

BUSINESS CONFIDENCE INDEX

2.2

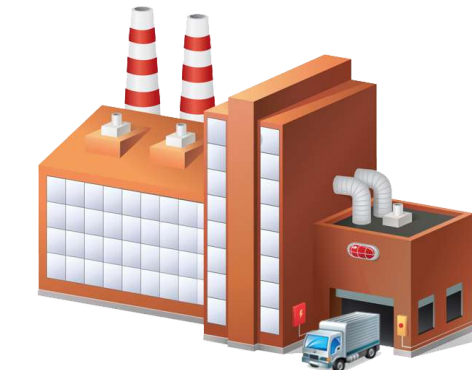
DECREASE

The downward trend continues!

Q2 2022

Participating Companies

Large



28

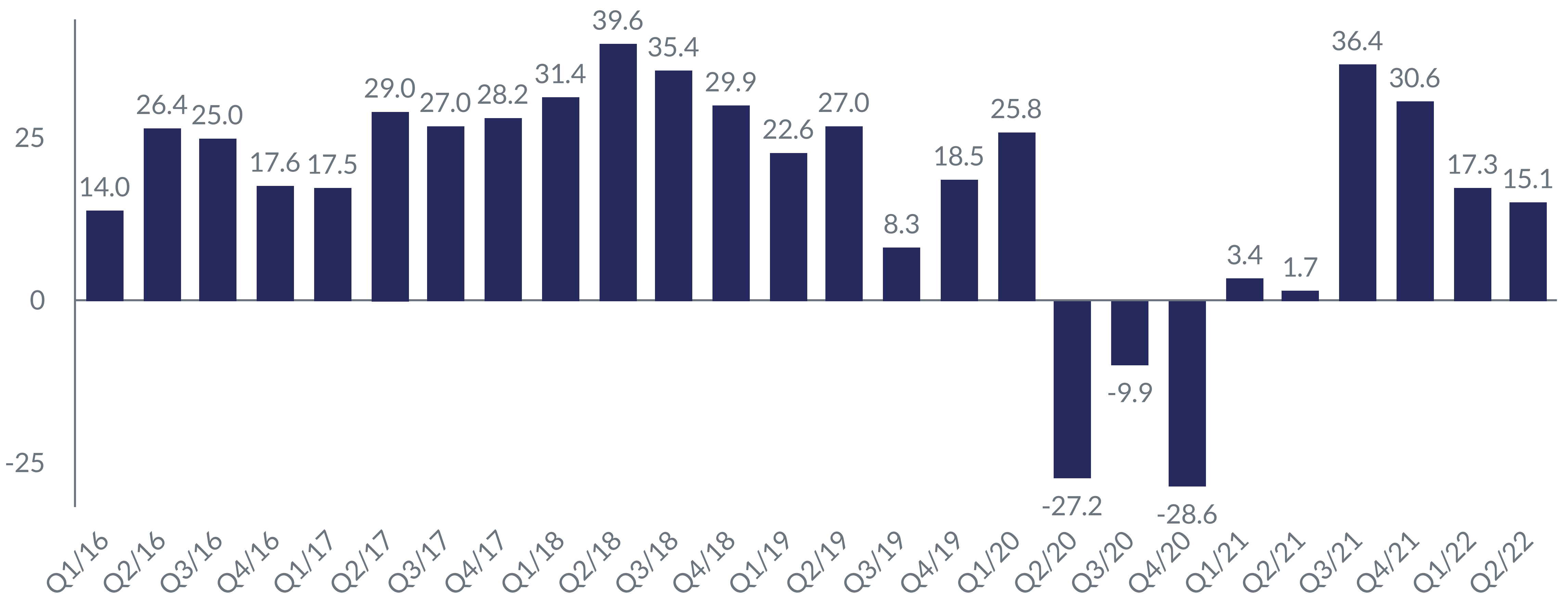
SMEs



113

SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- For the second quarter of 2022, business confidence in Georgia decreased (by 2.2 index points) and reached 15.1. The highest decrease in business confidence is observed in construction (-29.7), and wholesale and retail trade (-7.6) sectors. The negative change in BCI for Q2 2022 was driven by significantly worsened past performance.

- The Past Performance Index, which considers the business sector's assessment of their own economic performance in the previous quarter, decreased by 22.6 points compared to Q1 2022 and reached -9.5 for Q2 2022, with construction (-87.1), and wholesale and retail trade (-45.4) sectors showing the greatest deterioration.

- Expectations Index, which reflects business optimism, increased, amounting to 30.6 index points. Expectations for Q2 2022 increased for all sectors, except for the construction and wholesale and retail trade sectors.

- The Sales Price Expectations Index increased by 10.7 index points and reached 41.4, indicating an increase in the share of businesses that anticipate charging higher prices on their products over the next three months. The Sales Price Expectations Index has increased for all sectors except for the manufacturing sector.

- Limited access to financing and a lack of demand continue to be the most significant obstacles for SMEs. Meanwhile, limited access to financing and a shortage of qualified labor force are indicated as the major constraints by large companies.

* 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 decrease in the previous two quarters, BCI has further decreased by 2.2, compared to Q1 2022, and reached 15.1 index points for Q2 2022. Expectations in the Georgian private sector have increased by 7.3 index points, reaching 30.6. As for the business performance over the past three months, it decreased significantly, reaching -9.5 points, indicating a downturn in production, turnover, and sales. Compared to the previous quarter, the Sales Price Expectation Index has increased, showing an increase in the market share of businesses that expect higher sales prices over the next three months.

BCI QoQ change by sector

Compared to Q1 2022, BCI decreased in construction (-29.7), and trade (-7.6) while it increased in agriculture (+22.6), manufacturing (+13.3), financial (+13.3), and service (+3.9) sectors.

| Sectors | Q2/22 | | Change |
|----------------------|-------------|---|--------------|
| Manufacturing | 15.9 | ▲ | +13.3 |
| Construction | -9.2 | ▼ | -29.7 |
| Trade | 21.2 | ▼ | -7.6 |
| Service | 12.4 | ▲ | +3.9 |
| Agriculture | 52.1 | ▲ | +22.6 |
| Financial | 31.7 | ▲ | +13.3 |

