

# BUSINESS CONFIDENCE INDEX

# 3.2

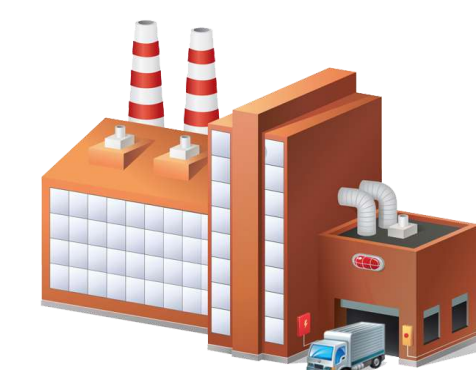
INCREASE

## In Optimism We Trust

# Q1 2018

### Participating Companies

Large



58

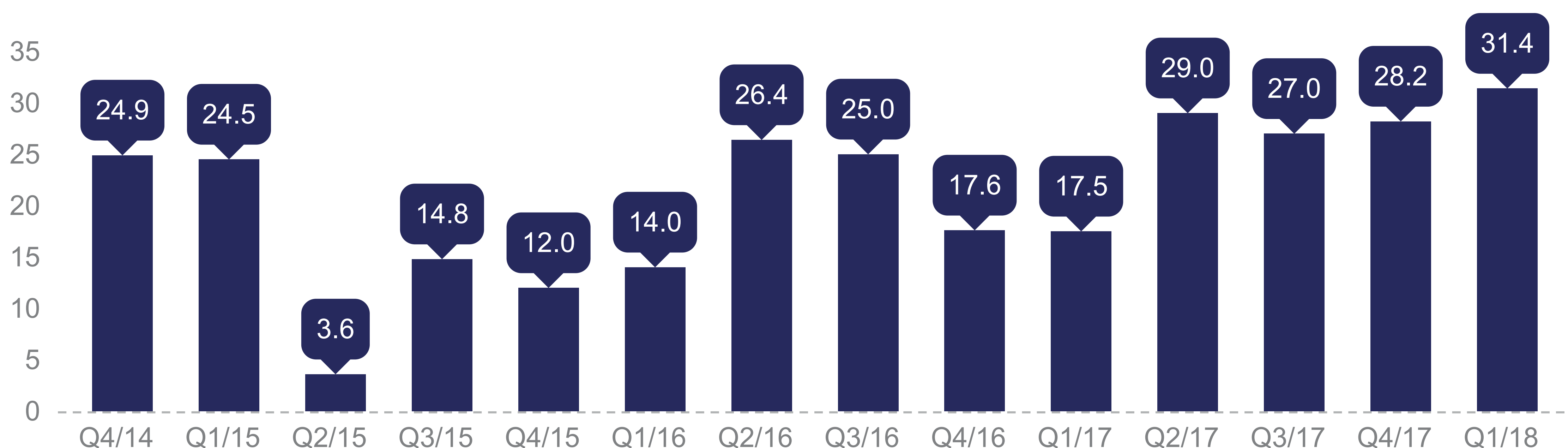
SMEs



182

## SURVEY HIGHLIGHTS

### Business Confidence Index (BCI)



- Thanks to a significant increase in the private sector expectations, BCI in the first quarter of 2018 has improved yet again (for the 2nd consecutive quarter), reaching 31.4 index points, which is a 3.2 index point gain over the previous quarter. Almost 60% of participating business executives expect their business will improve over the next three months.
- After a significant increase of 17.2 index points in Q4, the Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter, decreased (-15.6 points). Compared to other sectors, the construction sector assessed their past performance most negatively, possibly due to seasonal slow-down.
- Business optimism about the overall economy increased relative to both Q4 2017 (+15.5) and Q1 2017 (+17.9), reaching 48.9 index points. The construction and service sectors have contributed the most to this increase in business optimism.
- The Sales Price Expectation Index decreased moderately, still standing higher compared to last year's expectations. Businesses in the retail trade sector predict the highest price decline in the next quarter, while the highest price increase is predicted in the service sector.
- Compared to large businesses, SMEs demonstrated slightly lower optimism, and weaker past performance. 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).

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EN GEORGIE**

 **GSMEA**

Overall, the BCI gained 3.2 points compared to Q4 2017. Expectations in the private sector in Georgia increased by 15.5 percentage points, and reached 48.9 index points (up from 33.4 points in Q4). Business performance over the past three months decreased significantly, reaching nearly 35.1 points (decreasing from 50.7), indicating a decline in production/turnover/sales. Improved expectations could outweigh the decreased performance of the past three months, which led to an insignificant raise in overall BCI.

The BCI index increased in the financial (+11.1), service (+14.0) and others (+4.0) sectors, and worsened in the manufacturing (-28.1) agriculture (-8.3), construction (-8.1) and retail trade (-2.8) sectors.

### BCI QoQ change by sector

Sectors	Q1/18		Change
<b>Manufacturing</b>	<b>11.3</b>	▼	<b>-28.1</b>
<b>Construction</b>	<b>10.8</b>	▼	<b>-8.1</b>
<b>Retail Trade</b>	<b>20.6</b>	▼	<b>-2.8</b>
<b>Service</b>	<b>39.6</b>	▲	<b>14.0</b>
<b>Agriculture</b>	<b>44.3</b>	▼	<b>-8.3</b>
<b>Financial</b>	<b>45.2</b>	▲	<b>11.1</b>
<b>Other</b>	<b>14.6</b>	▲	<b>4.0</b>

#### SME



**Q1/18**    **Change**  
**17.0**    ▼    **-4.5**

#### Large

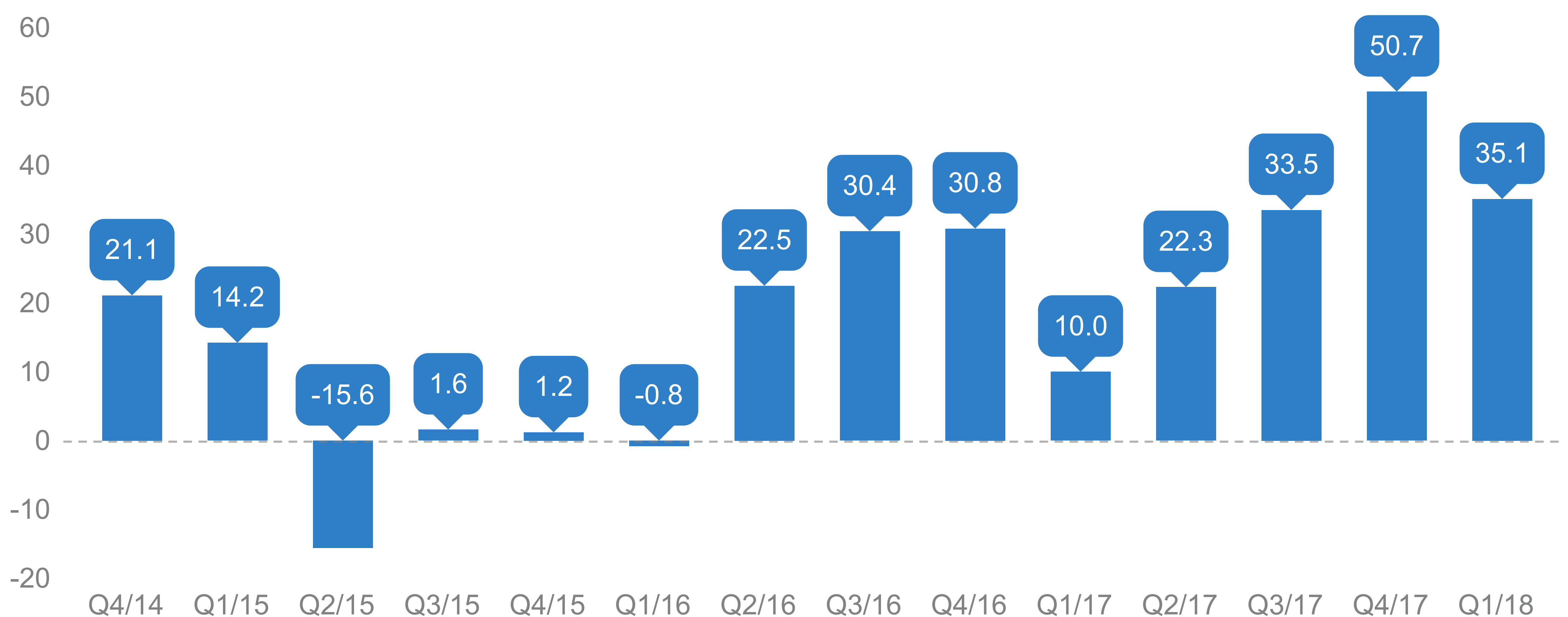


**Q1/18**    **Change**  
**33.83**    ▲    **4.2**

Business confidence in the first quarter of 2018 increased mostly for large firms (+4.2). 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 a larger 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



The actual performance of businesses significantly decreased compared to the fourth quarter of 2017. In the Q1 2018 reporting period, sales (production or turnover) of the 240 firms surveyed decreased from 50.7 (Q4 2017) to 35.1 (Q1 2018).

A significant increase in performance was observed only in the financial (+46.6) and others (+52.2) sectors. Significant improvement means that in these sectors, the weighted balance between positive and negative responses decreased compared to the previous quarter. In all other sectors, production/turnover/sales for the past three months worsened, with the highest drop recorded for the construction (-101.3), agriculture (-40.2) and manufacturing (-40.2) sectors.

The significant negative developments in some sectors outweighed the positive performance of others, and led to a significant overall decrease in business performance.

