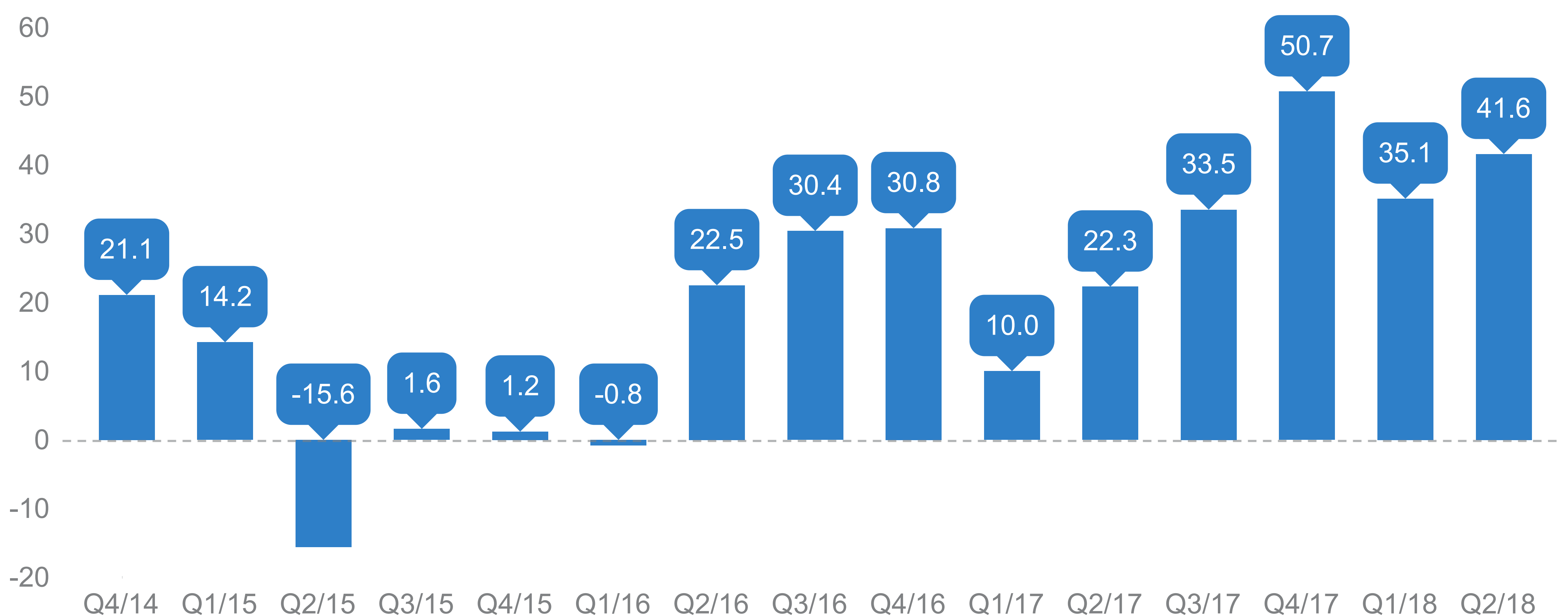
Q2/18
44.5

Change
▲ **10.7**

Business confidence in the second quarter of 2018 increased mostly for large firms (+10.7). SMEs, on the other hand, expressed less optimism and weaker performance, which resulted in a decrease of 4.5 index points for SMEs. Overall, BCI increased, since large firms have more weight in the calculations.

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 increased significantly compared to the first quarter of 2018. In the Q2 2018 reporting period, sales (production or turnover) of the 236 firms surveyed increased from 35.1 (Q1 2018) to 41.6 (Q2 2018).

A significant increase in performance was observed almost in all sectors: construction (+40.2), manufacturing (+34.2), retail trade (+12.3), service (+6.3) and others (+17.2). Significant improvement means that in these sectors, the weighted balance between positive and negative responses decreased compared to the previous quarter. In the agriculture and financial sectors, production/turnover/sales for the past three months worsened by -64.0 and -16.2 points, respectively.

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

Past 3 Months QoQ change by sector

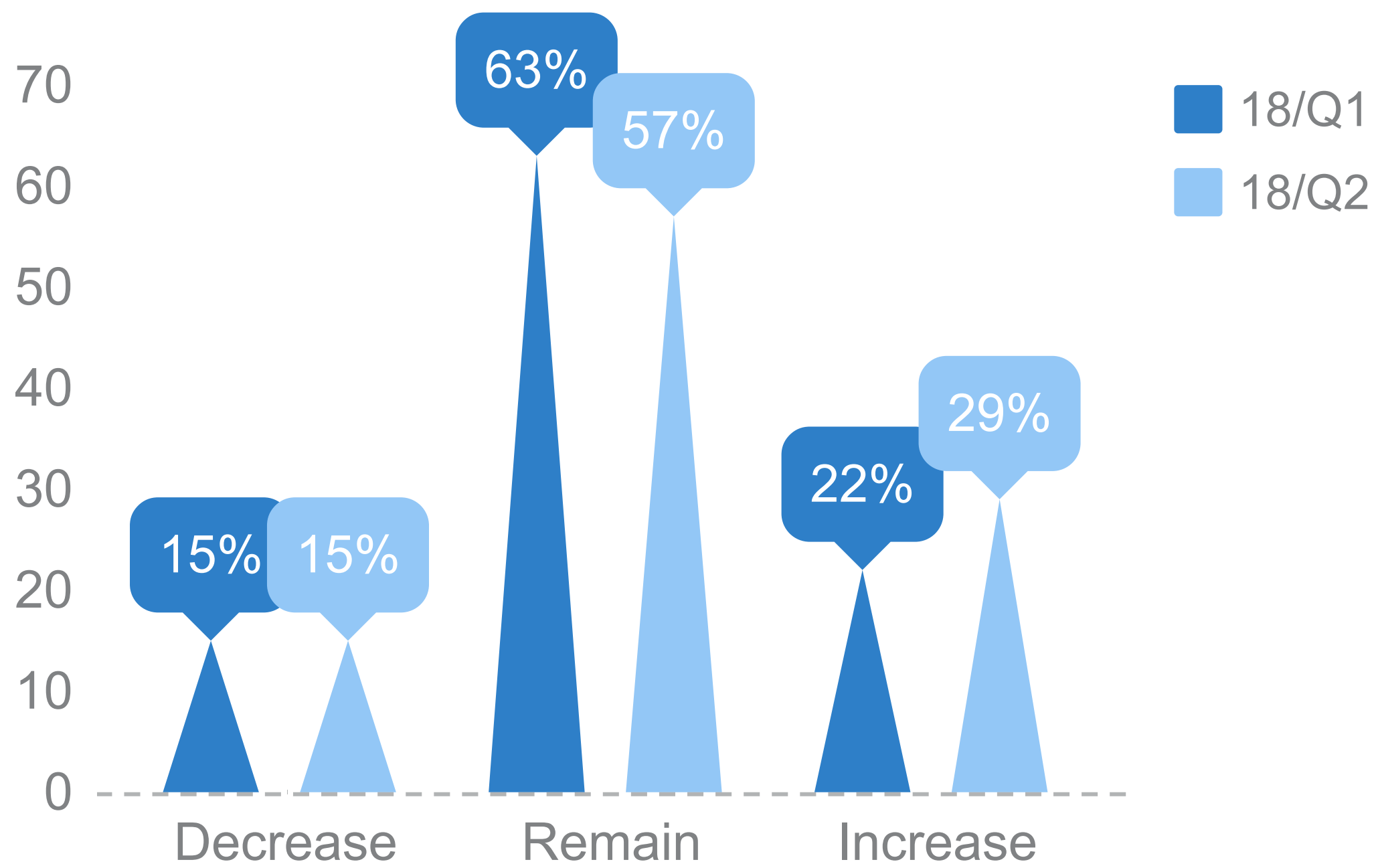
Sectors	Q1/18		Change
Manufacturing	83.2	▲	34.2
Construction	29.3	▲	40.2
Retail Trade	33.1	▲	12.3
Service	43.8	▲	6.3
Agriculture	-14.6	▼	-64.0
Financial	48.8	▼	-16.2
Other	49.0	▲	17.2



Business activities increased for large businesses and declined for SMEs. For large firms, business activity indicators rose by 6.5 points and stopped at 48.2 in Q2 2018; for SMEs, the same indicator dropped by -2.6 and reached 2.0 over the same period.