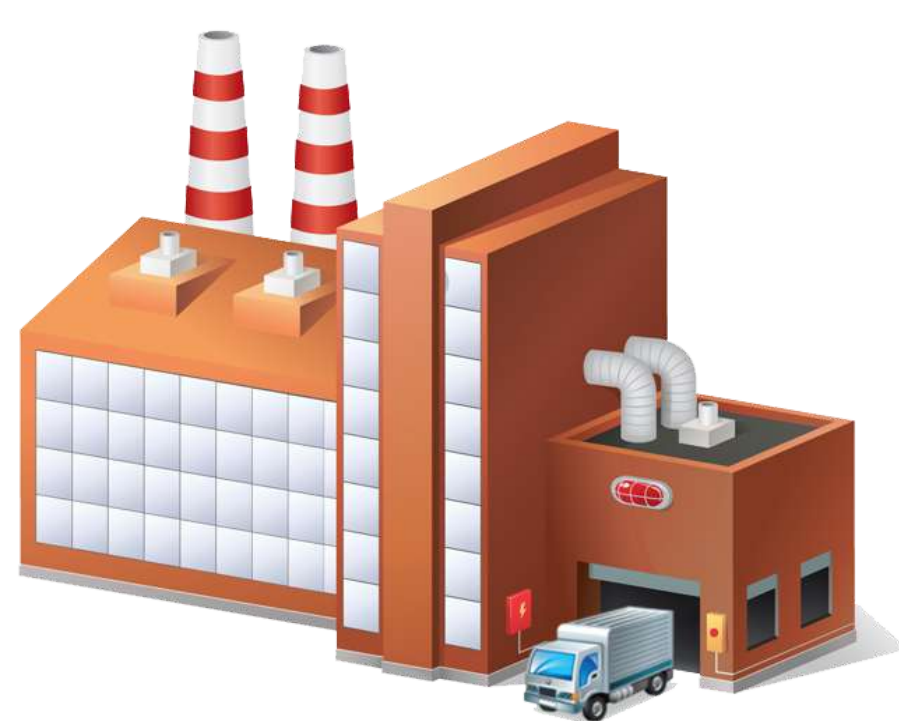
SME



Q2/22
8.8

Change
▼ -6.3

Large



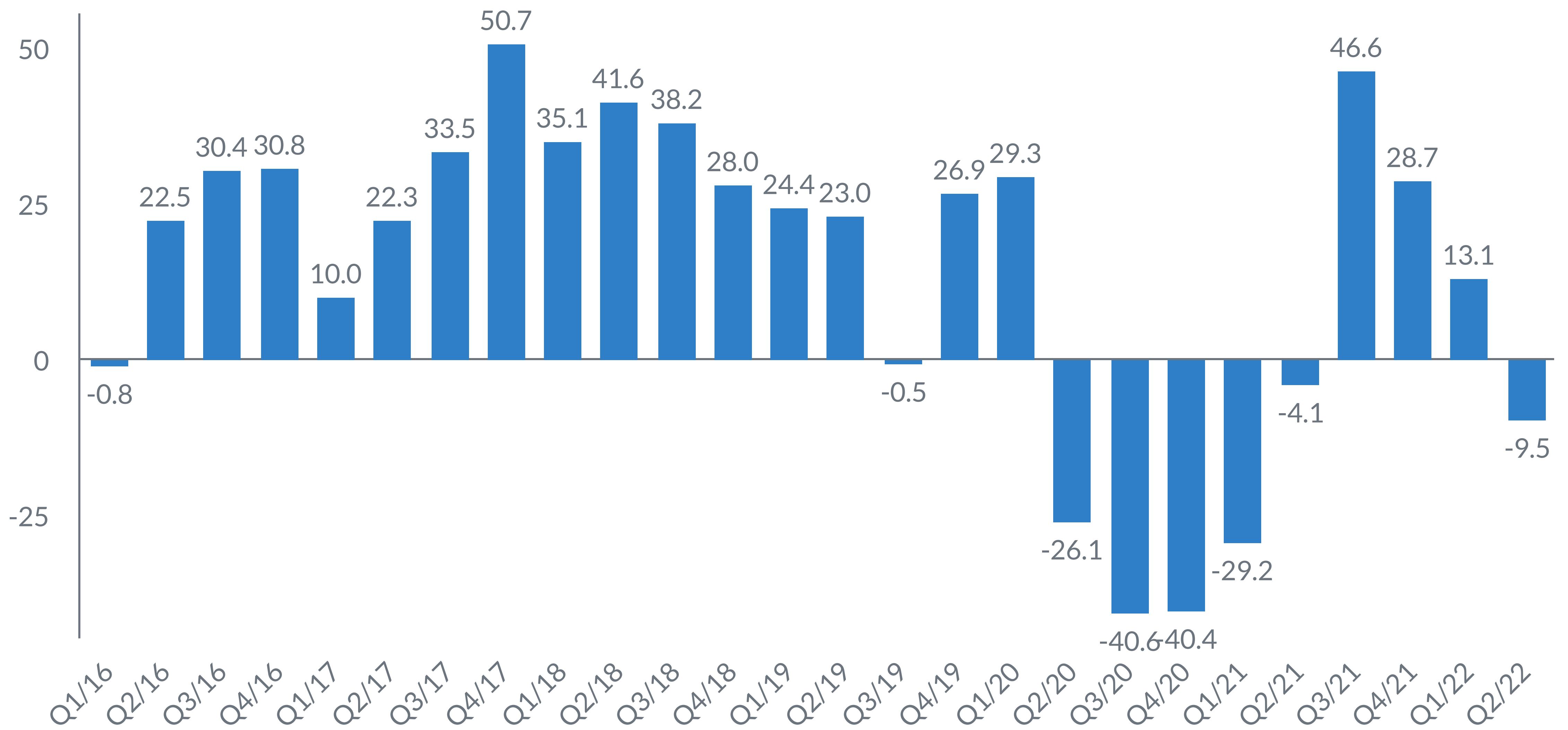
Q2/22
20.5

Change
▲ +4.3

Business confidence for the 1st quarter of 2022 has increased by 4.3 index points for large companies and decreased by 6.3 for SMEs.