### Past 3 Months QoQ change by sector

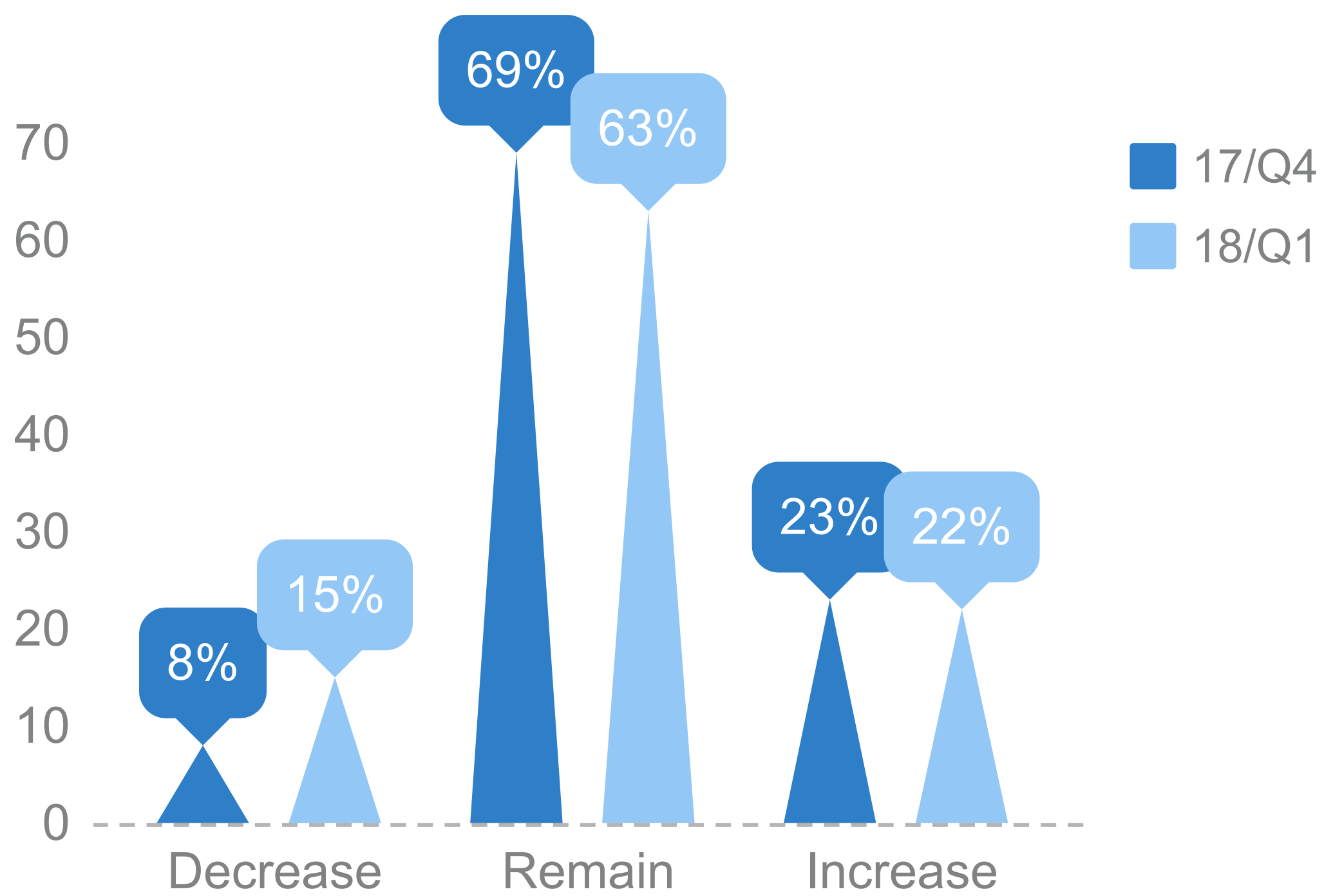
Sectors	Q1/18	Change
<b>Manufacturing</b>	<b>49.0</b>	<b>▼ -40.2</b>
<b>Construction</b>	<b>-10.9</b>	<b>▼ -101.3</b>
<b>Retail Trade</b>	<b>20.8</b>	<b>▼ -10.0</b>
<b>Service</b>	<b>37.5</b>	<b>▼ -9.9</b>
<b>Agriculture</b>	<b>49.5</b>	<b>▼ -40.2</b>
<b>Financial</b>	<b>64.9</b>	<b>▲ 46.6</b>
<b>Other</b>	<b>31.9</b>	<b>▲ 52.2</b>



Business activities declined for both large businesses and SMEs. For large firms, business activity indicators dropped by -13.0 points and stopped at 41.7 in Q1 2018; for SMEs, the same indicator dropped by -17.8 and reached 4.6 over the same period.

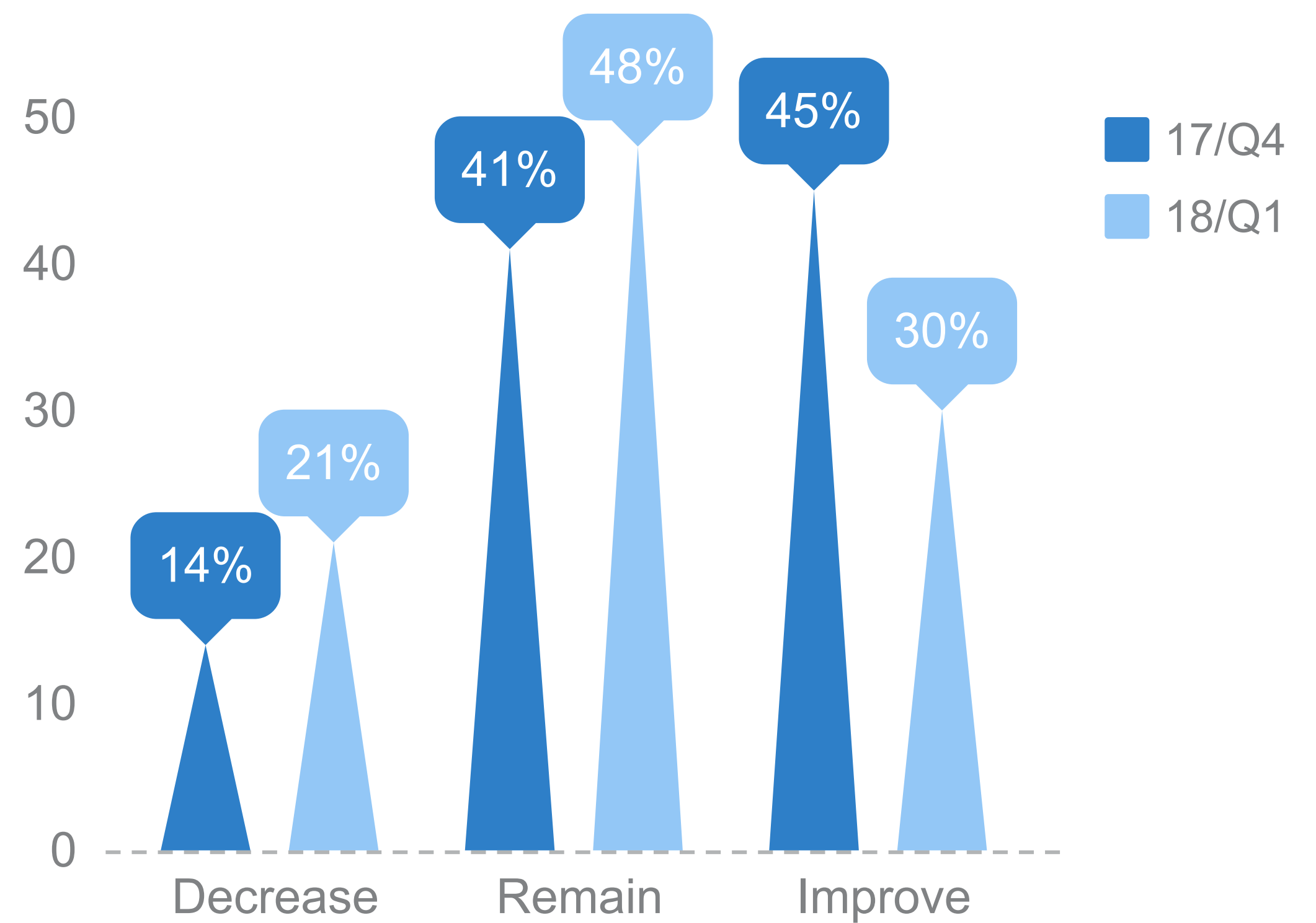
\*\* This indicator describes the activities of businesses in October, November, December

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



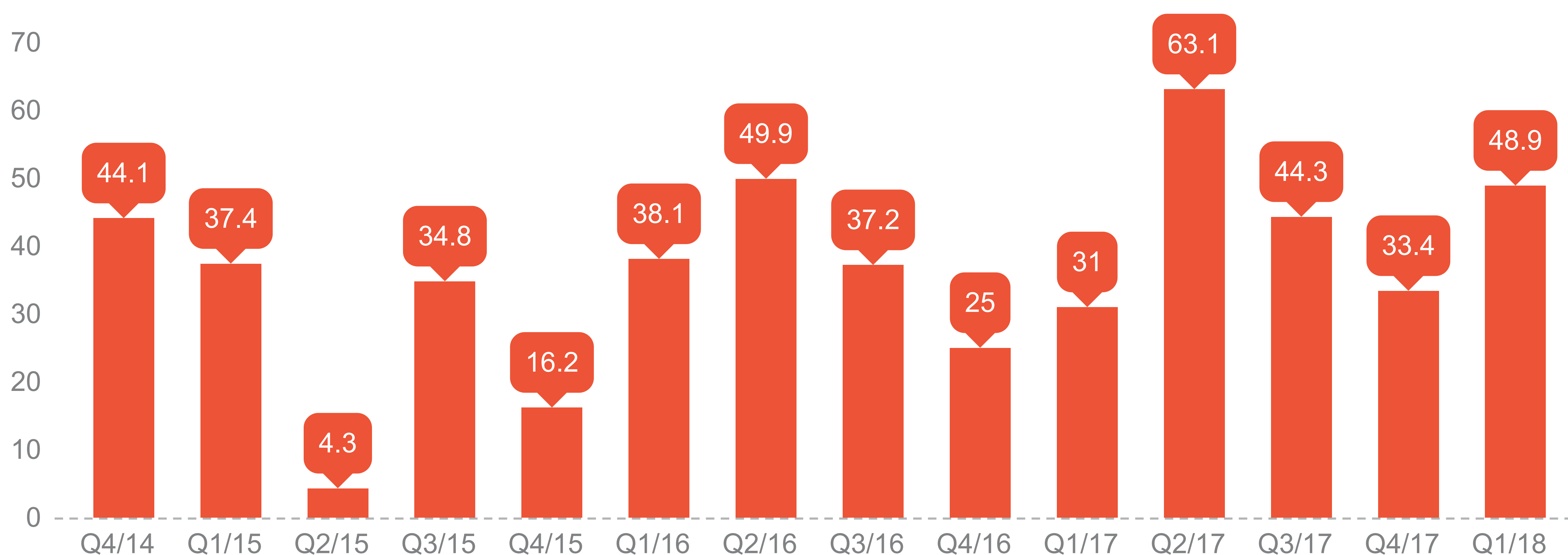
Compared to the previous quarter, a higher share of surveyed firms (63%) stated that employment remained the same over the past three months. Fewer businesses reported either decreases or increases in employment.

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



Moreover, 48% of firms claimed that their business activities remained unchanged over the past three months, while 30% of participants stated that they had improved their performance (which was a decrease of 15 percentage points over the previous quarter).

# Expectations Index



The Expectations Index increased by 15.5 index points in the first quarter of 2018. Expectations about the next three months improved almost in all sectors, except manufacturing (-67.2), agriculture (-1.1) and financial (-11.2). The highest increase was reported in the construction and service sectors (for more information, see Appendix 1).