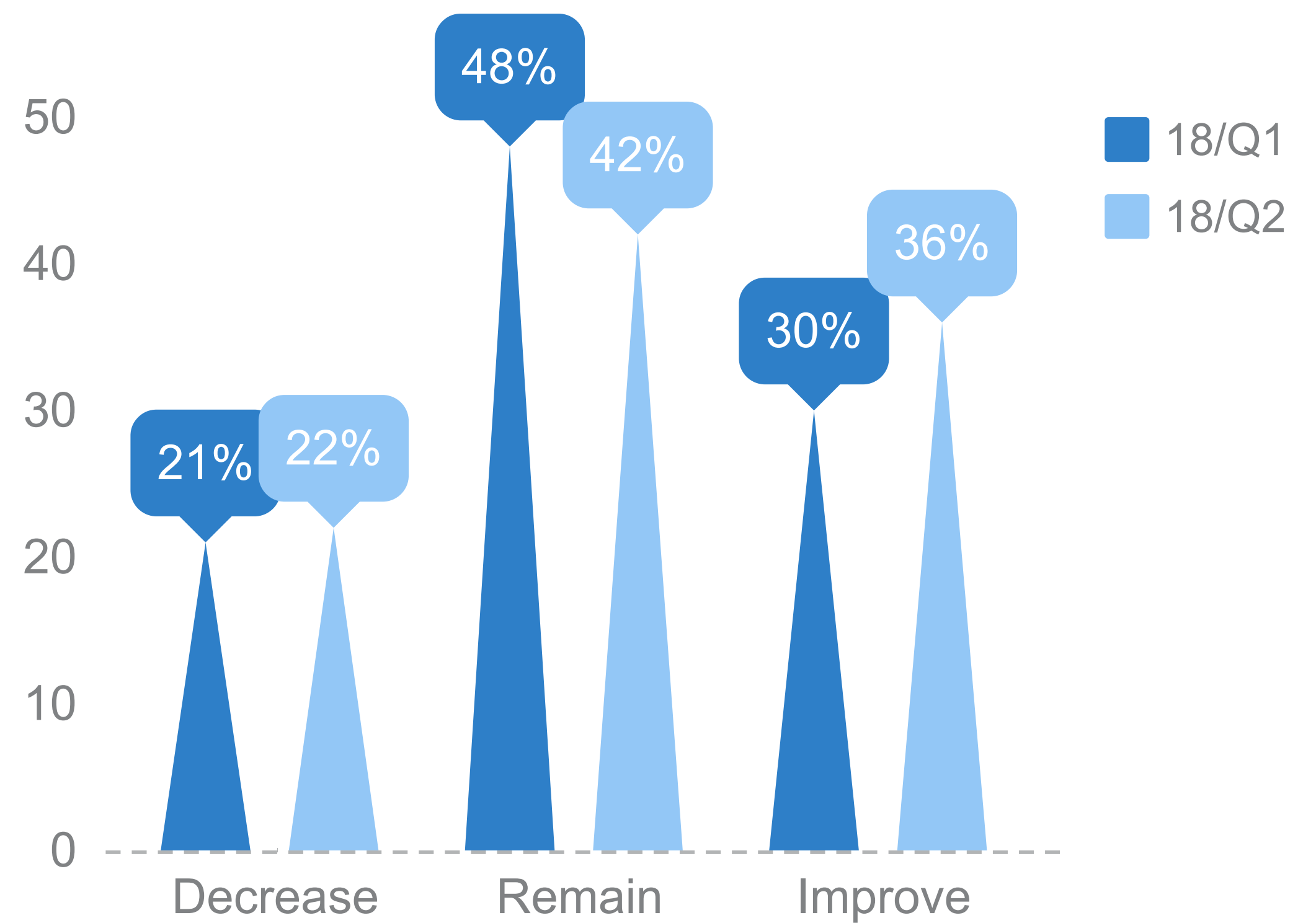
** This indicator describes the activities of businesses in January, February, March

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



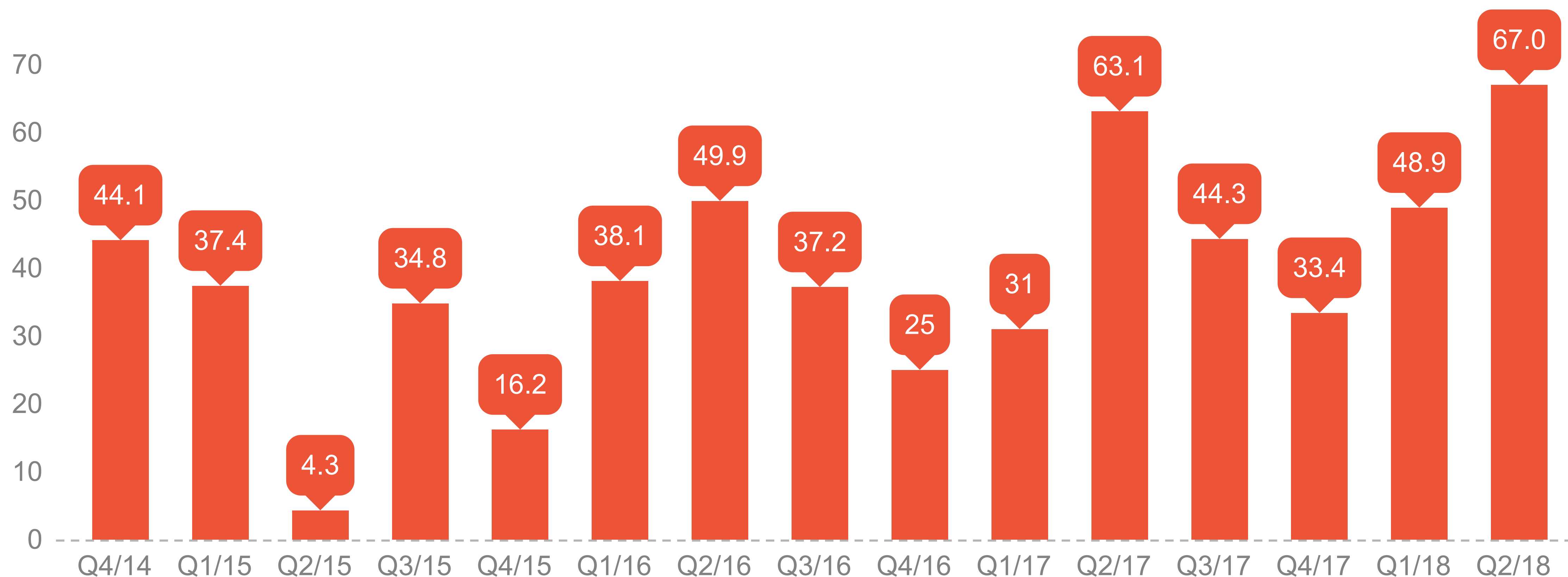
Compared to the previous quarter, a lower share of surveyed firms (57%) stated that employment remained the same over the past three months. More businesses reported an increase and fewer decreases in employment.

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



Moreover, 42% of firms claimed that their business activities remained unchanged over the past three months, while 36% of participants stated that they had improved their performance, and 22% stated the decline.

Expectations Index



The Expectations Index increased by 18.1 index points in the second quarter of 2018. Expectations about the next three months improved almost in all sectors, except agriculture (-57.3) and construction (-14.5). The highest increase was reported in the manufacturing and retail trade sectors (for more information, see Appendix 1).

Expectations QoQ change by sector

Sectors	Q2/18	Change
Manufacturing	91.1	▲ 63.7
Construction	35.0	▼ -14.5
Retail Trade	77.0	▲ 30.3
Service	71.5	▲ 17.7
Agriculture	30.2	▼ -57.3
Financial	55.7	▲ 24.4
Other	52.0	▲ 33.2