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



Past 3 Months QoQ change by sector

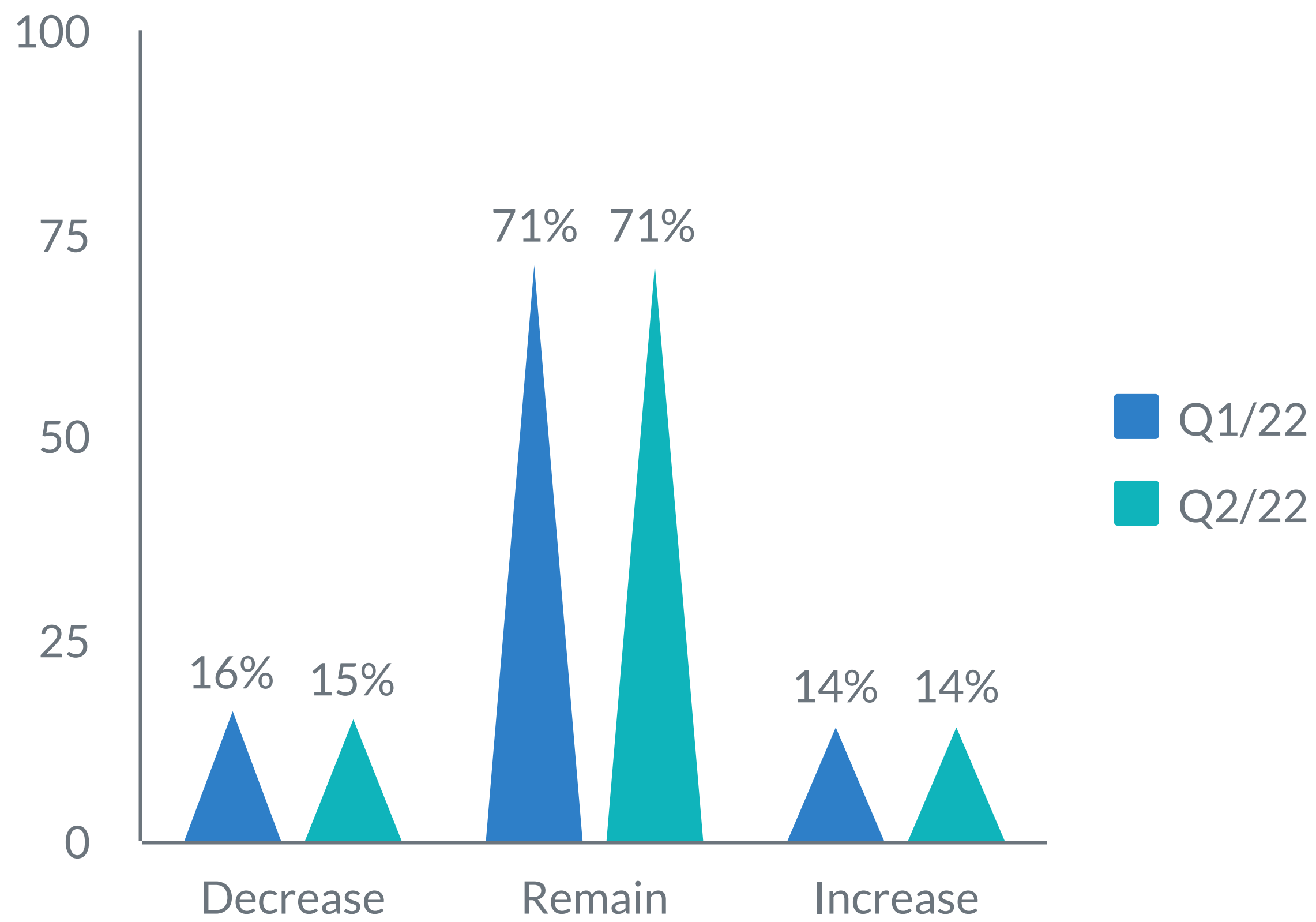
Businesses' Past Performance Index, which shows the development of businesses' production, turnover, and sales in the past 3 months, decreased significantly compared to Q1 of 2022 and reached -9.5 for Q2 2022. The biggest deterioration for Q2 2022 was observed in the construction sector (-87.1), followed by the wholesale and retail trade (-45.4), financial (-11.1), and service (-5.9) sectors. Past Performance Index increased for manufacturing (+37.9) and agriculture (+22.7) sectors.

| Sectors | Q2/22 | Change |
|----------------------|--------------|--------------|
| Manufacturing | 18.5 | +37.9 |
| Construction | -38.5 | -87.1 |
| Trade | -13.8 | -45.4 |
| Service | -13.7 | -5.9 |
| Agriculture | 28 | +22.7 |
| Financial | 13.3 | -11.1 |



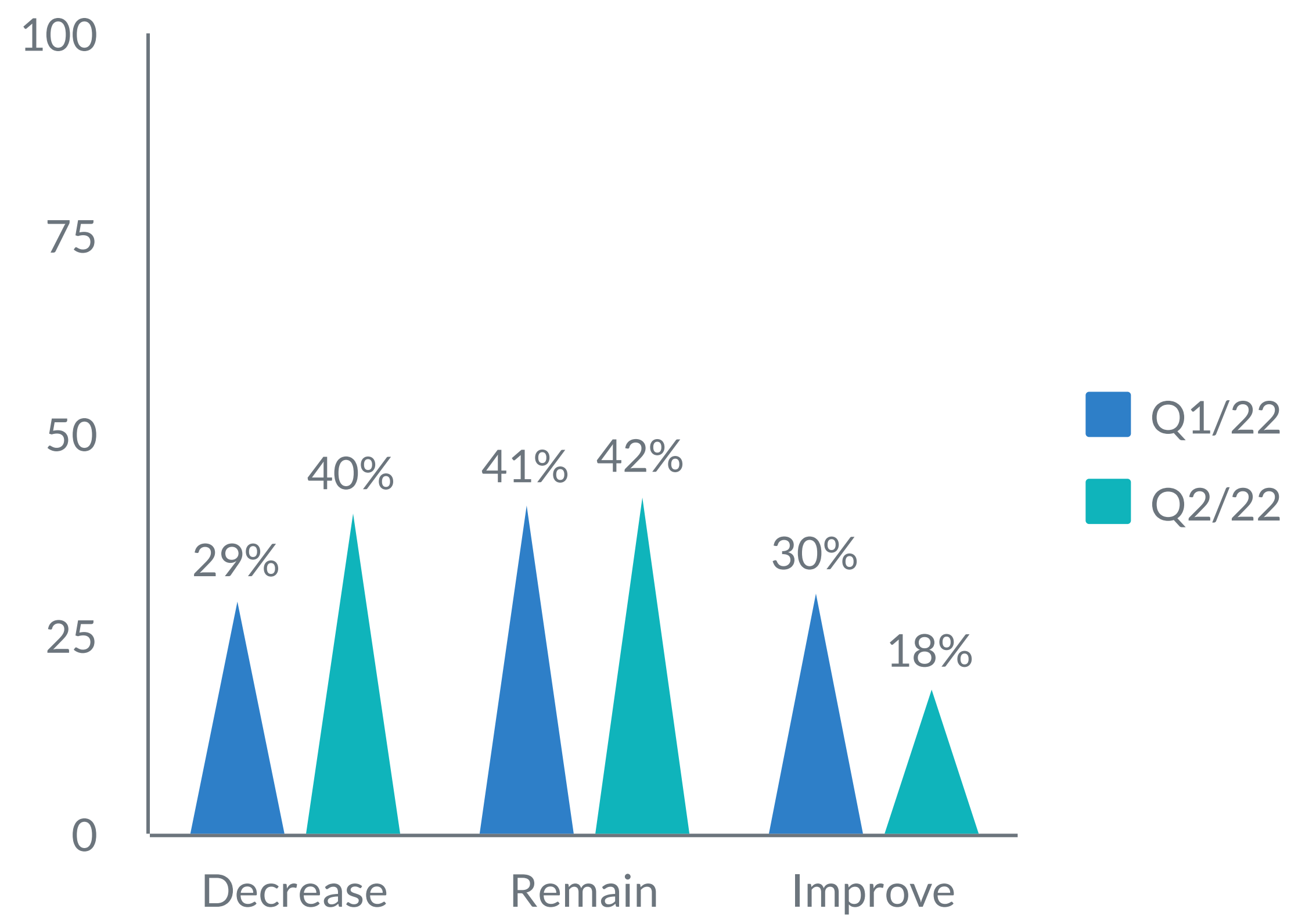
Business activities in the past 3 months have deteriorated for both, large businesses and SMEs. For large firms, the index decreased by 18.5 points and settled at 3.3. For SMEs, the same indicator decreased by 20.9 and reached -23.5 index points.