## Expectations QoQ change by sector

Sectors	Q1/18	Change
<b>Manufacturing</b>	<b>27.4</b>	<b>▼ -67.2</b>
<b>Construction</b>	<b>49.6</b>	<b>▲ 45.7</b>
<b>Retail Trade</b>	<b>46.7</b>	<b>▲ 12.1</b>
<b>Service</b>	<b>53.8</b>	<b>▲ 36.3</b>
<b>Agriculture</b>	<b>87.5</b>	<b>▼ -1.1</b>
<b>Financial</b>	<b>31.3</b>	<b>▼ -11.2</b>
<b>Other</b>	<b>18.8</b>	<b>▲ 18.8</b>

### SME



**Q1/18**  
**46.3** ▲ **11.5**

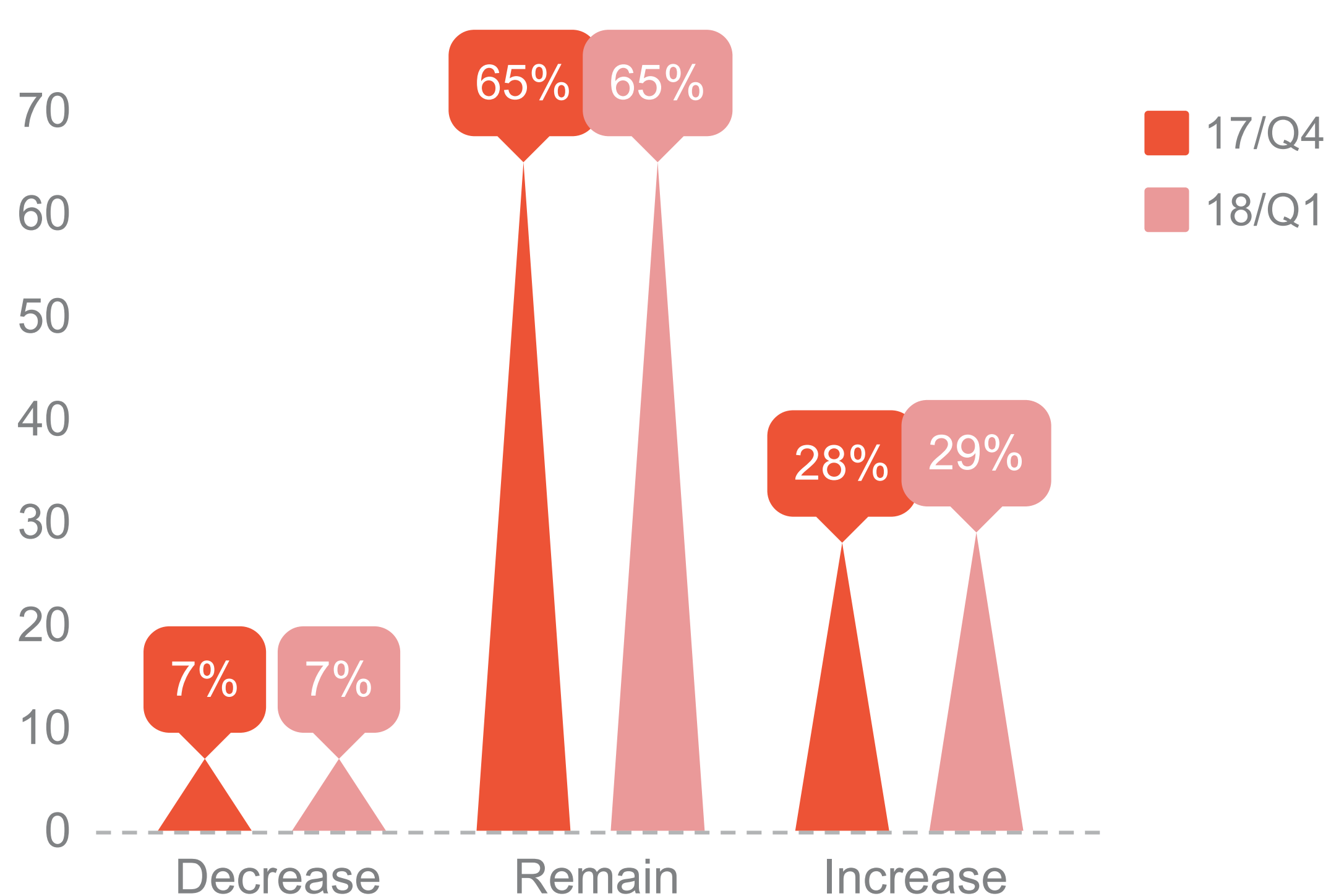
### Large



**Q1/18**  
**50.1** ▲ **16.5**

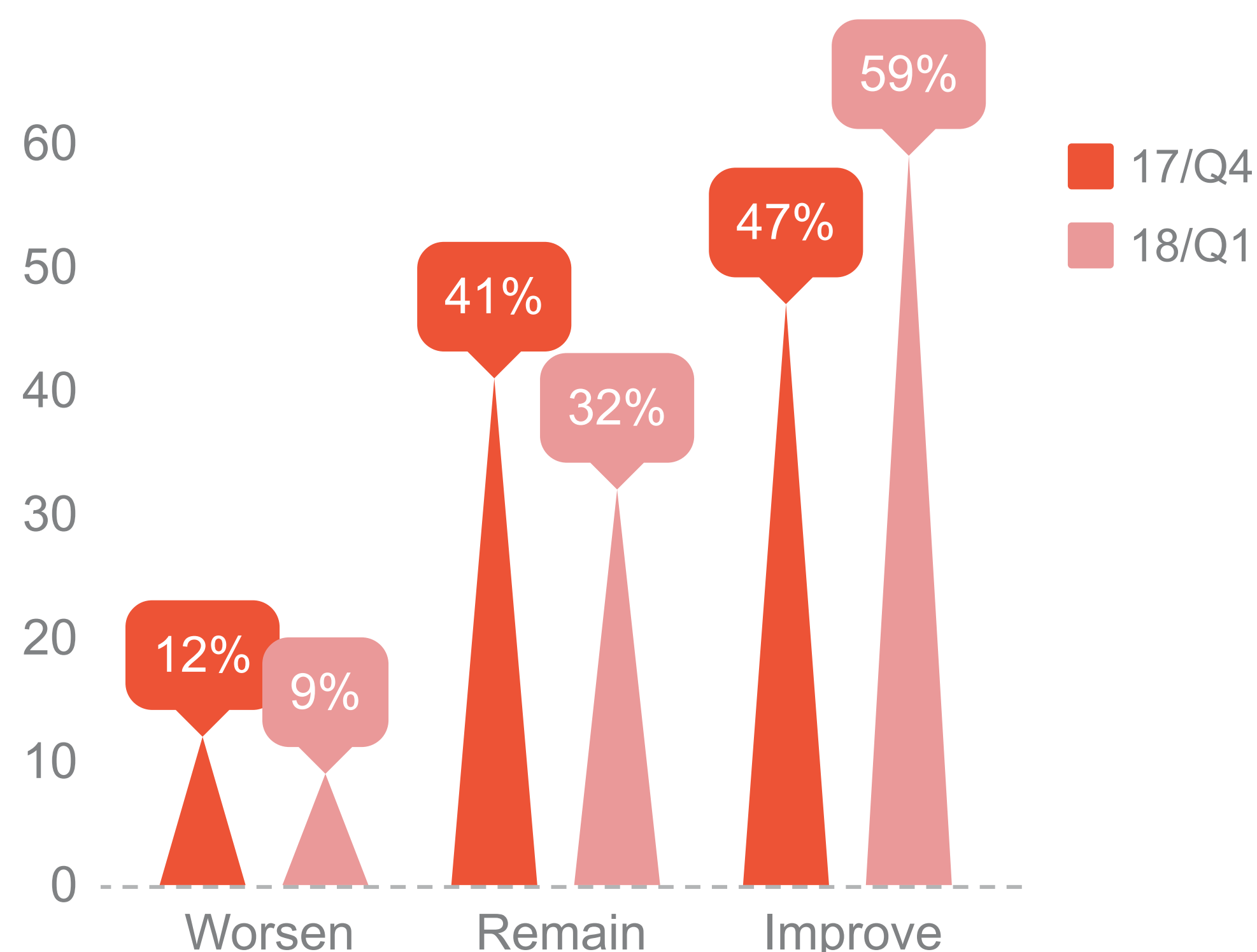
As one can see from the table, business expectations for the three-month period January through March 2018 increased for both SMEs and large size firms.

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



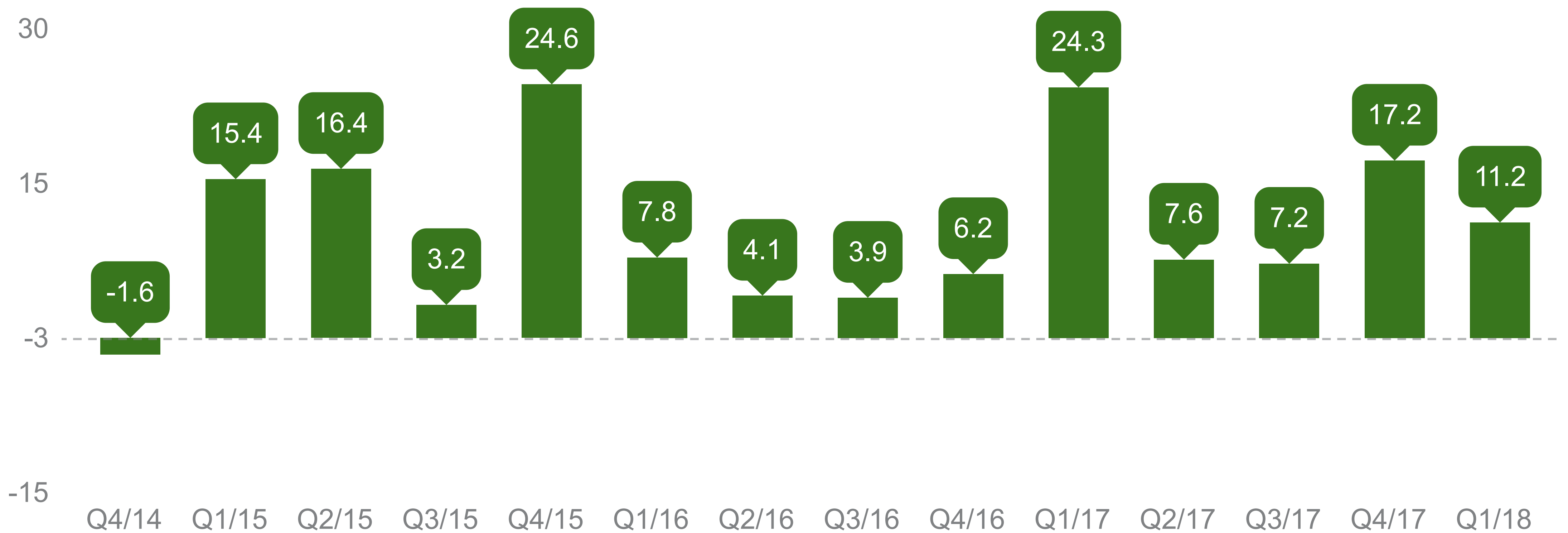
The majority (65%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 29% of firms stated that they would employ more employees in the future.

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



59% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 32% did not expect any changes in the future, while a lower share of businesses expect their business conditions to worsen.