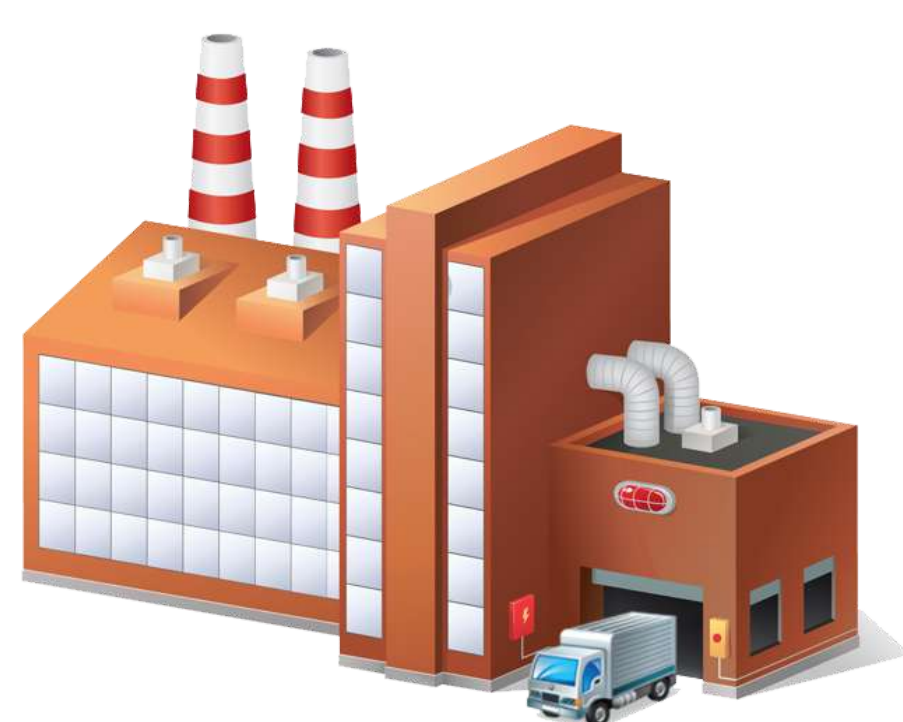
SME



Q2/18
43.3

Change
▼ -3.0

Large

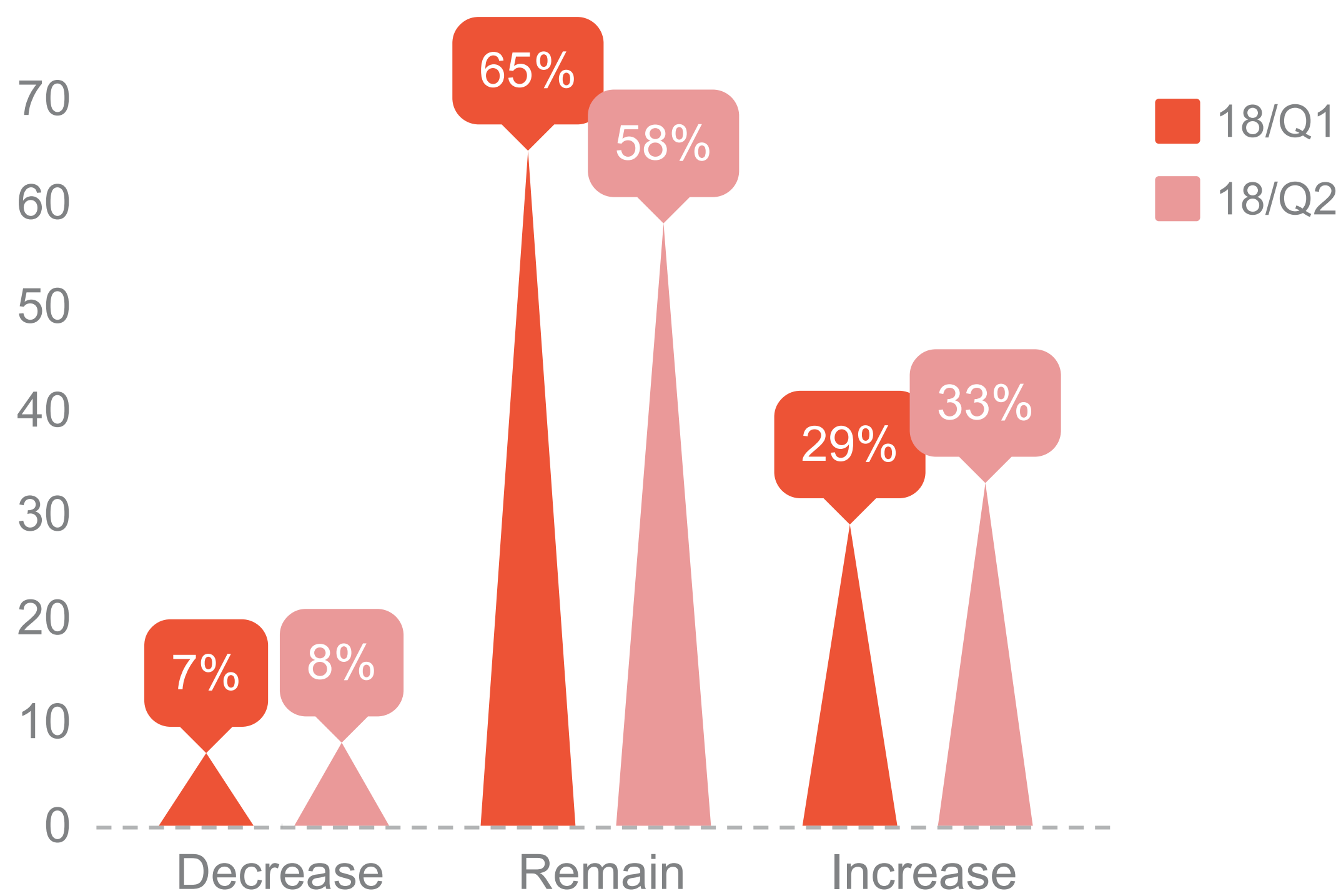


Q2/18
71.1

Change
▲ 21.1

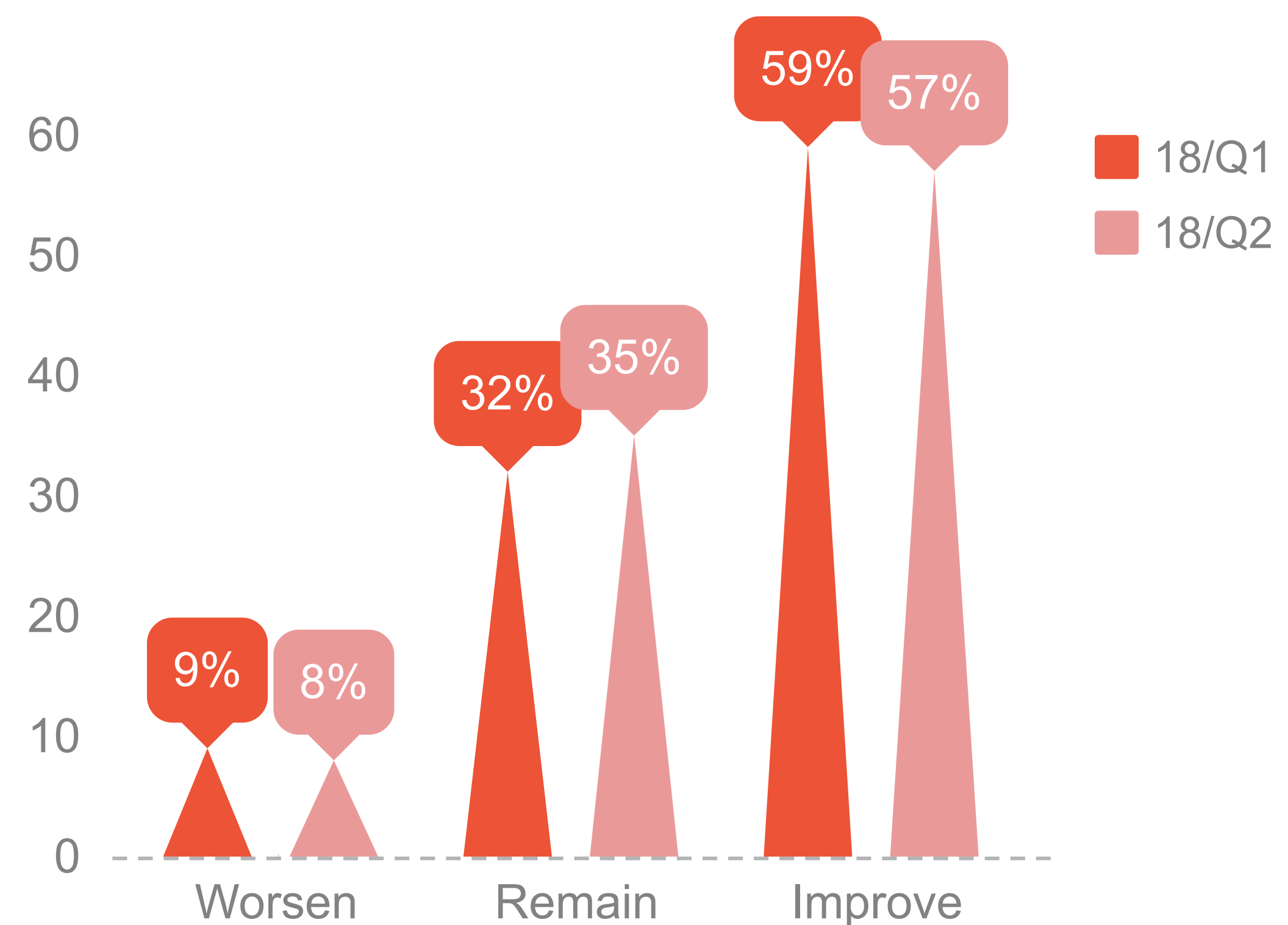
As one can see from the table, business expectations for the three-month period April through June 2018 increased for large size and decreased for SMEs firms.