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



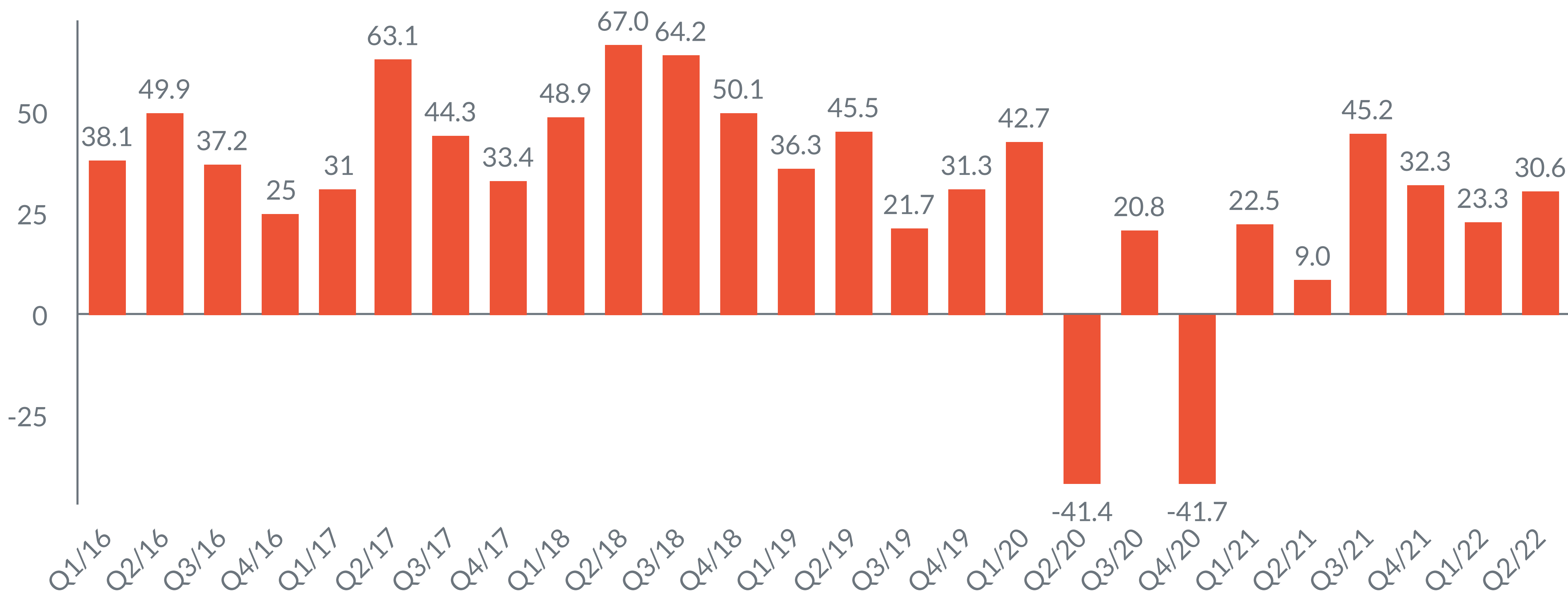
For Q2 2022, 15% of surveyed firms stated that employment had decreased over the past three months; 14% reported an increase, and 71% reported no changes in employment.

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



Compared to the previous quarter, a smaller share of firms (18%) claimed that their business activity improved over the past three months; 42% of firms stated that their business activities remained unchanged and 40% reported a deterioration.

Expectations Index



Expectations QoQ change by sector

The Expectations Index increased by 7.3 index points for Q2 2022 and settled at 30.6. Prospects for the next three months have improved for all sectors except for the construction (-25.5) and wholesale and retail trade (-2.3) sectors. The highest increase is observed in the manufacturing sector (+80.7), followed by financial (+36.3), agriculture (+21.2), and service (+3.4) sectors.

| Sectors | Q2/22 | Change |
|----------------------|-------------|--------------|
| Manufacturing | 90.6 | +80.7 |
| Construction | 7.7 | -25.6 |
| Trade | 31.5 | -2.3 |
| Service | 21.1 | +3.4 |
| Agriculture | 63.3 | +21.2 |
| Financial | 18.6 | +36.3 |