## Sales Price Expectations



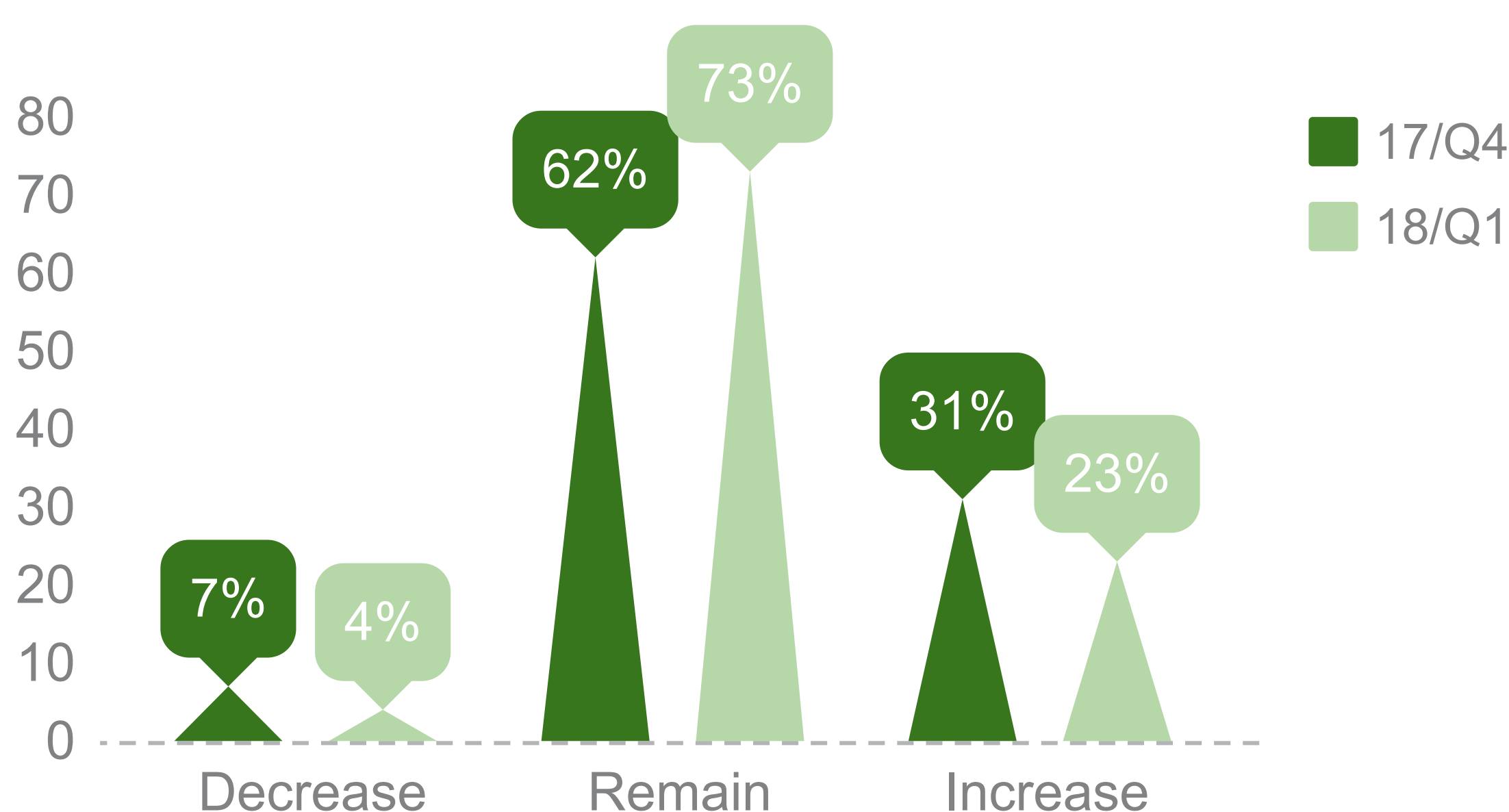
The Sale Price Expectation Index decreased from 17.2 points (Q4 2017) to 11.2 points (Q1 2018). The decrease in the Index is driven by the agriculture, construction and retail trade sectors. The retail trade sector's sales price expectations decreased the most, by -36.6 points. The service sector expects a noticeable increase in prices over the next three months (for more information, see Appendix 1).

### Sales price QoQ change by sector

Sectors	Q1/18	Change
Manufacturing	1.9	-0.8
Construction	11.6	-22.6
Retail Trade	1.8	-36.6
Service	11.0	9.4
Agriculture	64.0	-10.3
Other	13.7	-63.4

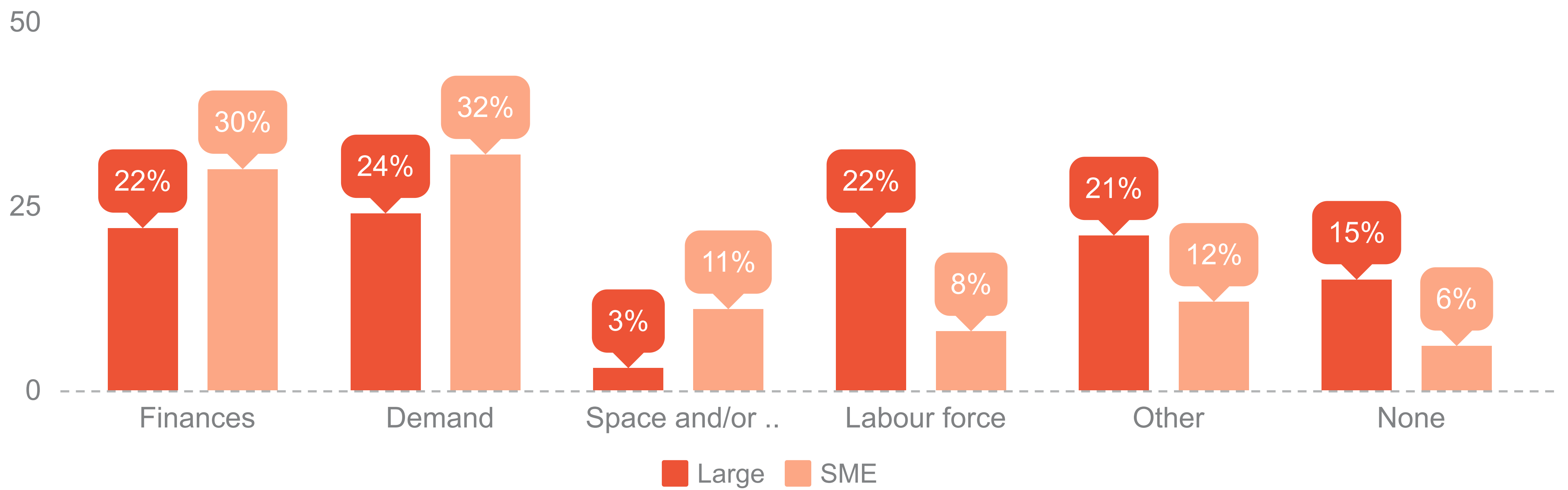
The overall Sales Price Expectations Index decreased for both large companies and SMEs.

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 4% of firms expect to decrease prices, and 23% expect to increase prices in the future.

# WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 1, 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 240 firms participating in the survey, 22% of large sized firms and 30% of SMEs noted that lack of access to finance was their main obstacle. Meanwhile, 24% 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 - Number of firms	17/Q4	17/Q4	18/Q1	18/Q1
Manufacturing	6	5%	11	5%
Construction	15	12%	27	11%
Retail Trade	25	20%	40	17%
Service	50	40%	115	48%
Agriculture	12	10%	19	8%
Financial	12	10%	16	7%
Other	4	3%	12	5%
Source: BCI Survey Data	124	% share	240	% 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/Q1	
	Large	SME
Manufacturing	4	17
Construction	11	16
Retail Trade	8	32
Service	21	94
Agriculture	4	15
Financial	5	11
Other	5	7
Source: BCI Survey Data	58	182

Maximum number of firms participating in the survey	
<b>2016 Q2</b>	
<b>Large</b>	<b>SME</b>
<b>104</b>	<b>266</b>

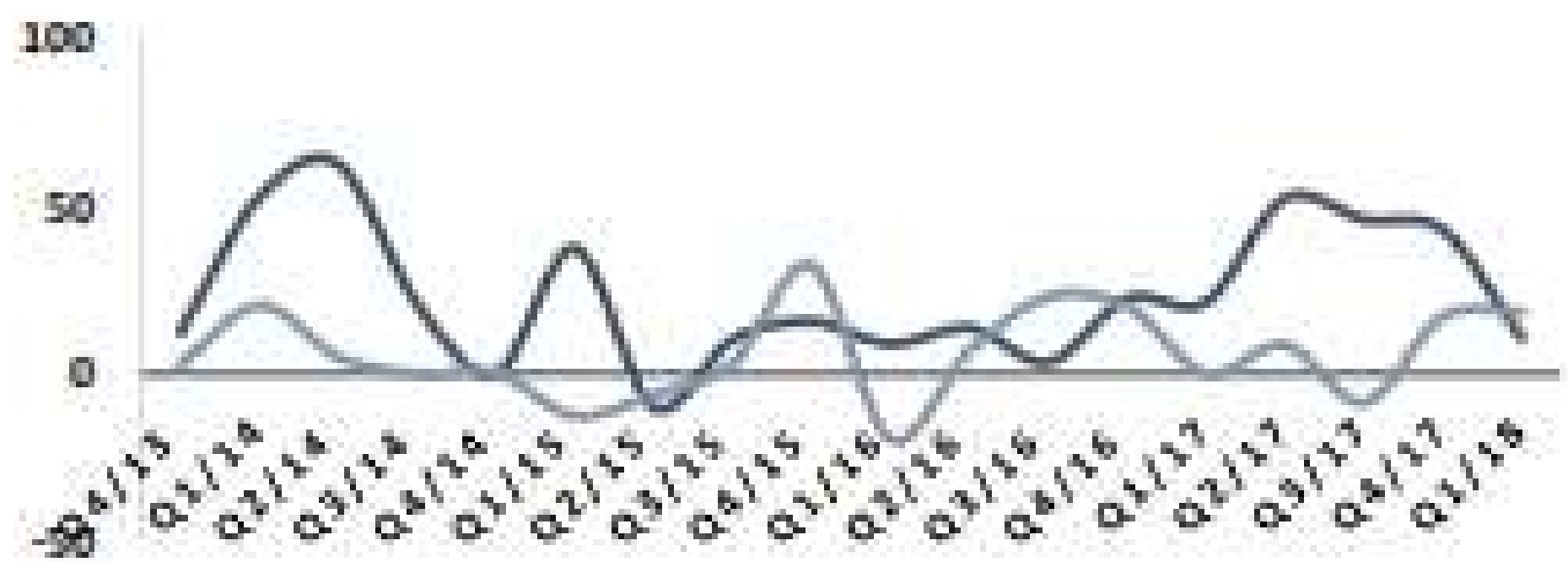
The number of firms participating in the BCI survey in Q1 2018 was 240. This is an increase of nearly 93% compared to the previous quarter's level of participation. Despite the increase in the number of participating firms, the distribution of the participating firms across sectors remained stable, and 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