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



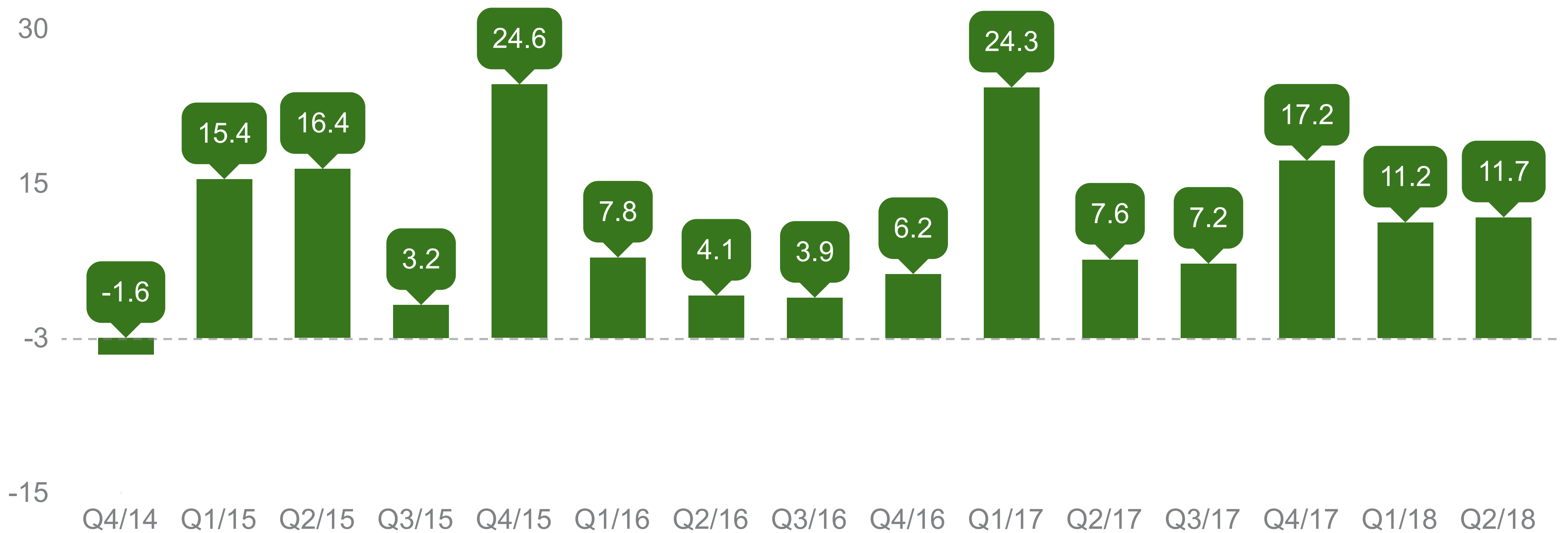
The majority (58%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 33% of firms stated that they would employ more employees in the future.

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



57% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 35% did not expect any changes in the future, while a lower share of businesses expect their business conditions to worsen.

Sales Price Expectations



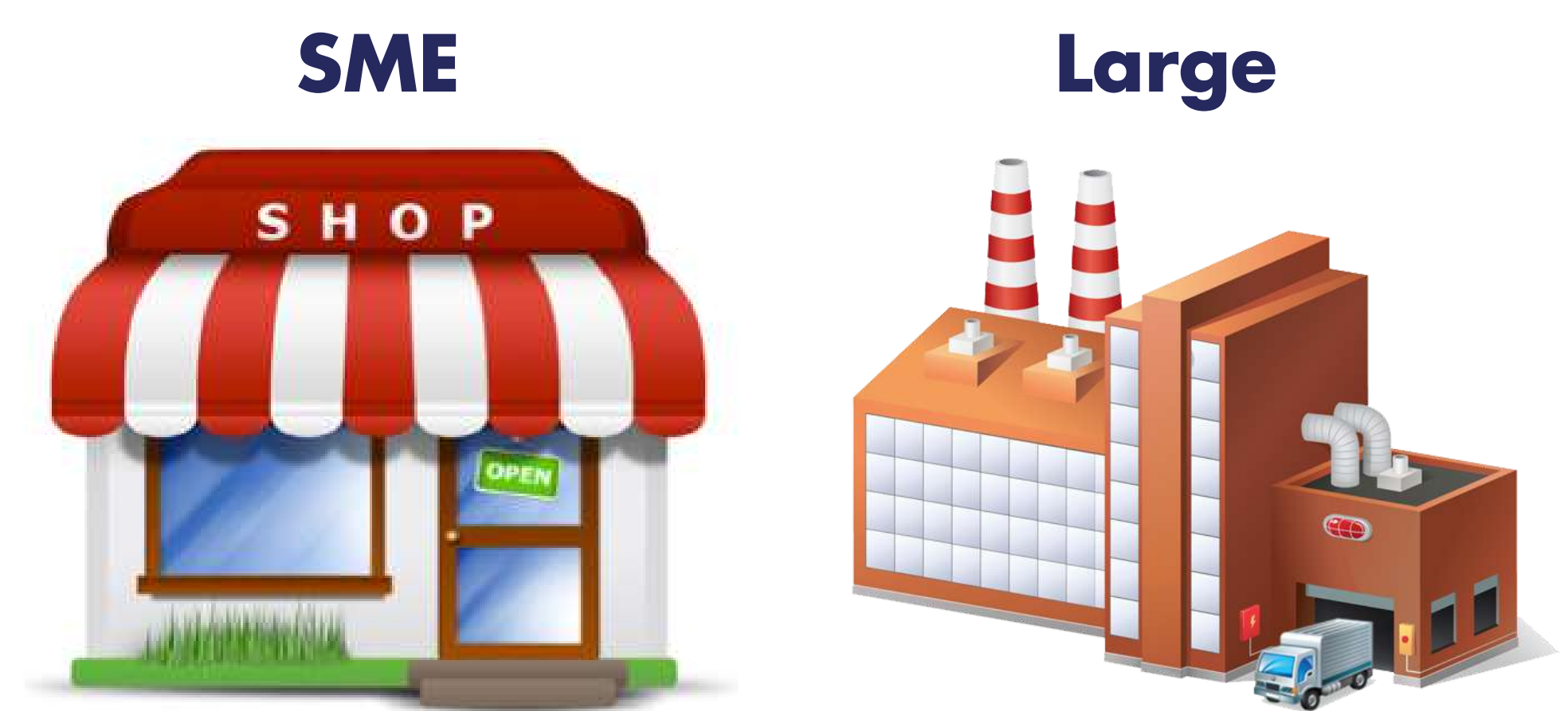
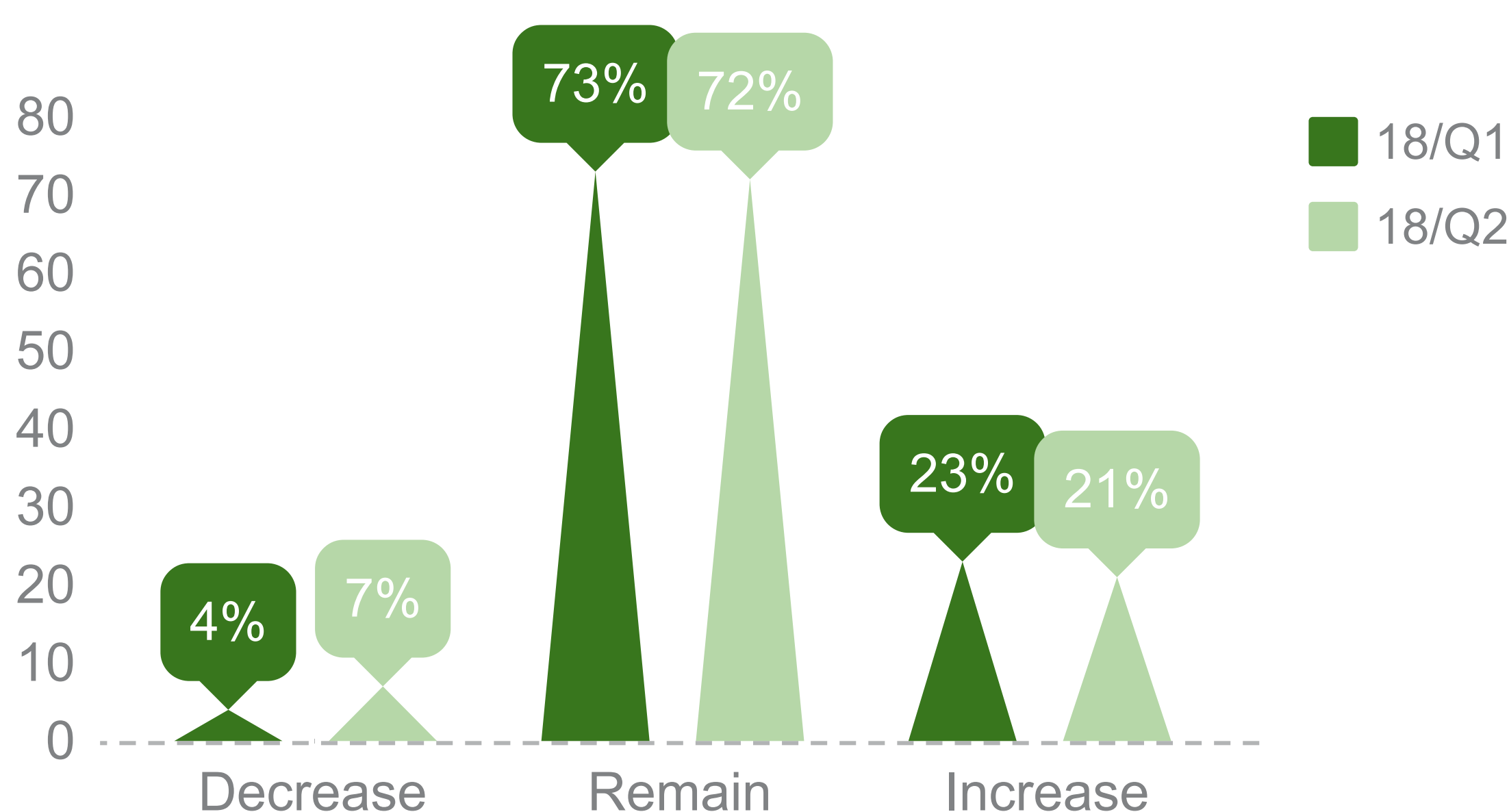
The Sale Price Expectation Index increased from 11.2 points (Q1 2018) to 11.7 points (Q2 2018). The increase in the Index is driven by significant improvement in the manufacturing and construction sectors. The agriculture sector's sales price expectations decreased the most, by -49.5 points. The manufacturing sector expects a noticeable increase in prices over the next three months (for more information, see Appendix 1).