SME



Q2/22

22.7

Change

-8.6

Large



Q2/22

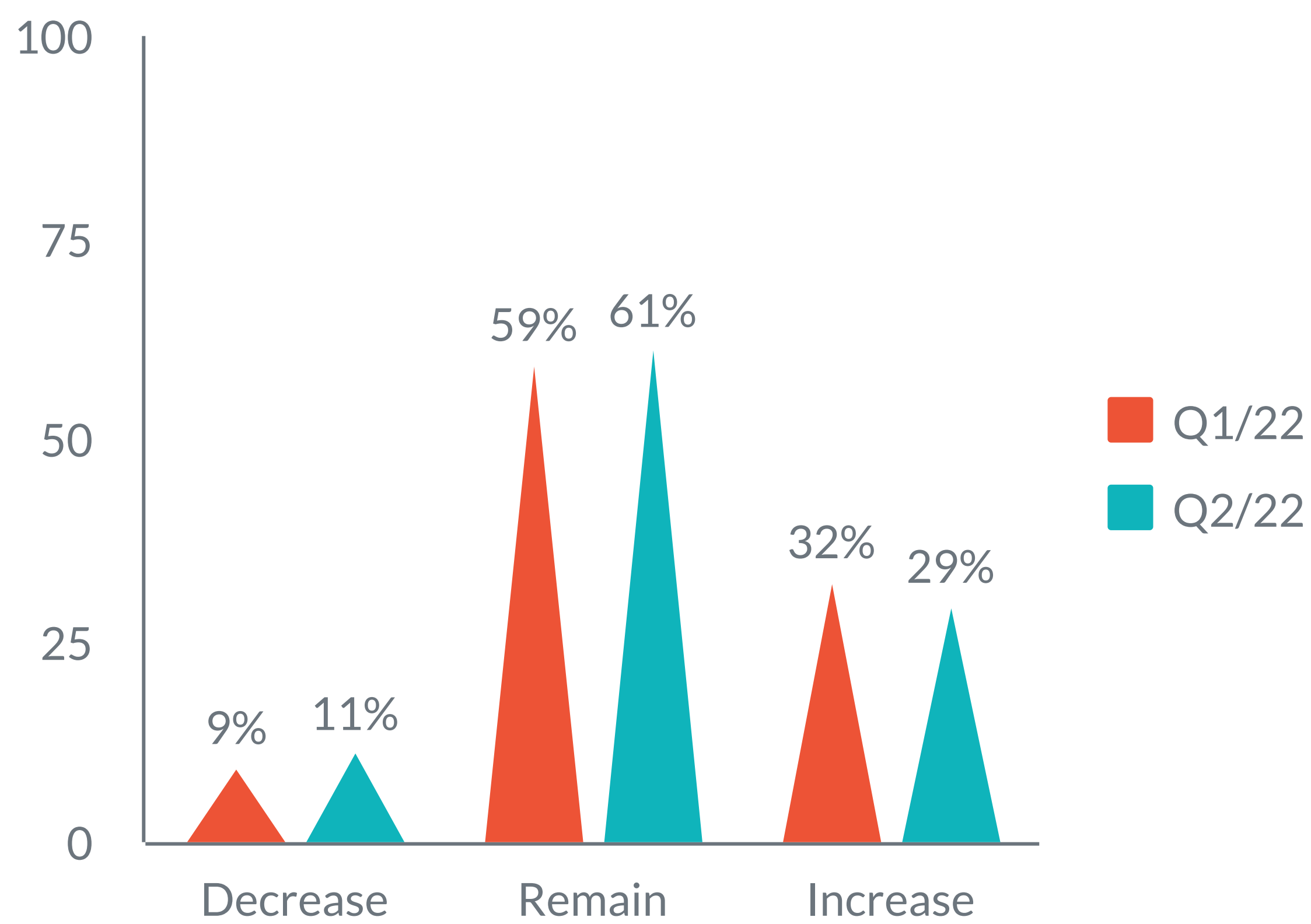
34.6

Change

+17.7

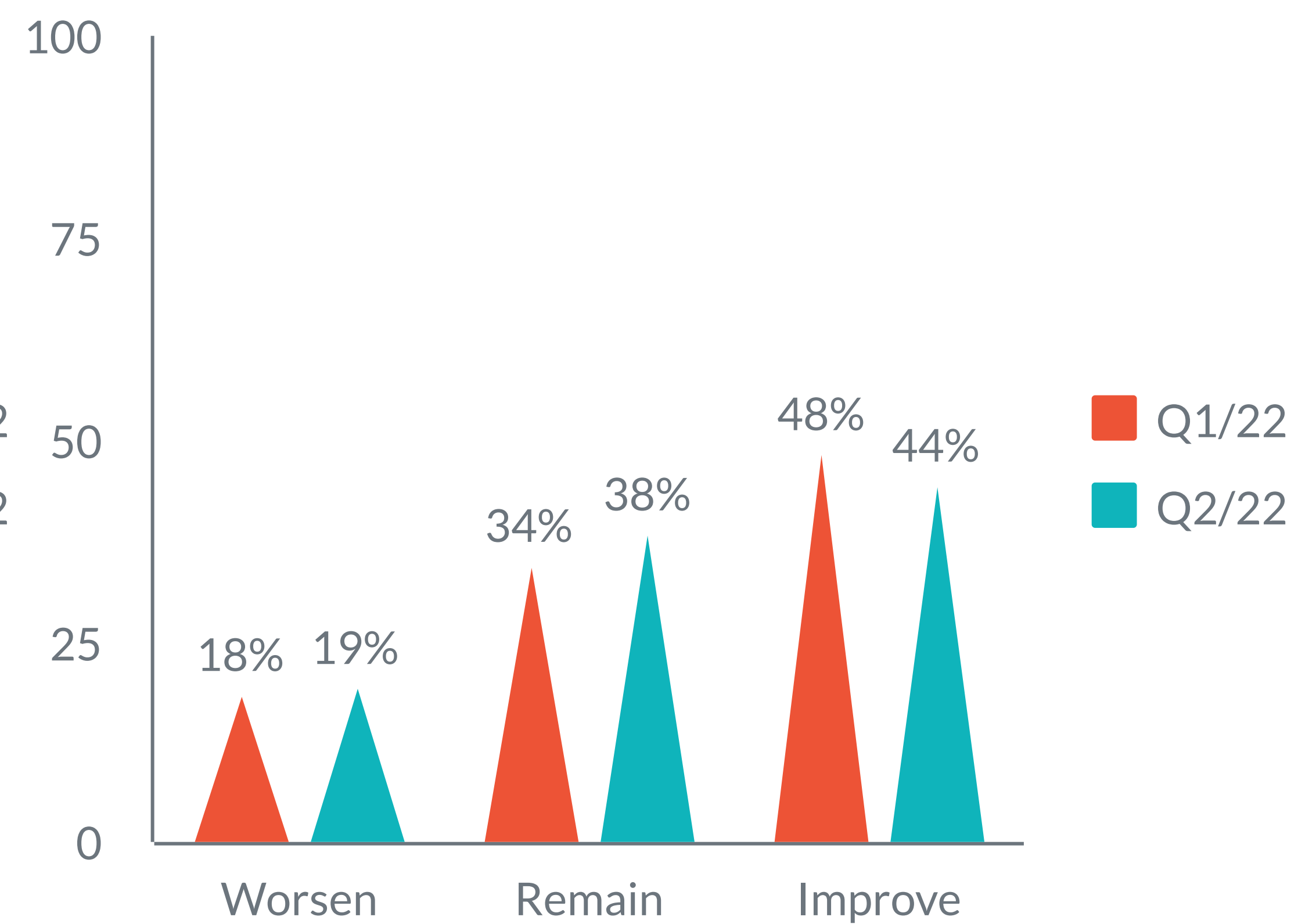
Business expectations have improved for large firms (+17.7) and deteriorated for SMEs (-8.6).

