

# BUSINESS CONFIDENCE INDEX

**1.2**  
INCREASE

**Business Confidence Strengthens on Robust Sector Performance**

## Q4 2017

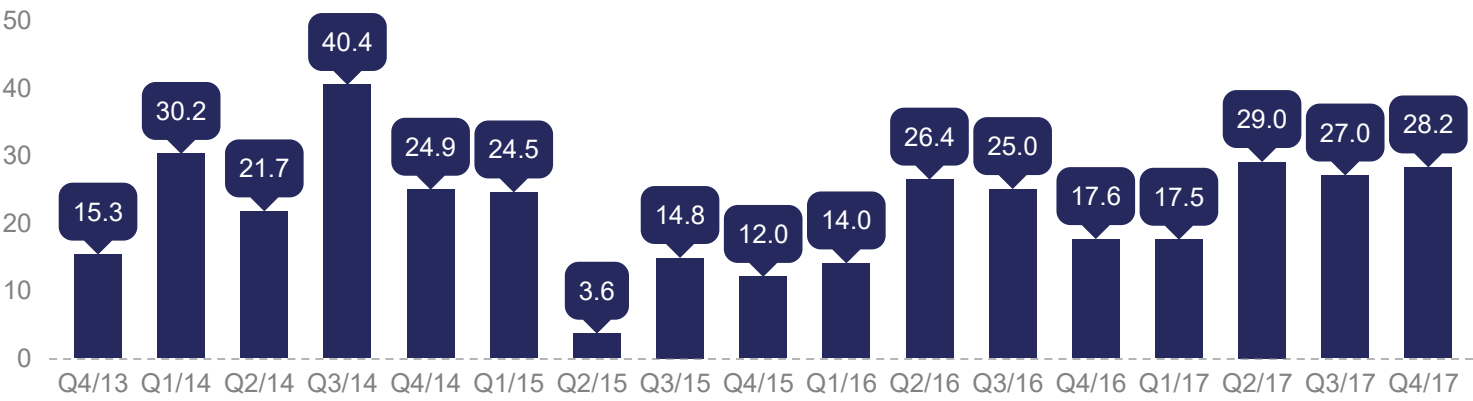
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**Participating Companies**

<p><b>Large</b></p>  <p><b>31</b></p>	<p><b>SMEs</b></p>  <p><b>93</b></p>
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## SURVEY HIGHLIGHTS

Business Confidence Index (BCI)



- The Georgian Business Confidence Index (BCI)\* has increased slightly, reaching 28.0 index points, which is a 1.2 index points gain over the previous quarter. Against weakening expectations, the fourth quarter improvement in the BCI was mostly driven by notable increase of the Past Performance Index.
- After a significant increase of 11.2 index points in Q3, the Past Performance Index, which reflects businesses' assessment of their own economic performance in the previous quarter increased (+17.2 points). Compared to other sectors, Construction sector assessed their past performance most positively.
- Business optimism about the overall economy dropped to below the Q3 2017 (-10.9, QoQ) level, but remained higher than Q4 2017 at 33.4 index points. Financial and Service sectors have contributed the most in the drop of business optimism.
- The Sales Price Expectation Index increased notably. Businesses in the Agriculture sector predict the highest price jump in the next quarter while the highest price drop is predicted in the Manufacturing sector.
- Compared to Large businesses, SMEs demonstrated slightly lower decrease in expectations, and better past performance, leading to decreasing gap between Large businesses and SMEs in the overall Index.
- 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 1.2 points compared to Q3 2017. Expectations in the private sector in Georgia declined by 10.9 percentage points, and reached 33.4 index points (down from 44.3 points in Q3). Business performance over the past three months increased significantly, reaching nearly 50.7 points (increasing from 33.5), indicating an improvement in production/turnover/sales. Improved performance of the past three months could outweigh decreased expectations, which led to an insignificant raise in overall BCI.

The BCI index increased in the agriculture (+19.9), construction (+10.1) and service (+2.5) sectors, and worsened in the financial (-13.9), retail trade (-2.5), manufacturing (-1.5) and other (-12.2) sectors.