Sales price QoQ change by sector

Sectors	Q2/18	Change
Manufacturing	42.2	▲ 40.3
Construction	33.3	▲ 21.7
Retail Trade	-0.5	▼ -2.4
Service	8.7	▼ -2.3
Agriculture	14.6	▼ -49.5
Other	-7.3	▼ -21.1

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

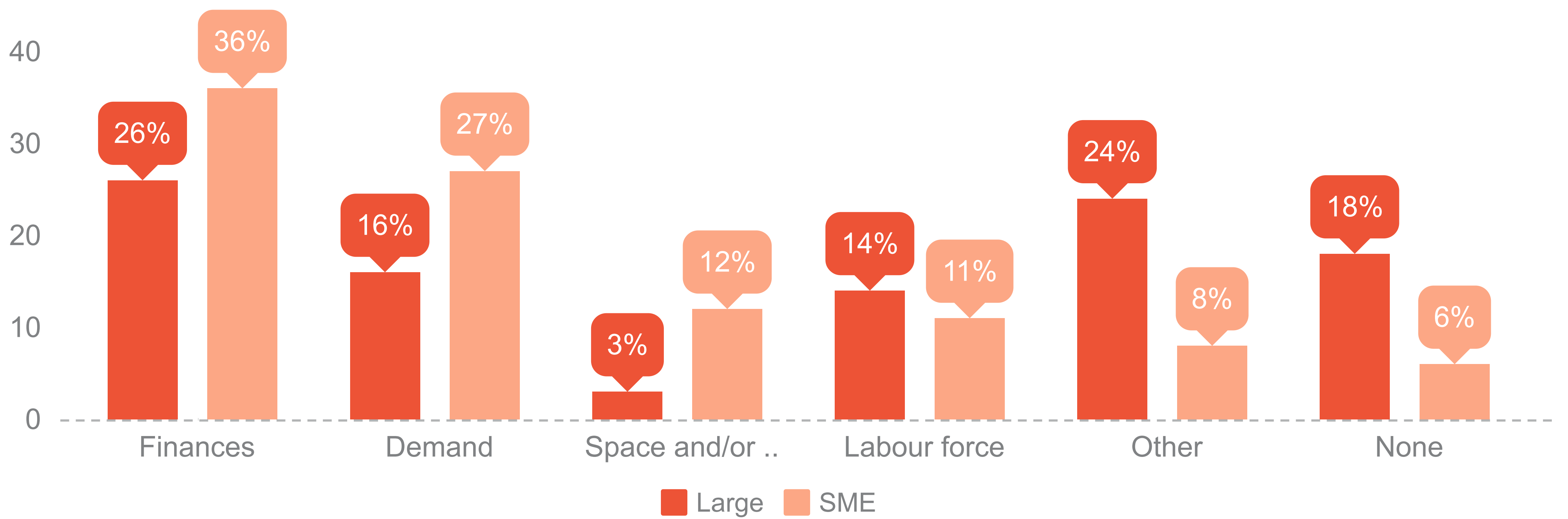
How do you expect the prices you charge to change over the next 3 months?



Q2/18	Change	Q2/18	Change
4.2	▼ -13.4	13.67	▲ 3.0

The majority (72%) 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 21% expect to increase prices in the future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 2, 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 236 firms participating in the survey, 26% of large sized firms and 36% of SMEs noted that lack of access to finance was their main obstacle. Meanwhile, 16% of large firms and 27% 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](#)

*** 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	18/Q1	18/Q1	18/Q2	18/Q2
Manufacturing	11	5%	14	6%
Construction	27	11%	31	13%
Retail Trade	40	17%	48	20%
Service	115	48%	94	40%
Agriculture	19	8%	16	7%
Financial	16	7%	22	9%
Other	12	5%	11	5%
Source: BCI Survey Data	240	% share	236	% 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	

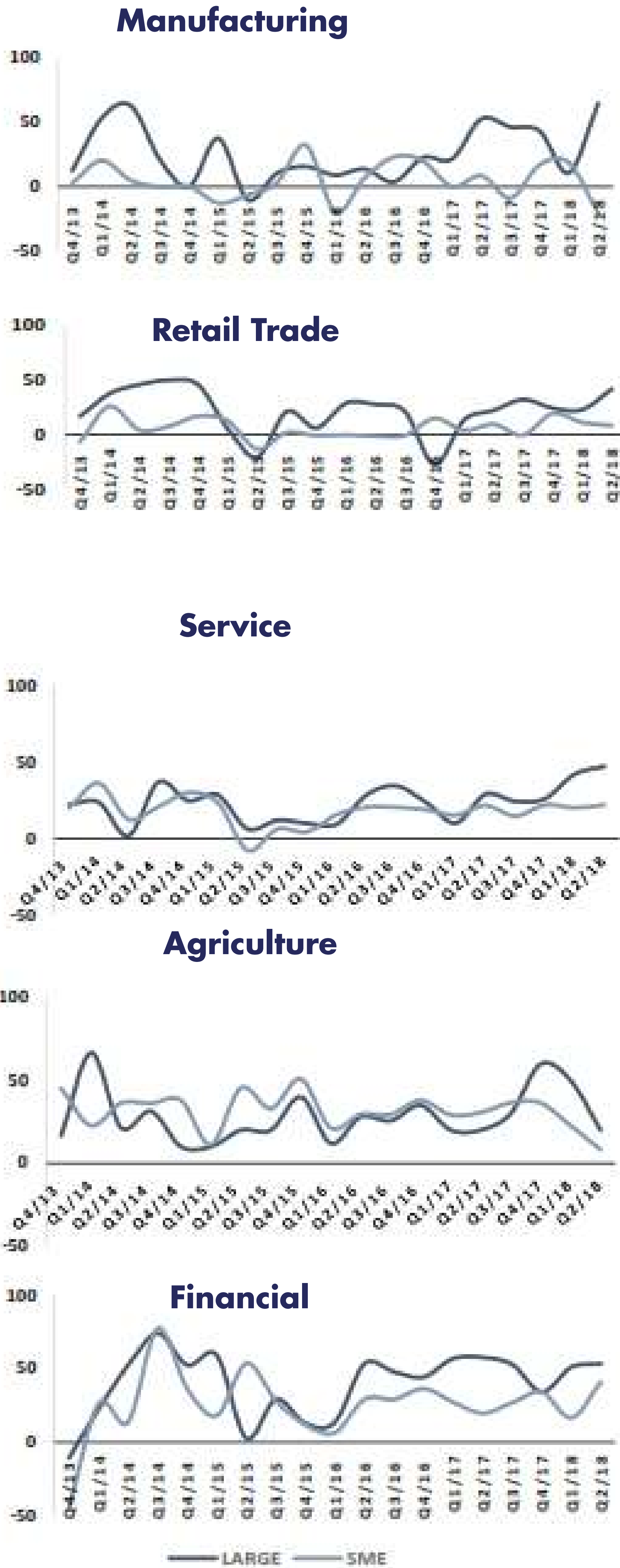
Sectors - Number of firms by size	18/Q2	
	Large	SME
Manufacturing	2	12
Construction	11	20
Retail Trade	12	36
Service	26	68
Agriculture	4	12
Financial	14	8
Other	6	5
Source: BCI Survey Data	75	161

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

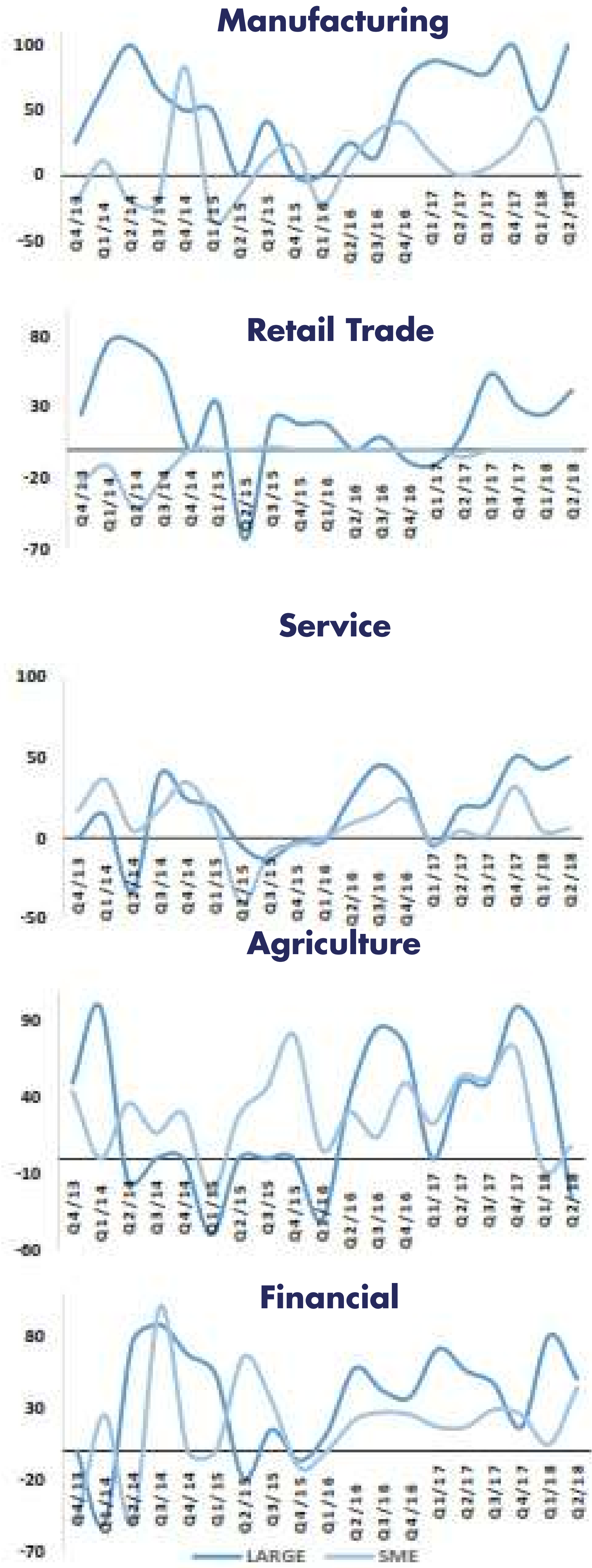
The number of firms participating in the BCI survey in Q1 2018 was 236. This is a decrease of -2% compared to the previous quarter's level of participation. Despite the decrease in the number of participating firms, the distribution of the participating firms across sectors remained stable and was well-aligned 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