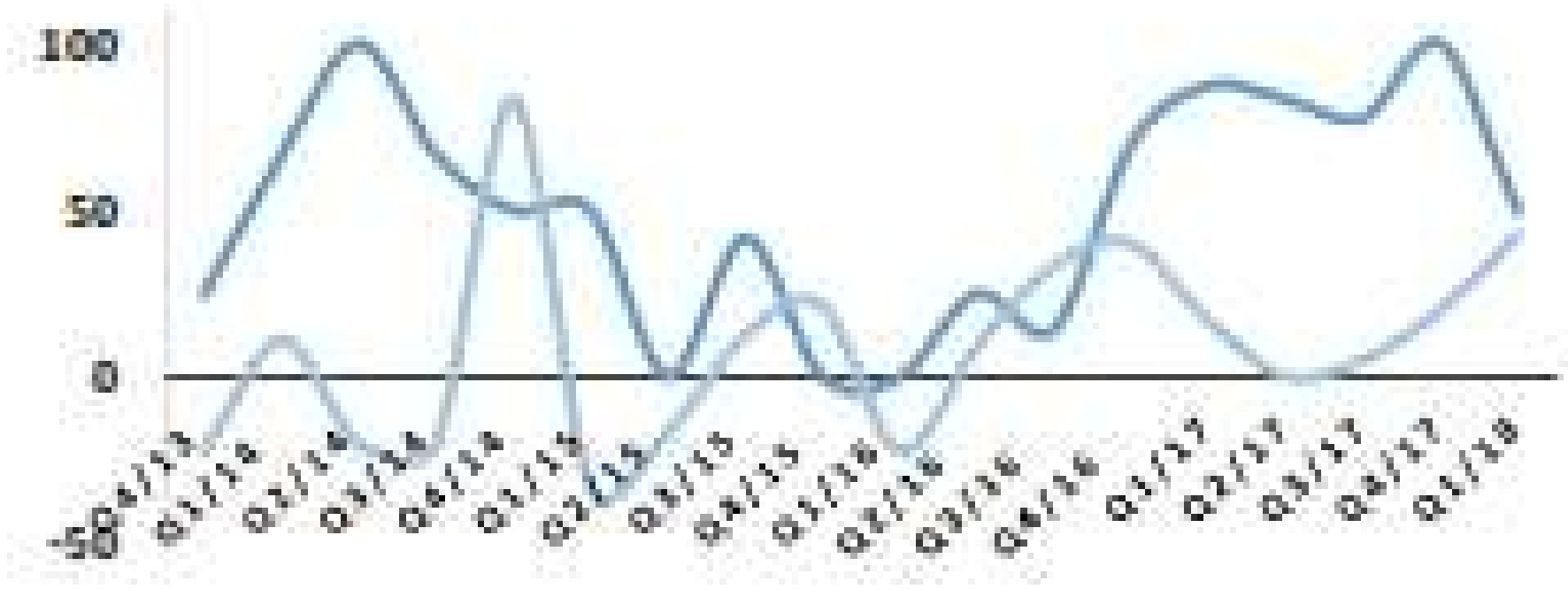
## Overall BCI

## Sales/Production/Turnover for past 3 months

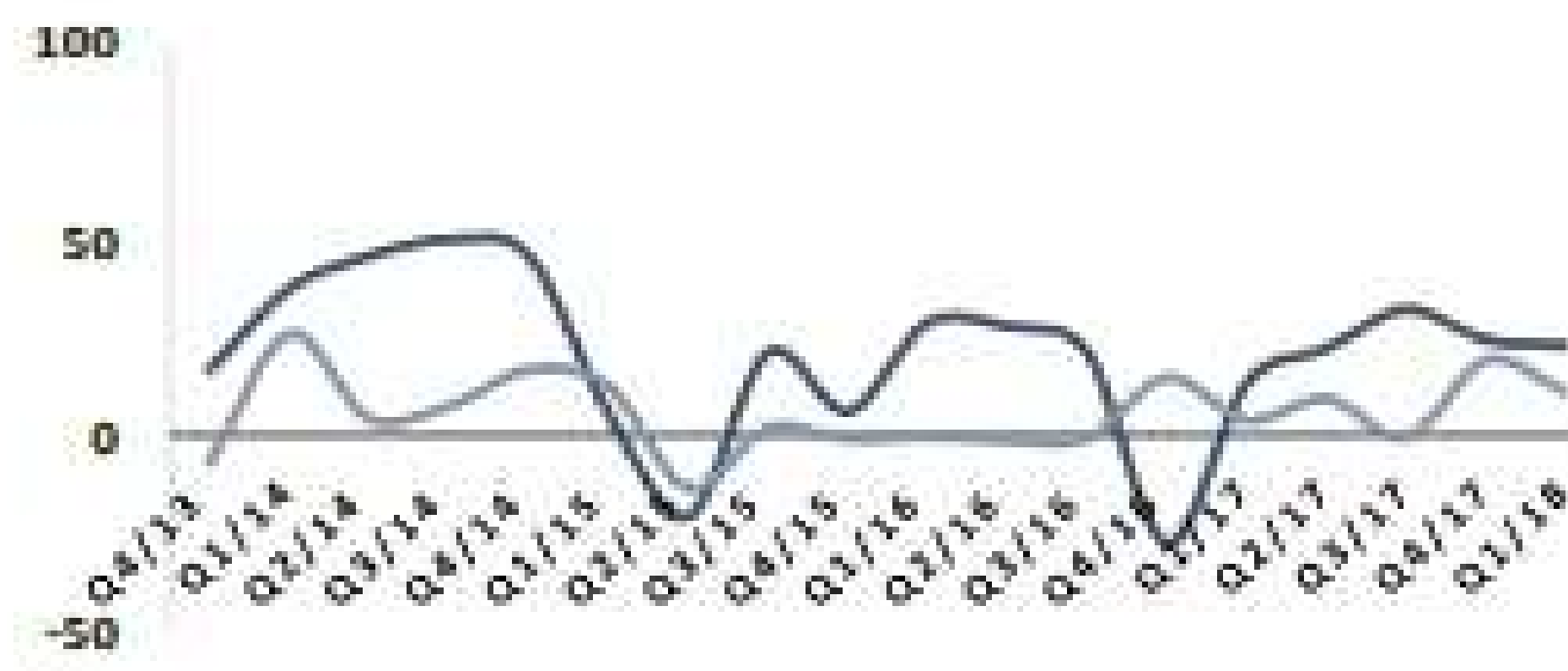
### Manufacturing



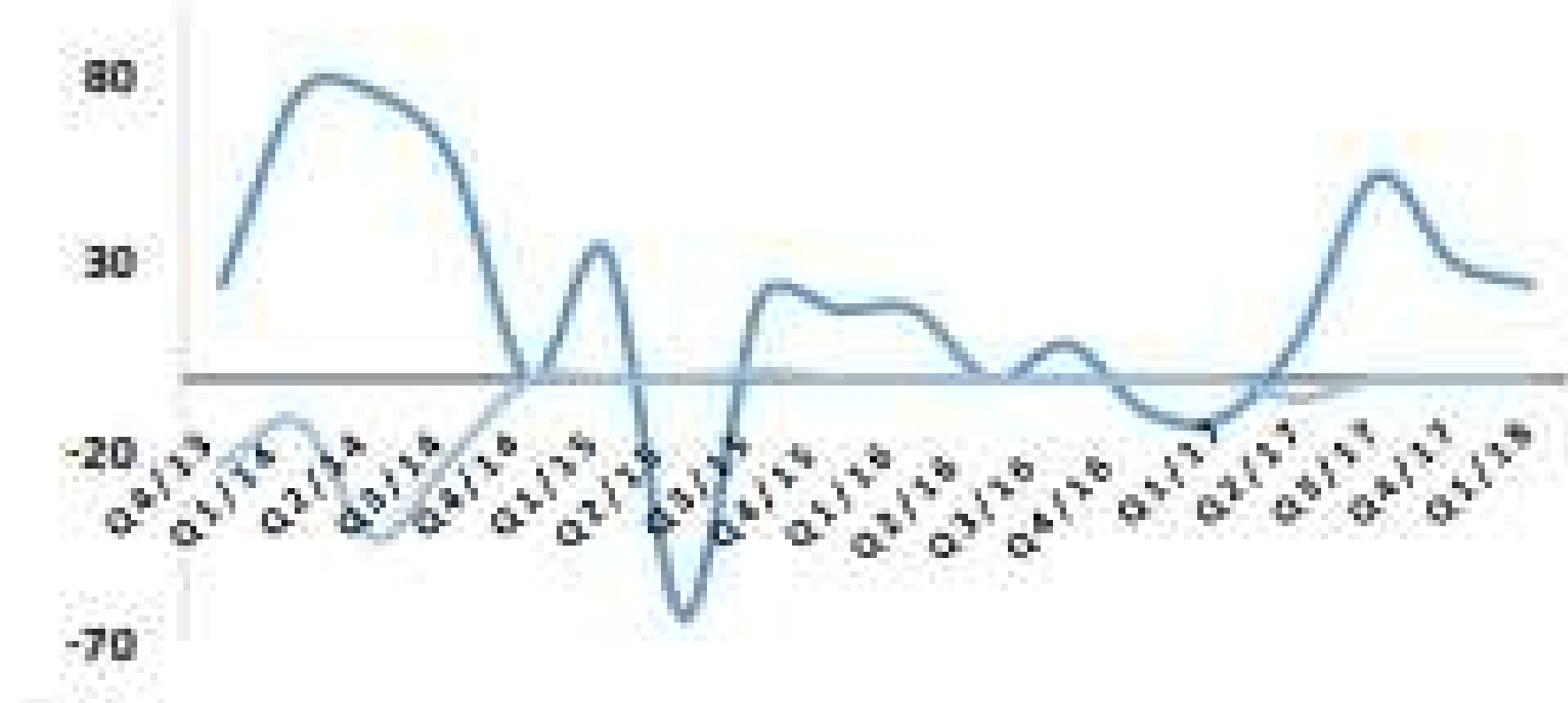
### Manufacturing



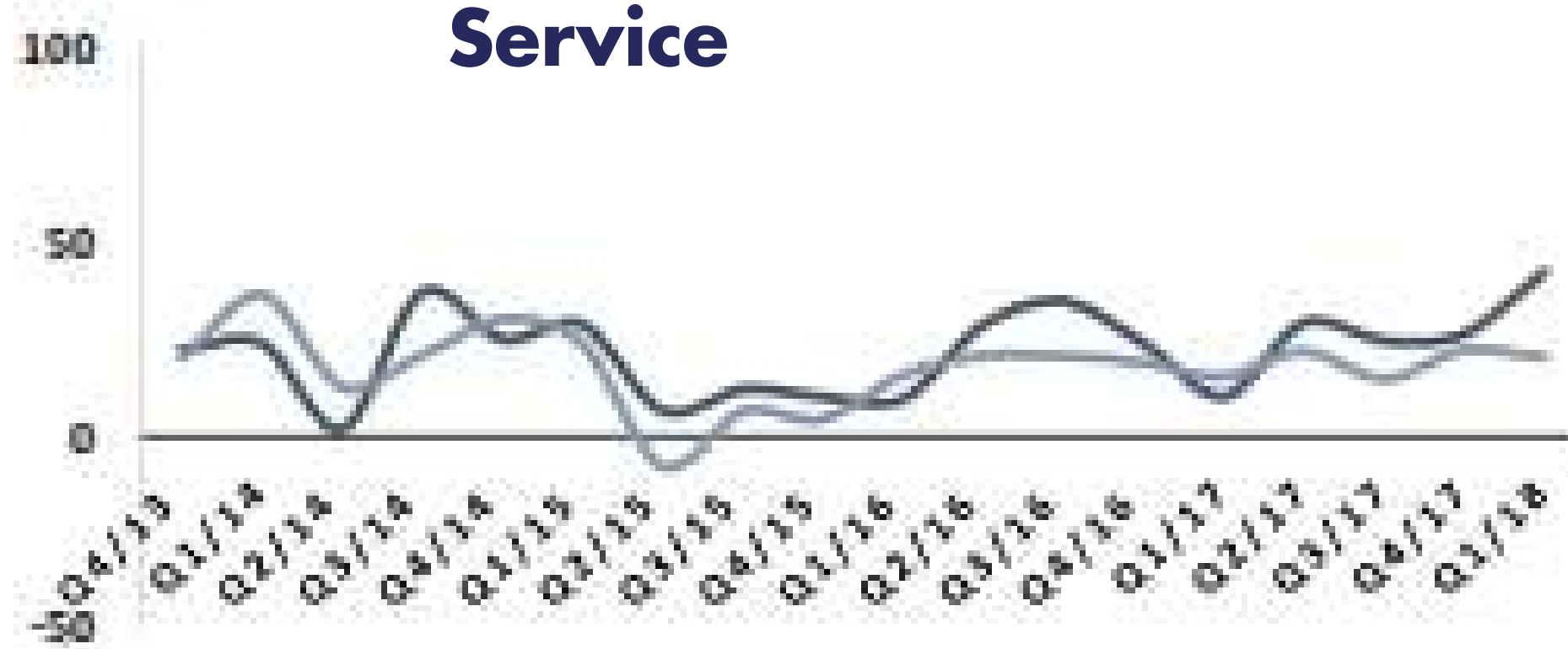