### BCI QoQ change by sector

Sectors	Q4/17		Change
<b>Manufacturing</b>	<b>39.4</b>	▼	<b>-1.5</b>
<b>Construction</b>	<b>18.8</b>	▲	<b>10.1</b>
<b>Retail Trade</b>	<b>23.4</b>	▼	<b>-2.5</b>
<b>Service</b>	<b>25.6</b>	▲	<b>2.5</b>
<b>Agriculture</b>	<b>52.6</b>	▲	<b>19.9</b>
<b>Financial</b>	<b>34.1</b>	▼	<b>-13.9</b>
<b>Other</b>	<b>10.6</b>	▼	<b>-12.2</b>

#### SME



#### Large

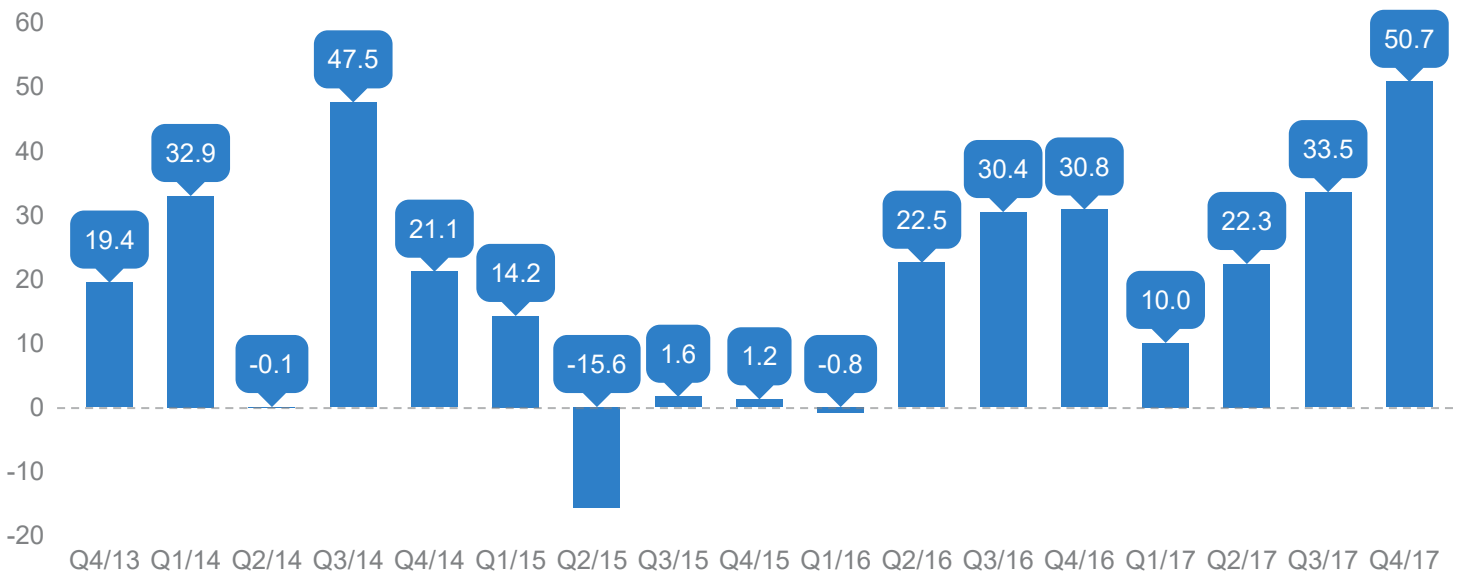


Q4/17	Change	Q4/17	Change
<b>21.50</b>	▲	<b>10.4</b>	▲
<b>29.62</b>	▲	<b>0.0</b>	▲

Business confidence in the fourth quarter of 2017 increased for SMEs and stayed the same for large firms. The gap between large firms and SMEs started to shrink after Q4 2016, the only quarter in the recent history with higher level of BCI 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 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 increased compared to the third quarter of 2017. In the Q4 2017 reporting period, sales (production or turnover) of the 124 firms surveyed increased from 33.5 (Q3 2017) to 50.7 (Q4 2017).

A significant increase in performance was observed in the construction (+49.3), agriculture (+40.5), service (+28.7) and manufacturing (+21.3) sectors. Significant improvement means that in these sectors, the weighted balance between positive and negative responses increased 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 financial sector (-24.7).

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

### Past 3 Months QoQ change by sector

Sectors	Q4/17	Change
<b>Manufacturing</b>	<b>89.3</b>	<b>▲ 21.3</b>
<b>Construction</b>	<b>90.4</b>	<b>▲ 49.3</b>
<b>Retail Trade</b>	<b>30.8</b>	<b>▼ -10.9</b>
<b>Service</b>	<b>47.5</b>	<b>▲ 28.7</b>
<b>Agriculture</b>	<b>91.5</b>	<b>▲ 40.5</b>
<b>Financial</b>	<b>18.3</b>	<b>▼ -24.7</b>
<b>Other</b>	<b>-20.3</b>	<b>▼ -39.2</b>