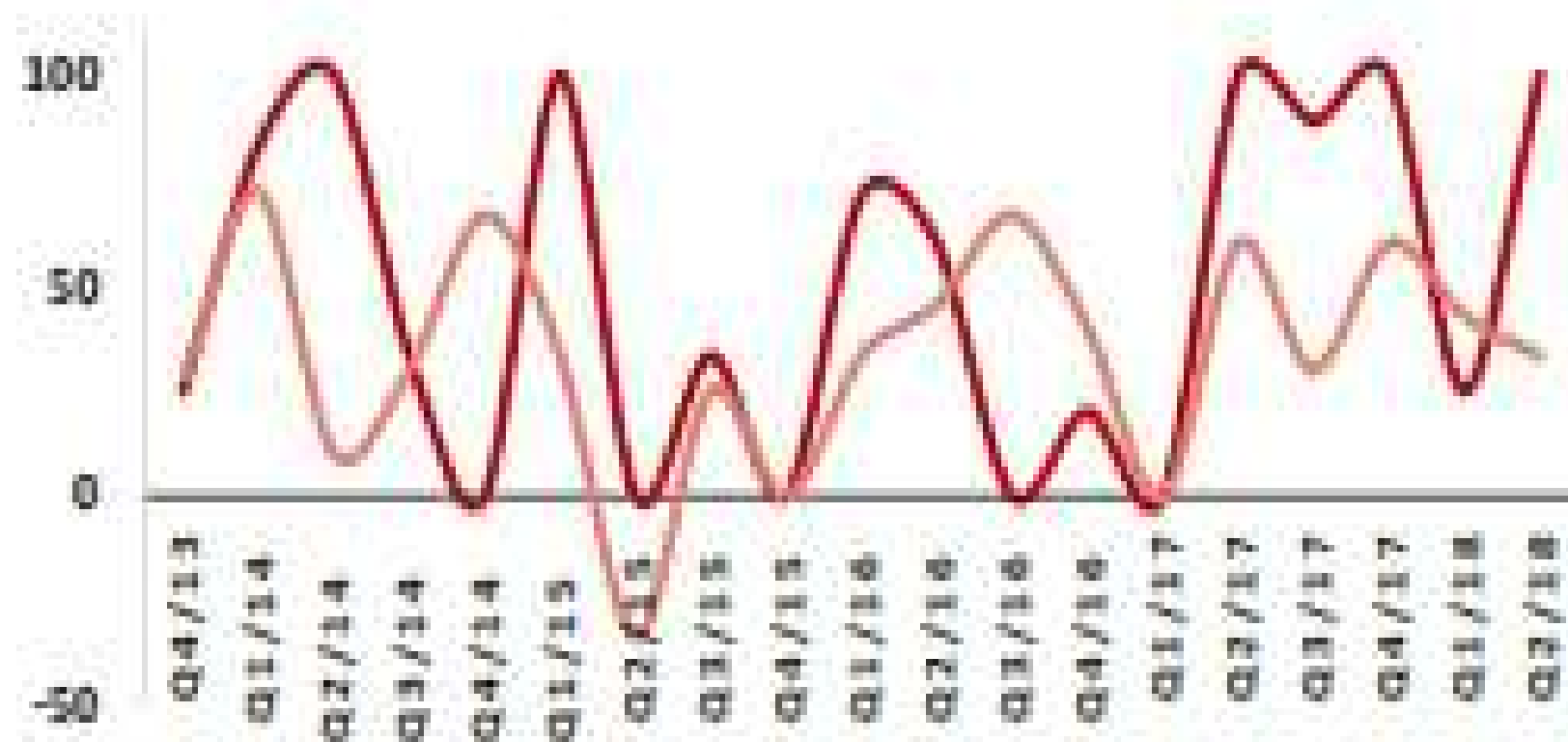


Sales/Production/Turnover for past 3 months

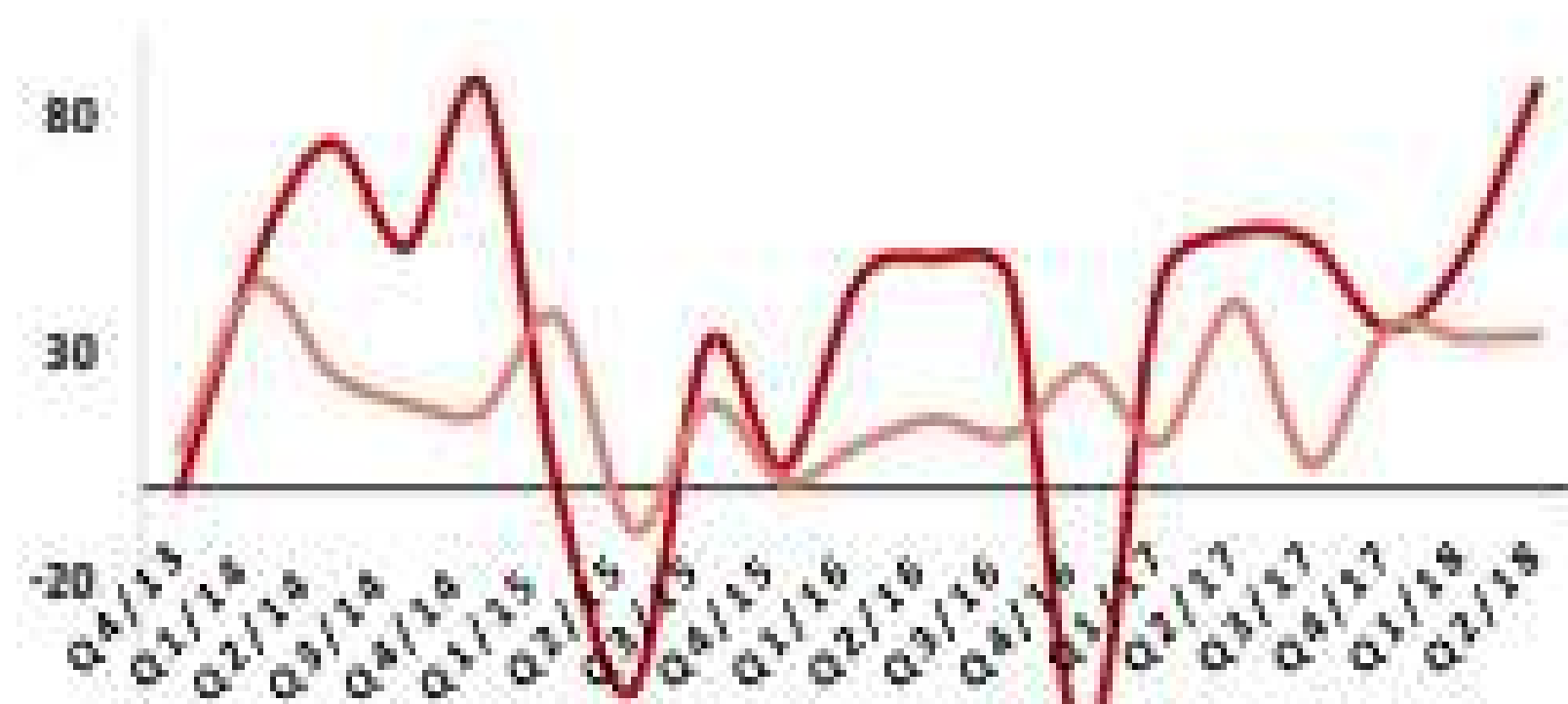


Expectations Index

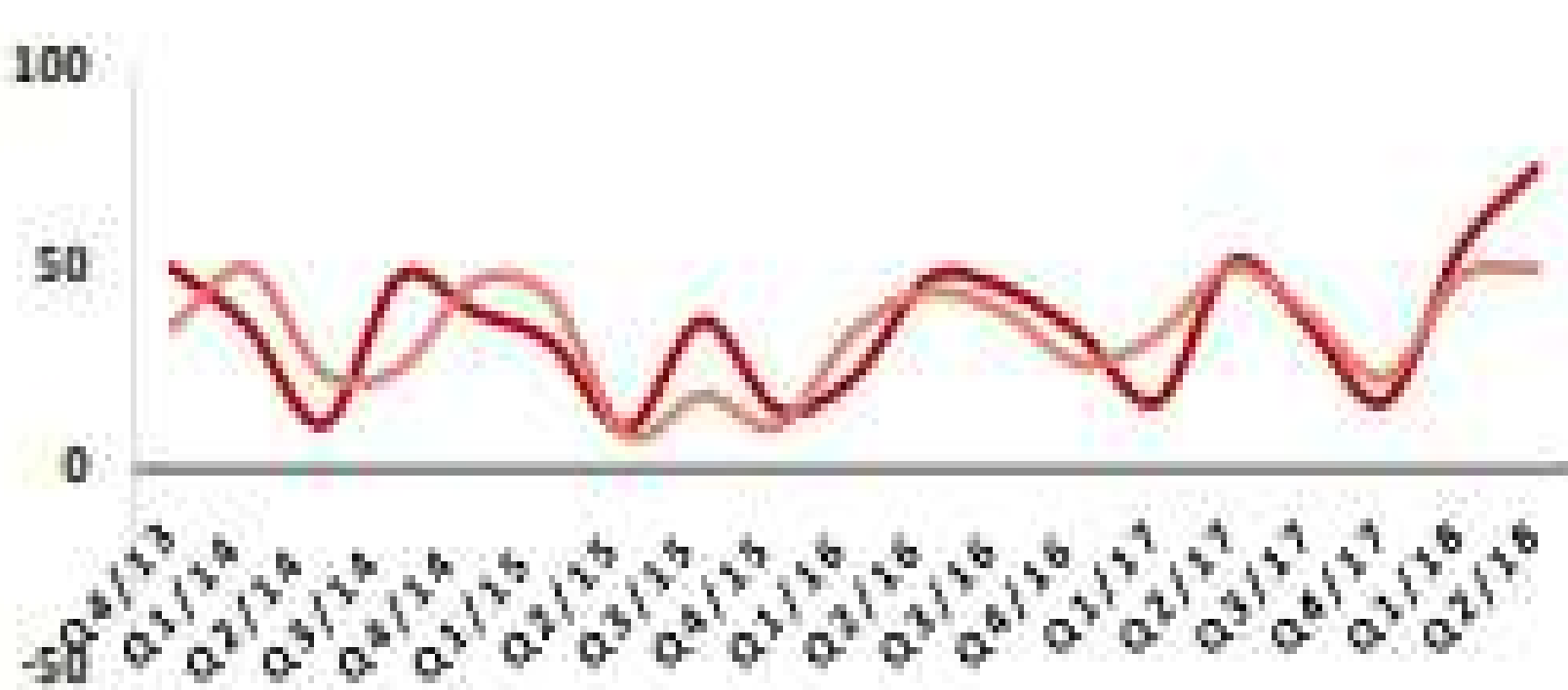