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



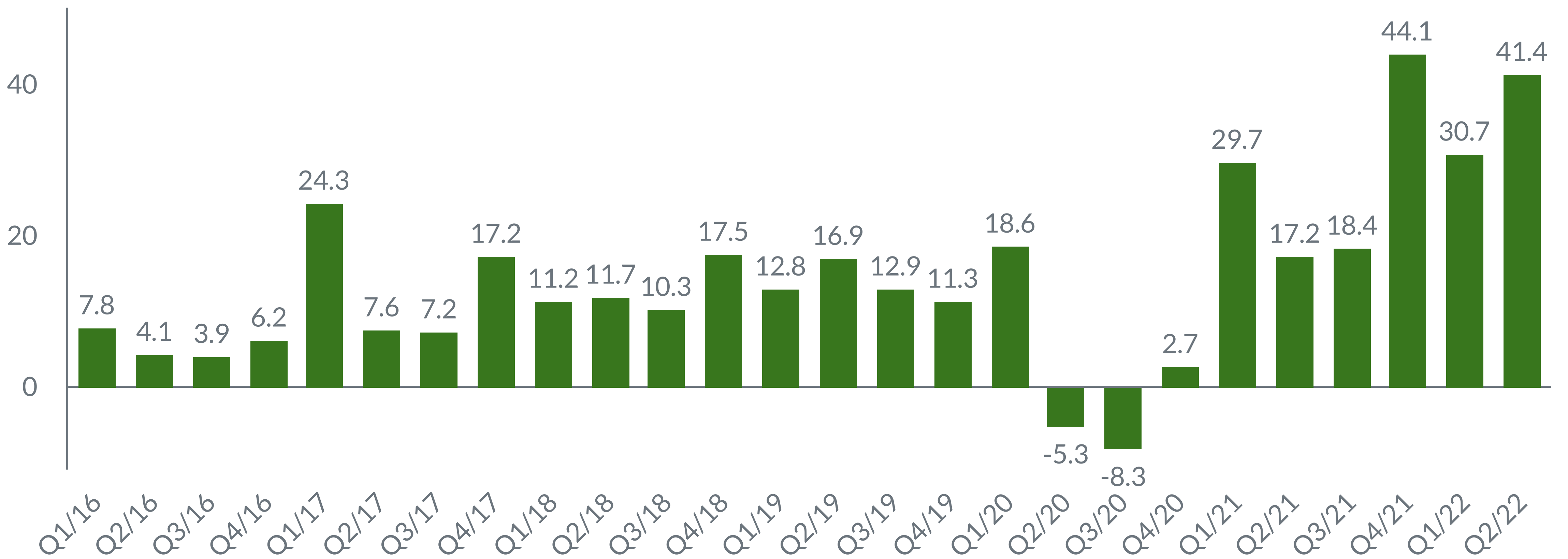
61% of the surveyed businesses do not expect any changes in employment over the next three months, 11% of firms stated that they would hire fewer employees in the future, and 29% think that they would hire more.

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



44% of the firms surveyed expect the economic condition of their businesses to improve over the next three months. 38% do not predict any changes, and 19% of businesses believe their business conditions will worsen.