**SME**



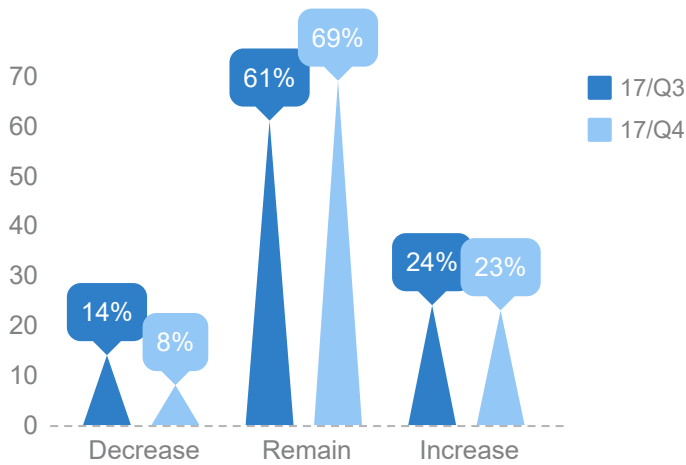
**Large**

Q4/17	Change	Q4/17	Change
<b>22.48</b>	<b>▲ 16.4</b>	<b>54.76</b>	<b>▲ 16.1</b>

Business activities improved for both large businesses and SMEs. For large firms, business activity indicators increased from 38.6 points in Q3 2017, to 54.8 in Q4 2017; for SMEs, the same indicator increased from 6.09 to 22.5 over the same period.

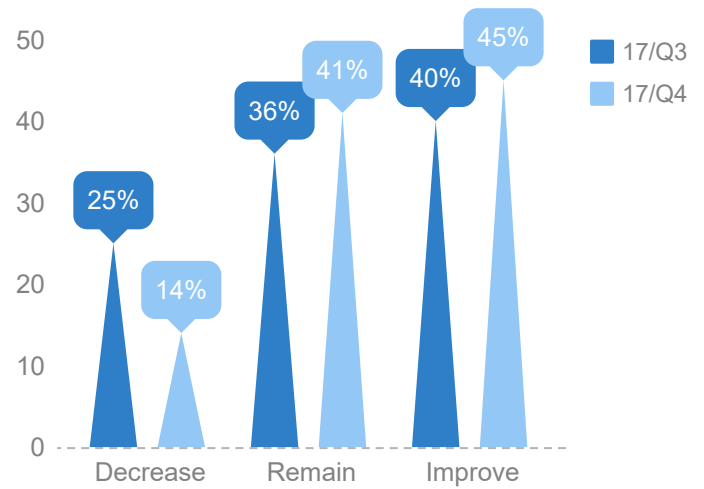
\*\* This indicator describes the activities of businesses in July, August, September

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



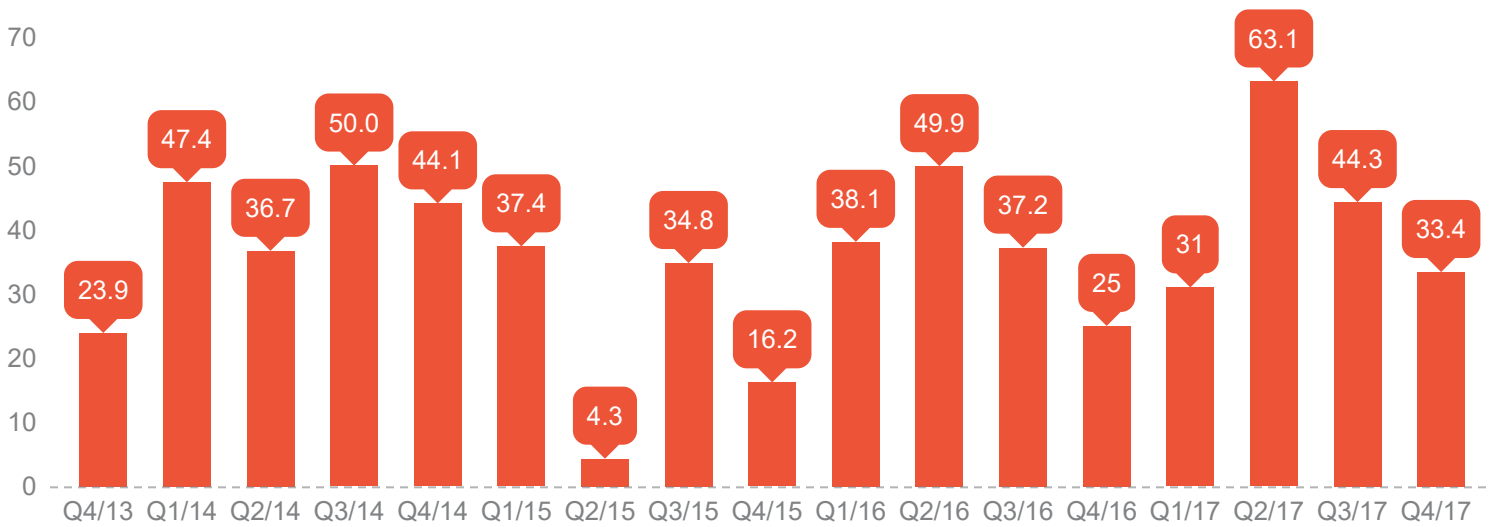
Compared to the previous quarter, a higher share of surveyed firms (69%) stated that employment remained the same over the past three months. Fewer businesses reported either decreases or increases in employment.