### Retail Trade



### Retail Trade



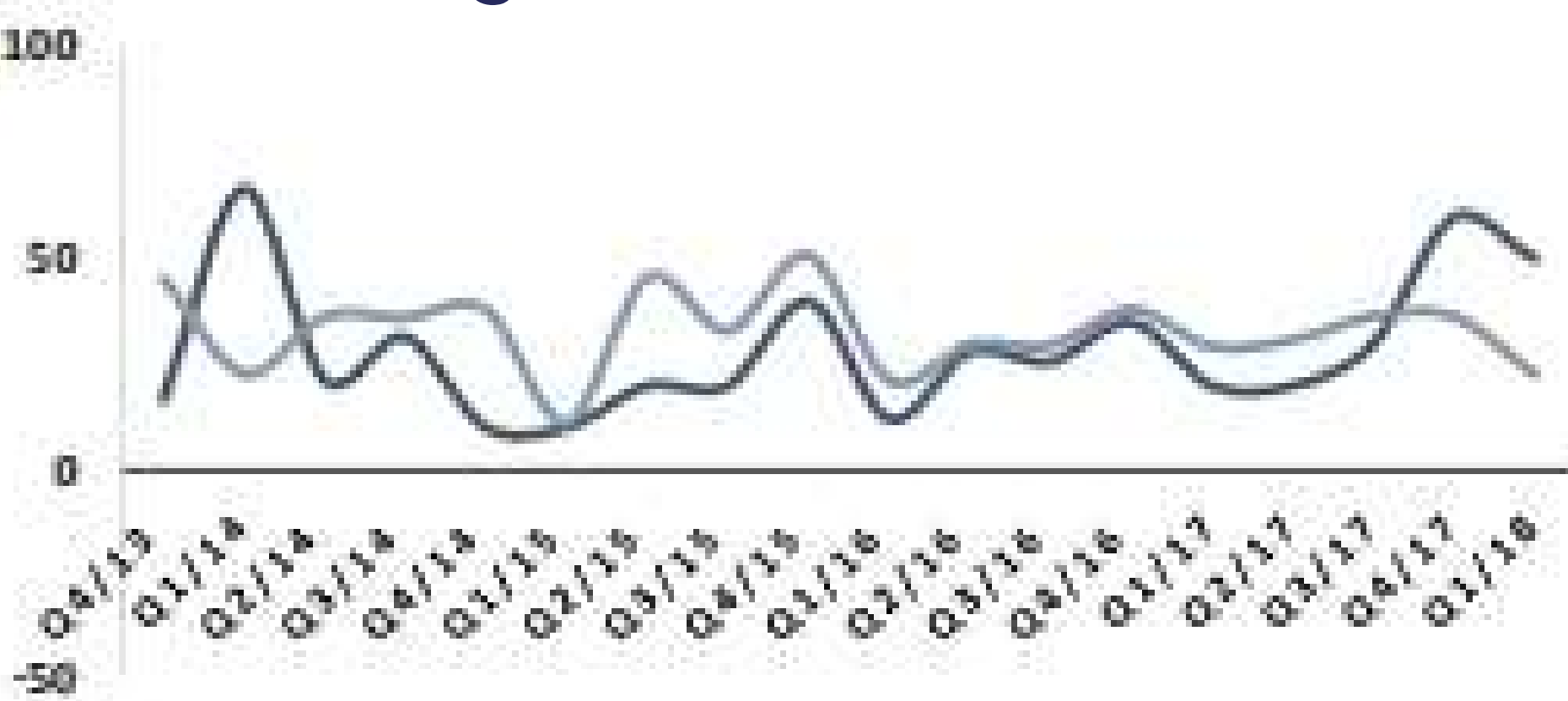
### Service



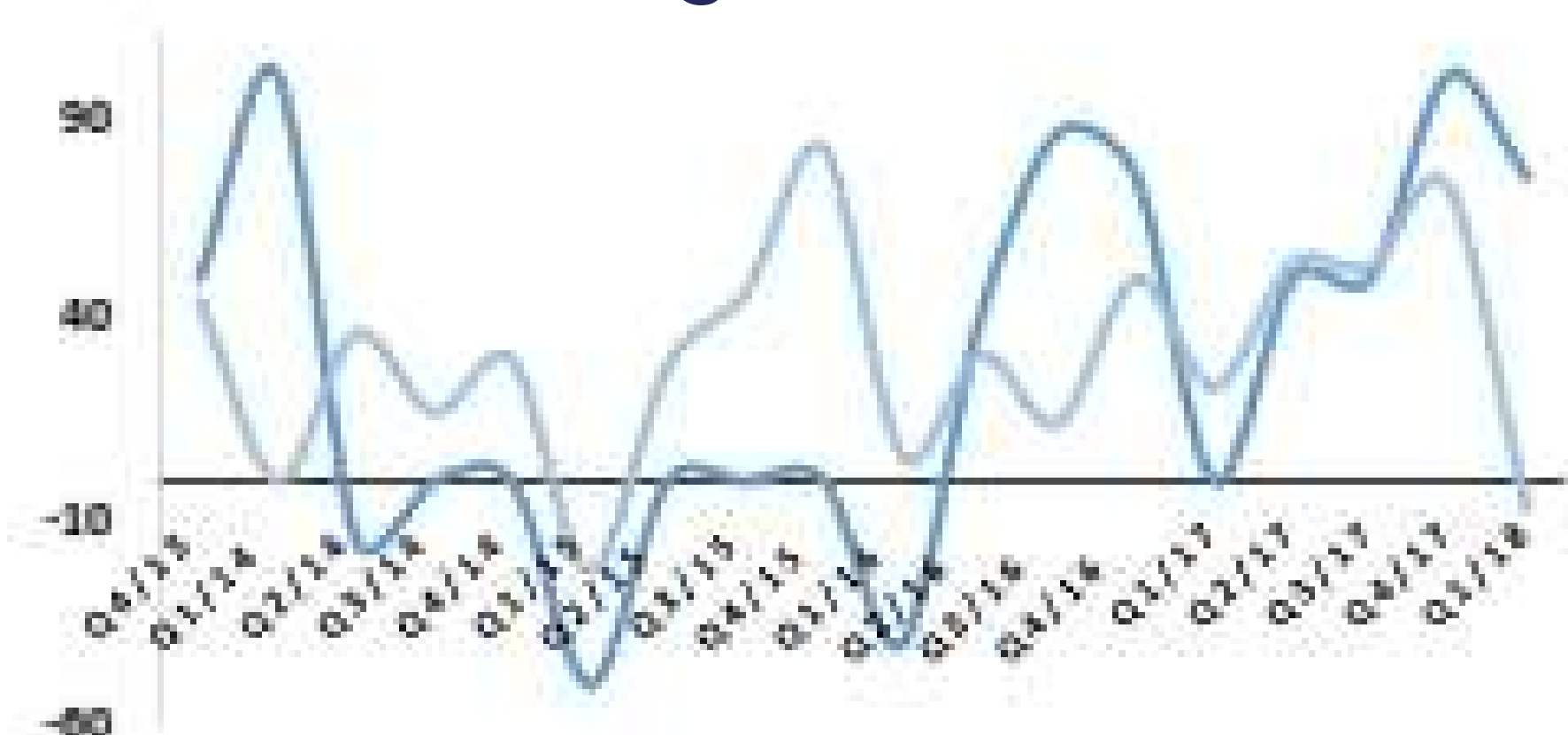
### Service



### Agriculture



### Agriculture



### Financial



### Financial

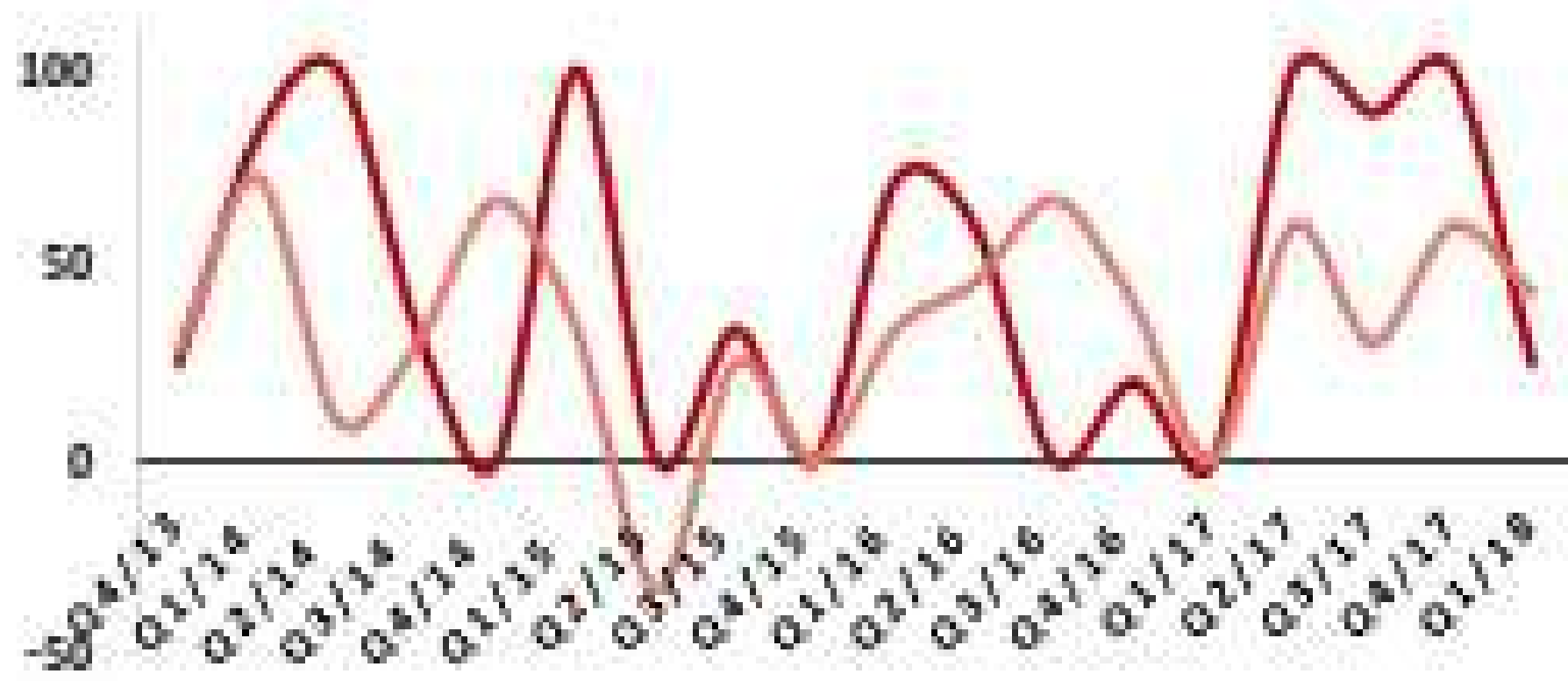


— LARGE — SME