Sales Price Expectations Index



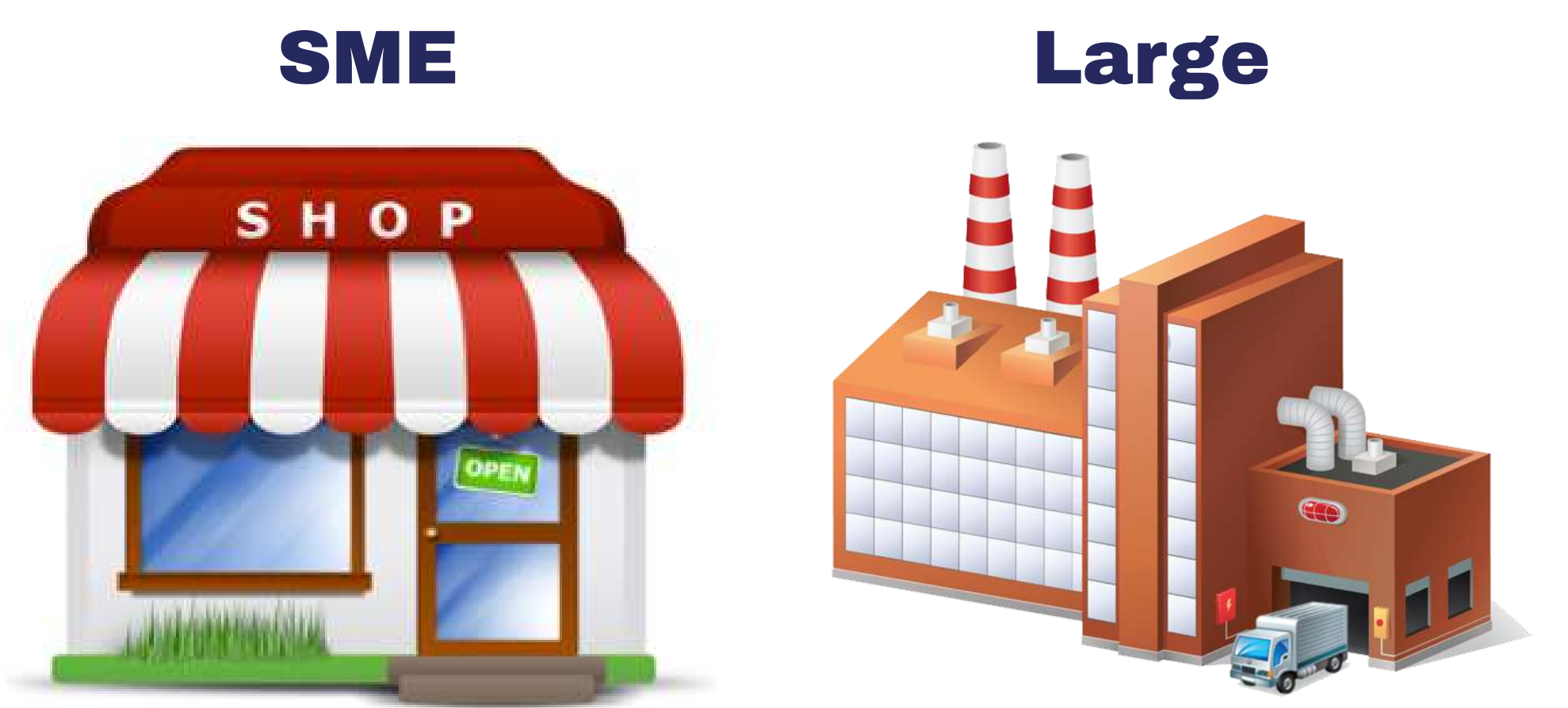
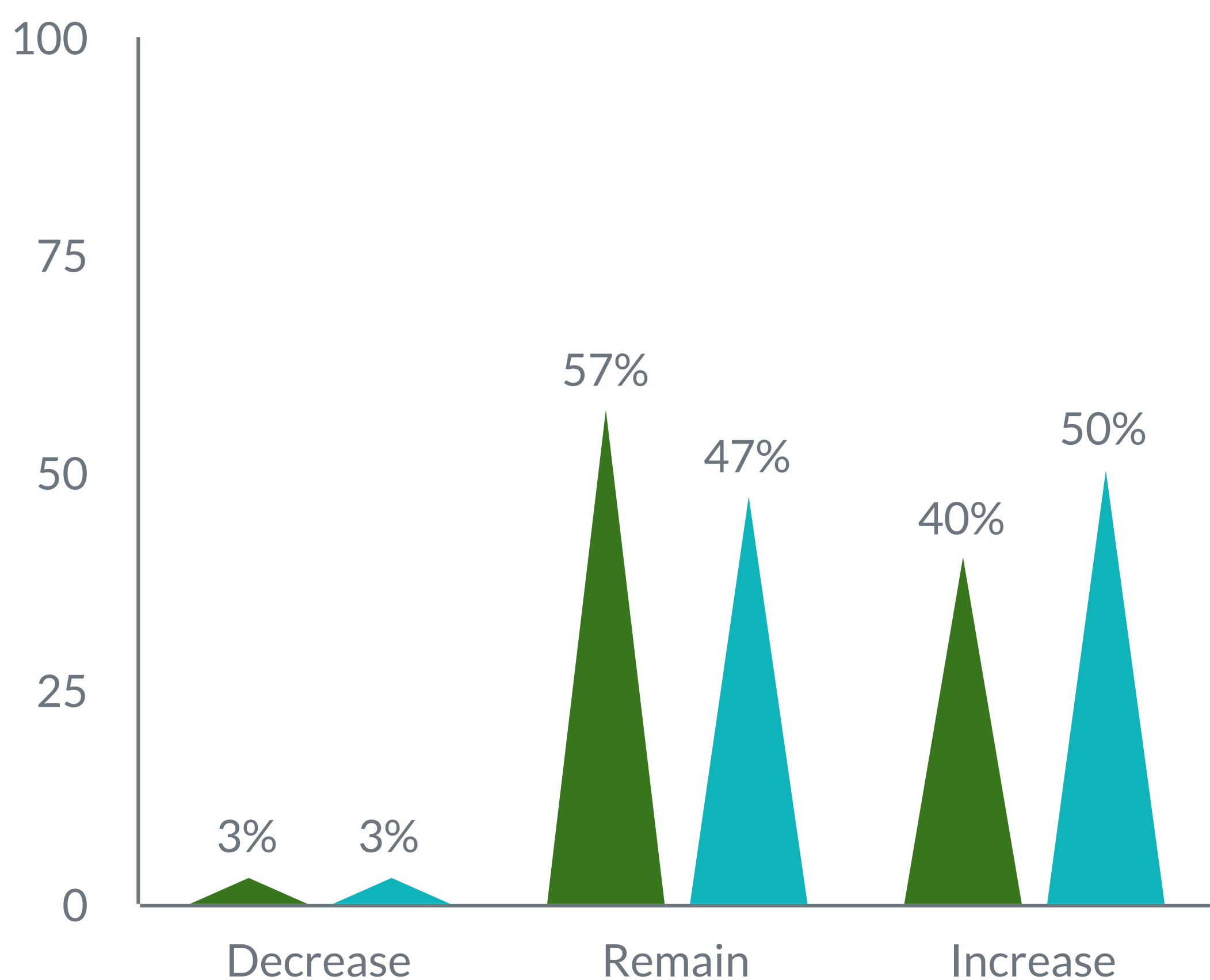
The Sales Price Expectations Index increased to 41.4 points for Q2 2022. The index increased for all sectors, except for the manufacturing (-10.6) sector, with the biggest increase in construction (+35.9), agriculture (+34.8), retail and wholesale trade (+12.6), and service (+6.2) sectors.

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

Sales price QoQ change by sector

| Sectors | Q2/22 | Change |
|----------------------|-------------|--------------|
| Manufacturing | 35.2 | -10.6 |
| Construction | 53.8 | +35.9 |
| Trade | 40.5 | +12.6 |
| Service | 39.2 | +6.2 |
| Agriculture | 92.7 | +34.8 |

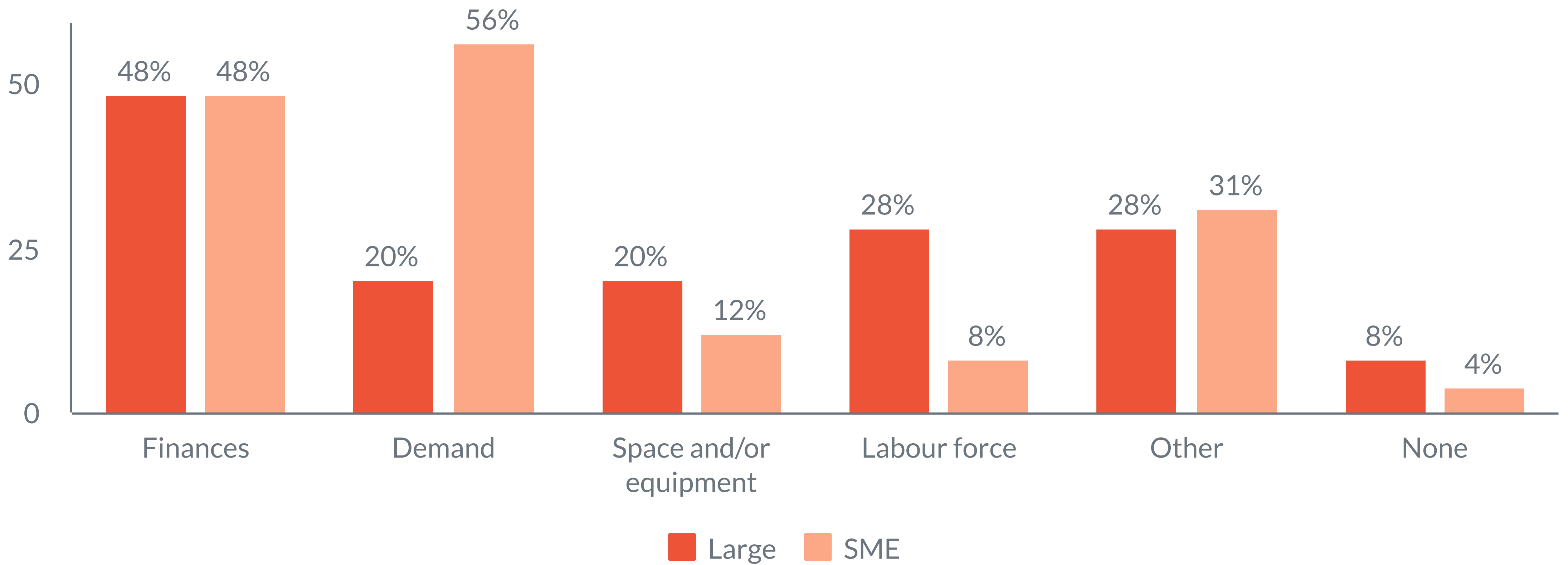
How do you expect the prices you charge to change over the next 3 months?