Manufacturing



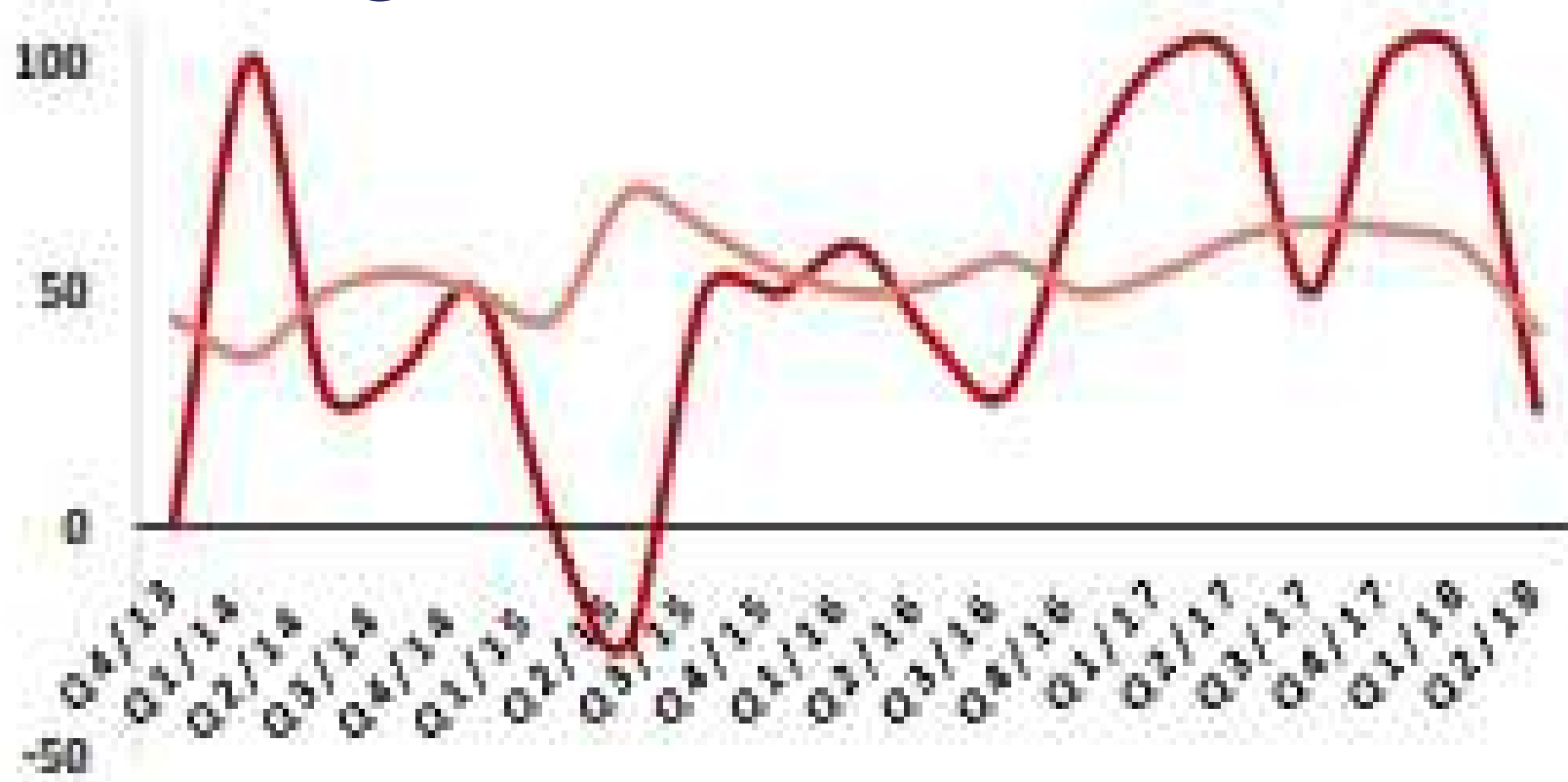
Retail Trade



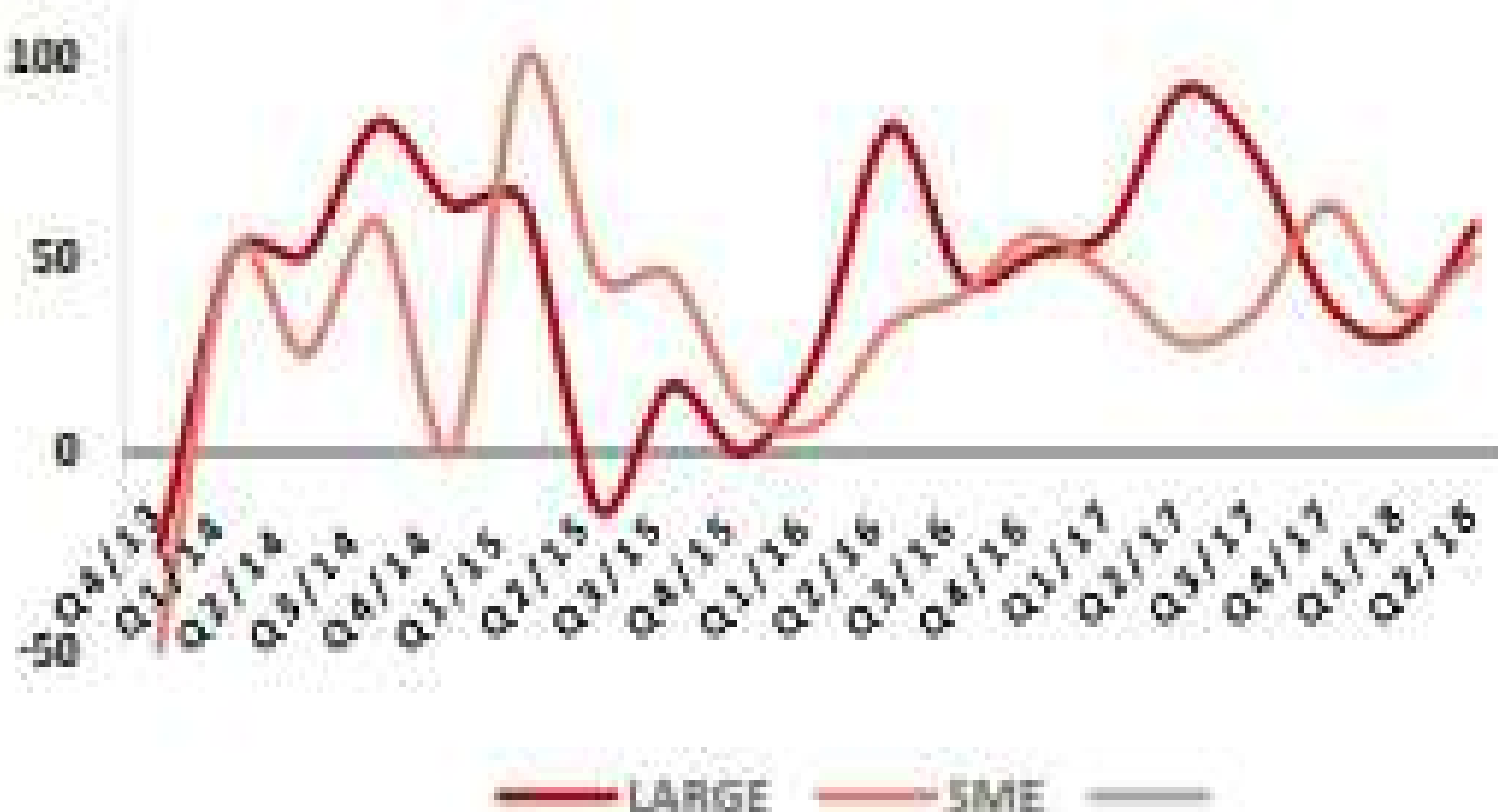
Service



Agriculture

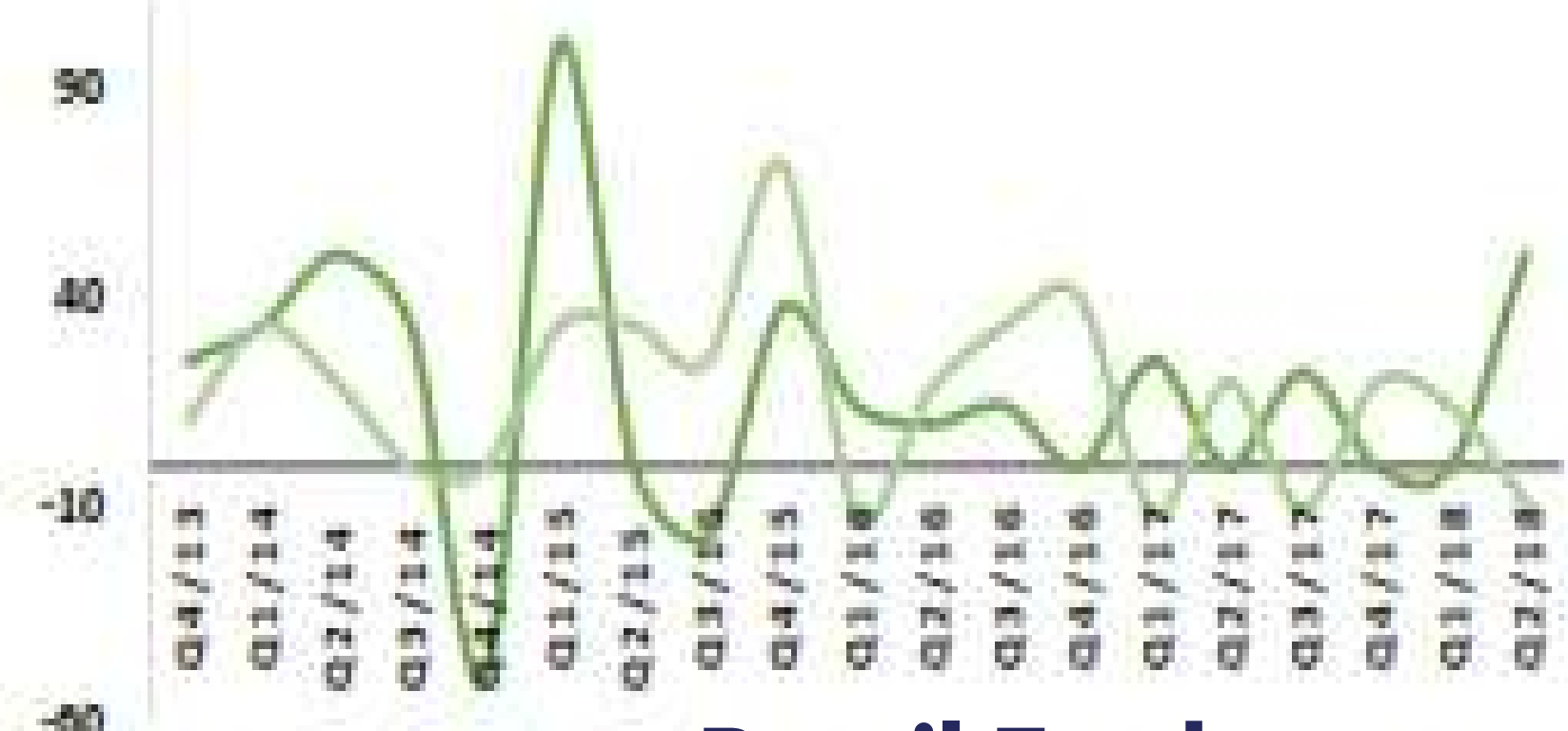


Financial