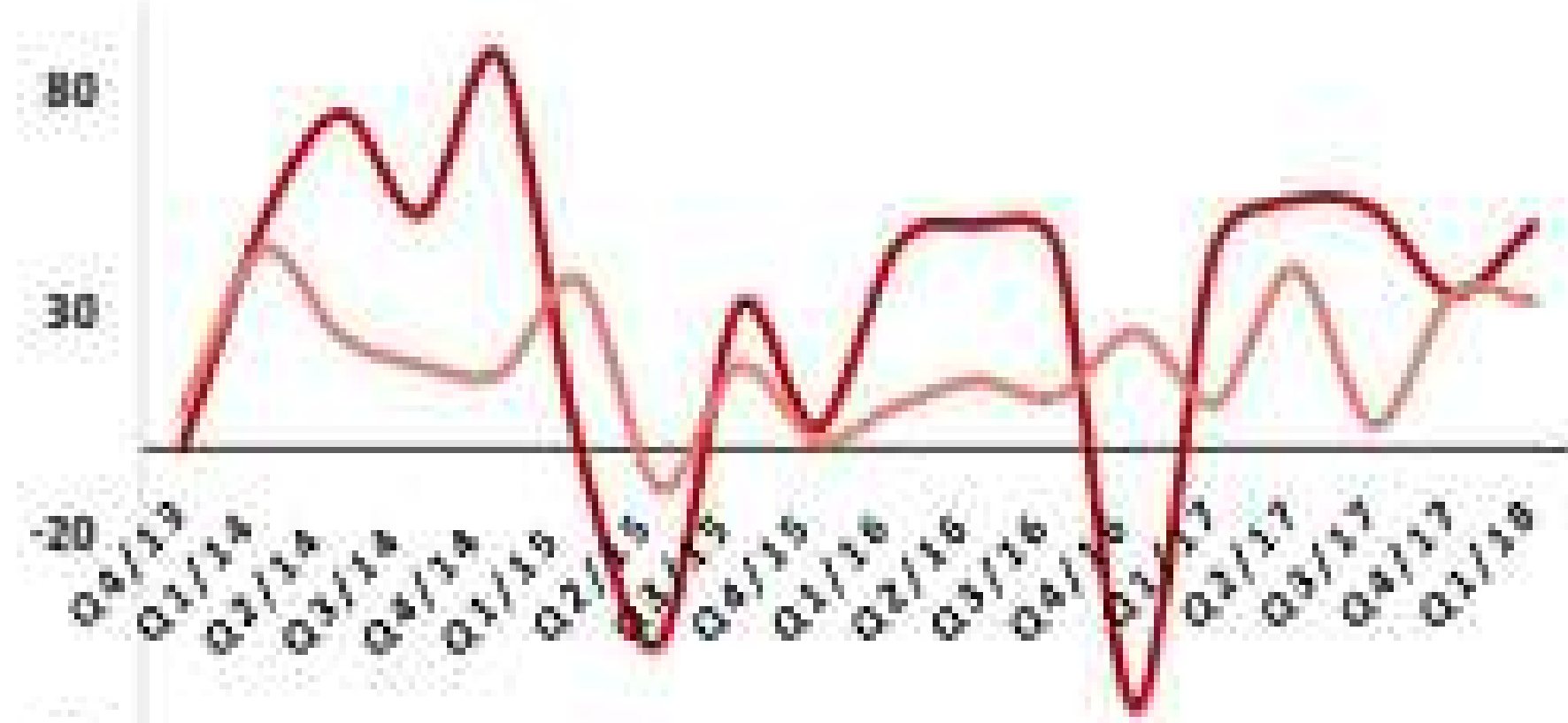
— LARGE — SME

## Expectations Index

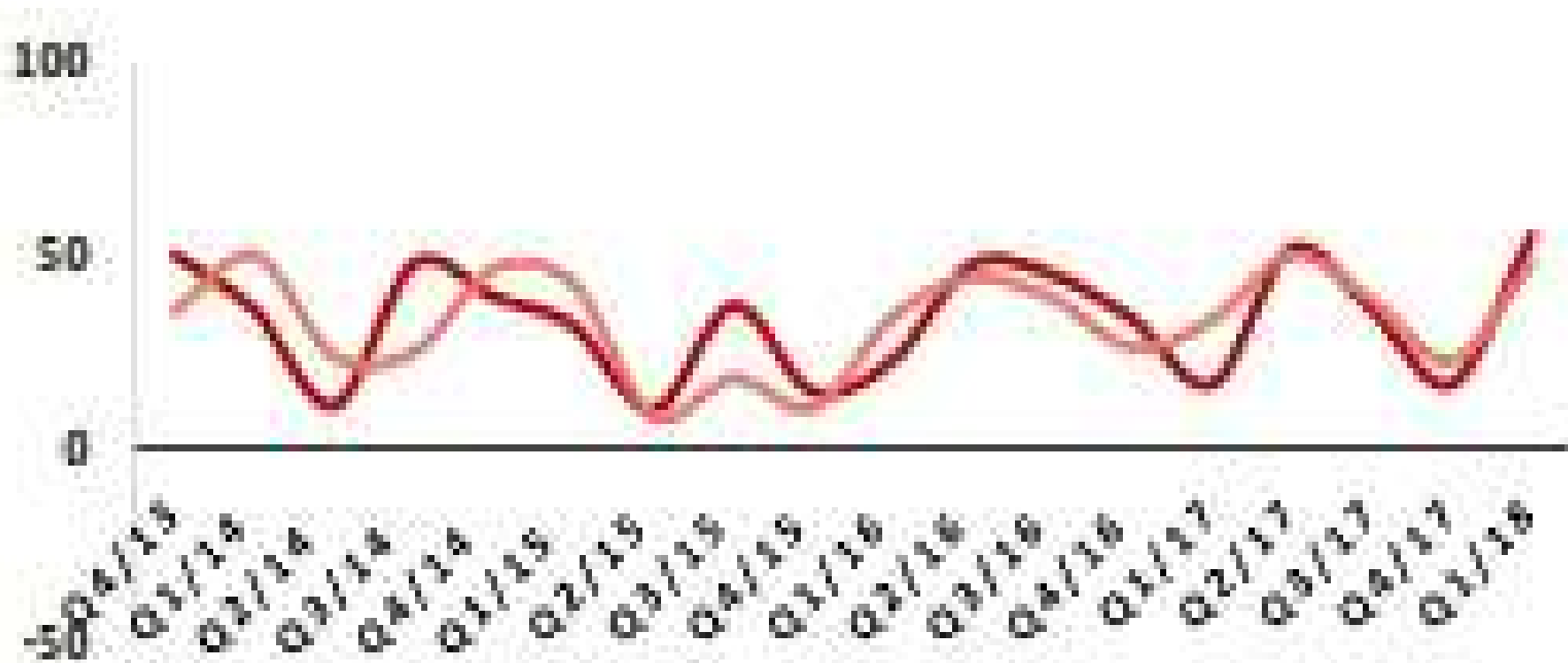
### Manufacturing



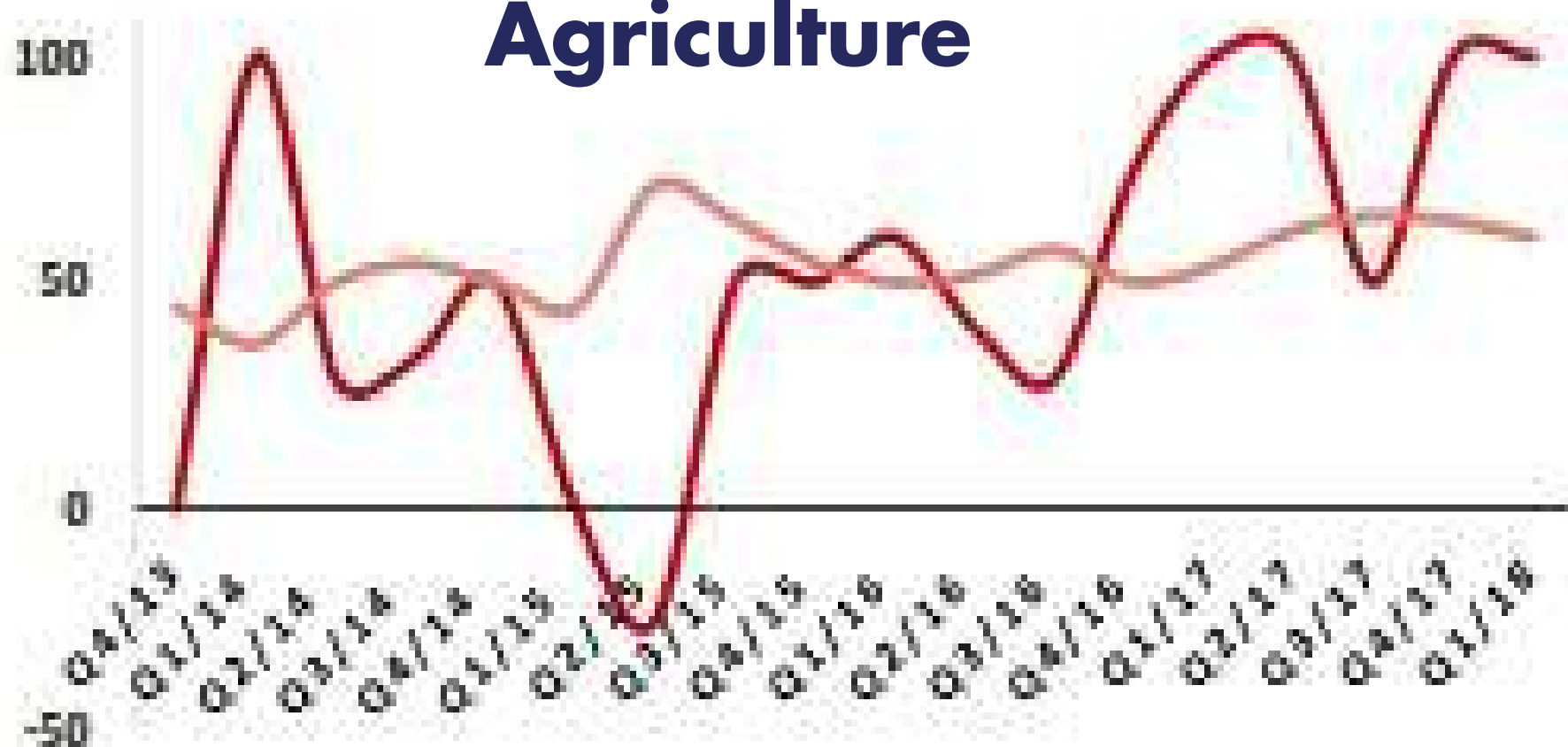
### Retail Trade



### Service



### Agriculture



### Financial



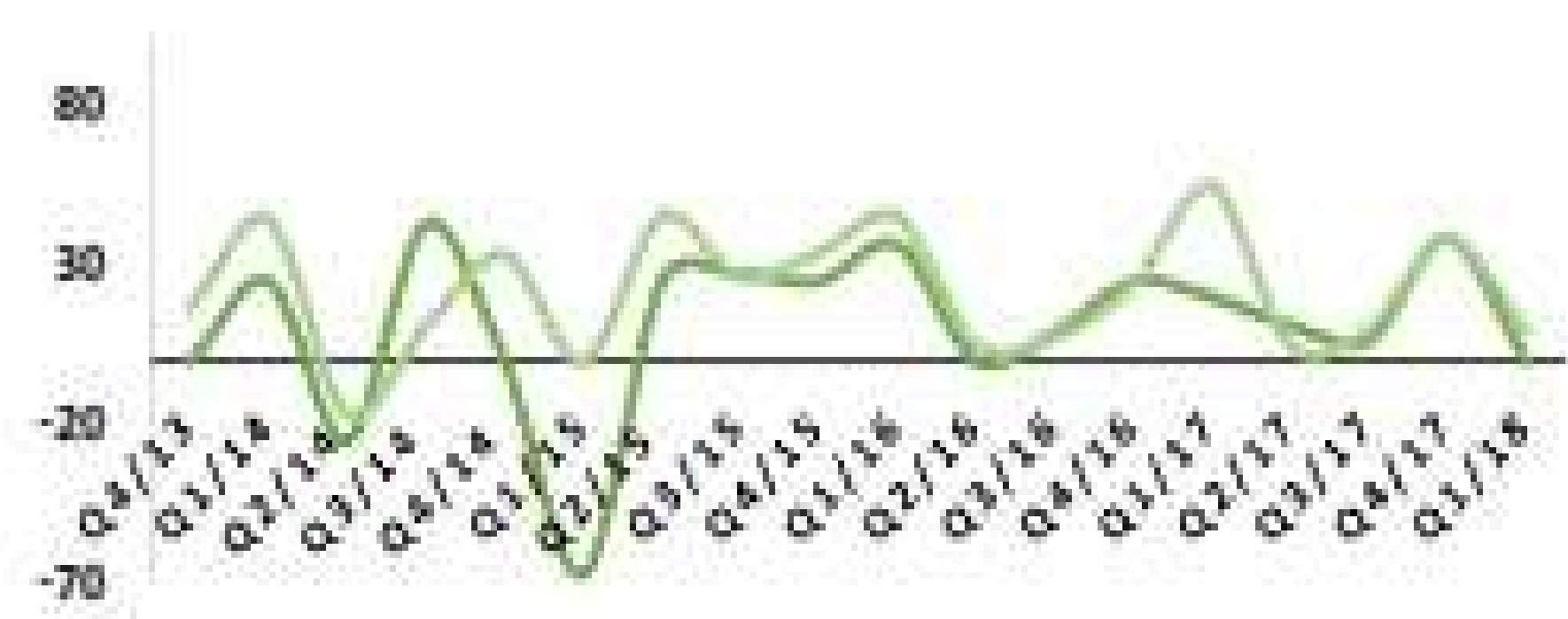