| Q2/22 | Change | Q2/22 | Change |
|-------------|--------------|-------------|-------------|
| 45.7 | +12.8 | 32.3 | +8.3 |

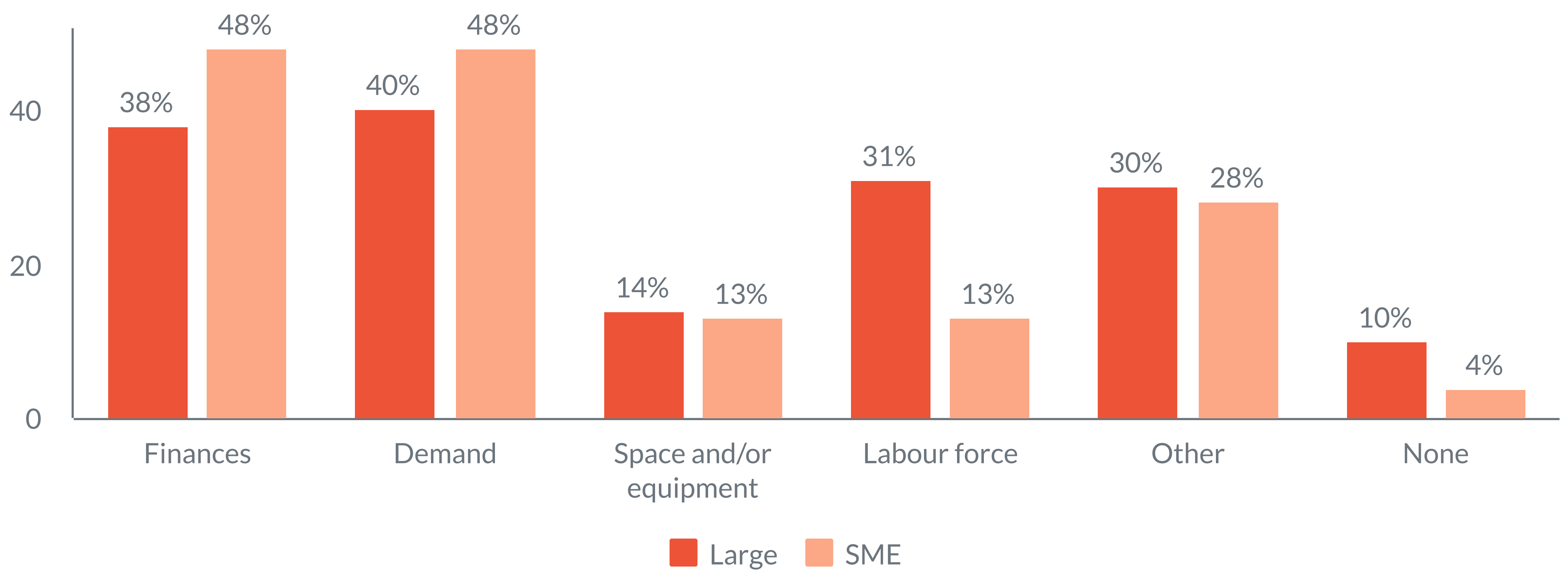
Around 50% of all firms surveyed intend to increase their prices over the next three months. 3% of firms expect to decrease prices, and the remaining 47% are not planning to change their prices in the near future.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2, 2022



For Q2 2022, limited access to financing and a lack of demand continue to be the most significant obstacles for SMEs. Meanwhile, limited access to financing, labor force, and other factors is indicated as major constraints by large companies.

WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Q2 2021-Q1 2022 (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) 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.

The methodology for compiling the indices is based on the Joint Harmonised EU Programme of Business and Consumer Surveys.

| Variable | Value |
|----------|-------|
| Positive | +1 |
| Neutral | 0 |
| Negative | -1 |

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.
- All firms with an average of fewer than 50 people employed for over a year and an annual average turnover of less than 12 million GEL are considered as SMEs
- Rest of the firms are considered as large firms.

For the BCI Methodology, 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 | 22/Q1 | 22/Q1 | 22/Q2 | 22/Q2 |
|---------------------------|-------|---------|-------|---------|
| Manufacturing | 20 | 11% | 15 | 11% |
| Construction | 18 | 10% | 13 | 9% |
| Trade | 48 | 26% | 34 | 24% |
| Service | 53 | 29% | 49 | 35% |
| Agriculture | 19 | 10% | 8 | 6% |
| Financial | 11 | 6% | 9 | 6% |
| Other | 13 | 7% | 13 | 9% |
| Source: BCI Survey Data | 182 | % share | 141 | % share |

Table 2 - Distribution of industries by value added

| Sectors | % in Value Added |
|-----------------|------------------|
| Manufacturing | 11% |
| Construction | 13% |
| Trade | 19% |
| Service | 36% |
| Agriculture | 7% |
| Financial | 8% |
| Other | 6% |
| Source: GeoStat | |

| Sectors - Number of firms by size | 22/Q2 | |
|-----------------------------------|-------|-----|
| | Large | SME |
| Manufacturing | 3 | 12 |
| Construction | 0 | 13 |
| Trade | 6 | 28 |
| Service | 11 | 38 |
| Agriculture | 2 | 6 |
| Financial | 2 | 7 |
| Other | 4 | 9 |
| Source: BCI Survey Data | 28 | 113 |

Maximum number of firms participating in the survey

2016 Q2

| Large | SME |
|-------|-----|
| 104 | 266 |

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Business Confidence Index

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