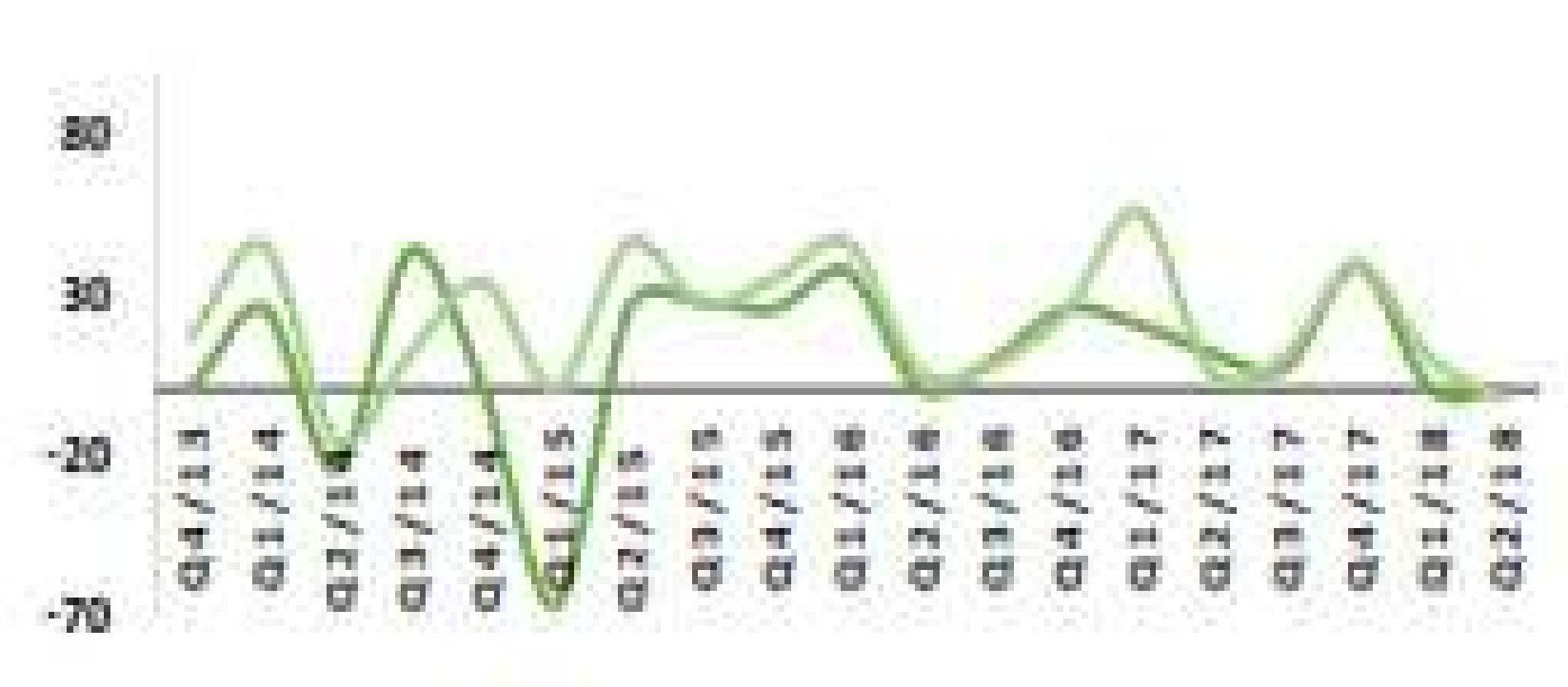


Sales Price Expectations Index

Manufacturing



Retail Trade



Service



Agriculture



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