— LARGE — SME —

## Sales Price Expectations Index

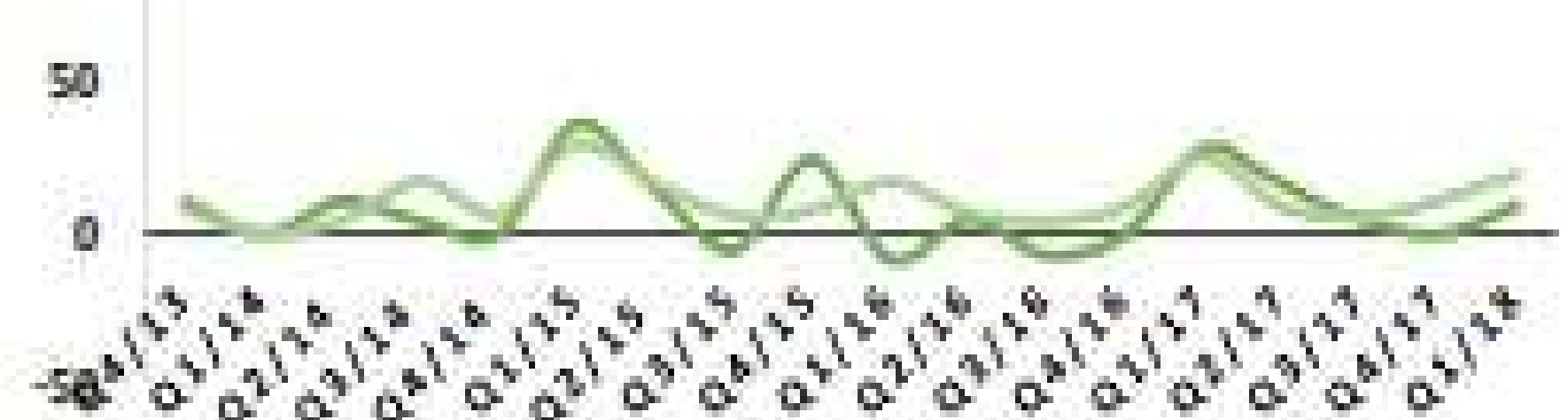
### Manufacturing



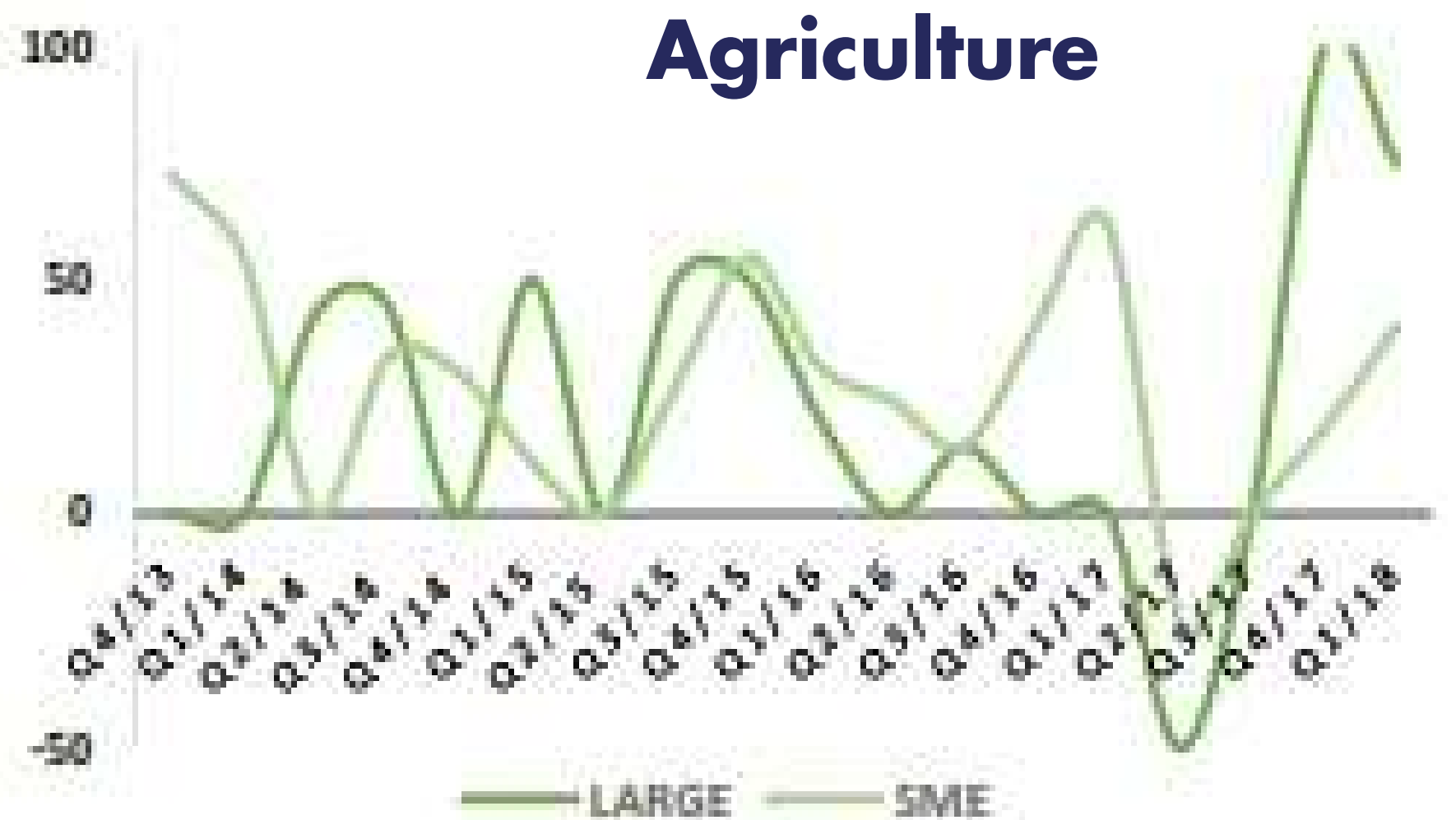
### Retail Trade



### Service



### Agriculture



— LARGE — SME

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