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



Moreover, 41% of firms claimed that their business activities remained unchanged over the past three months, while 45% of participants stated that they had improved their performance (which was an increase of 5 percentage points over the previous quarter).

# Expectations Index



## Expectations QoQ change by sector

The Expectations Index decreased by 10.9 index points in the fourth quarter of 2017. Expectations about the next three months worsened almost in all sectors, except agriculture (+34.0) and manufacturing (+13.6). The highest decrease was reported in the financial and other sectors (for more information, see Appendix 1).

Sectors	Q4/17	Change
<b>Manufacturing</b>	<b>94.6</b>	<b>▲ 13.6</b>
<b>Construction</b>	<b>3.9</b>	<b>▼ -14.6</b>
<b>Retail Trade</b>	<b>34.6</b>	<b>▼ -6.4</b>
<b>Service</b>	<b>17.5</b>	<b>▼ -18.6</b>
<b>Agriculture</b>	<b>88.6</b>	<b>▲ 34.0</b>
<b>Financial</b>	<b>42.5</b>	<b>▼ -24.6</b>
<b>Other</b>	<b>0.00</b>	<b>▼ -28.4</b>

### SME



**Q4/17**    **Change**  
**34,78**    ▼    **-0.2**

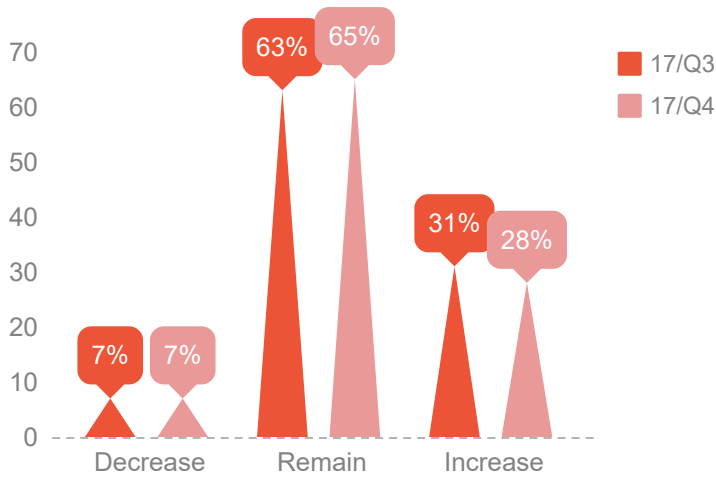
### Large



**Q4/17**    **Change**  
**33.61**    ▼    **-12.9**

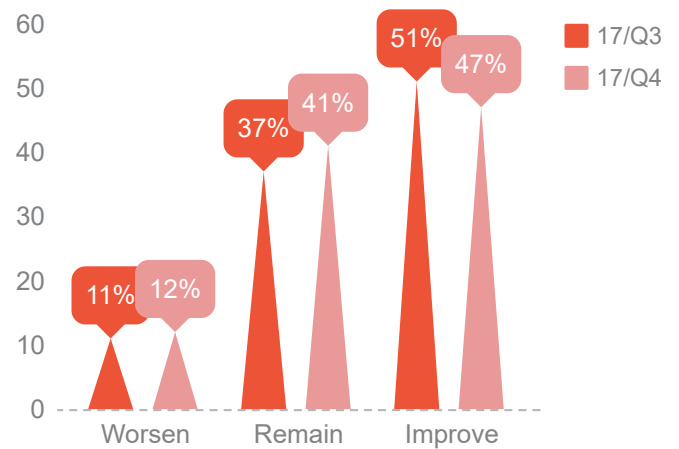
As one can see from the table, business expectations for the three-month period October through December 2017 decreased for both SMEs and large size firms.

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



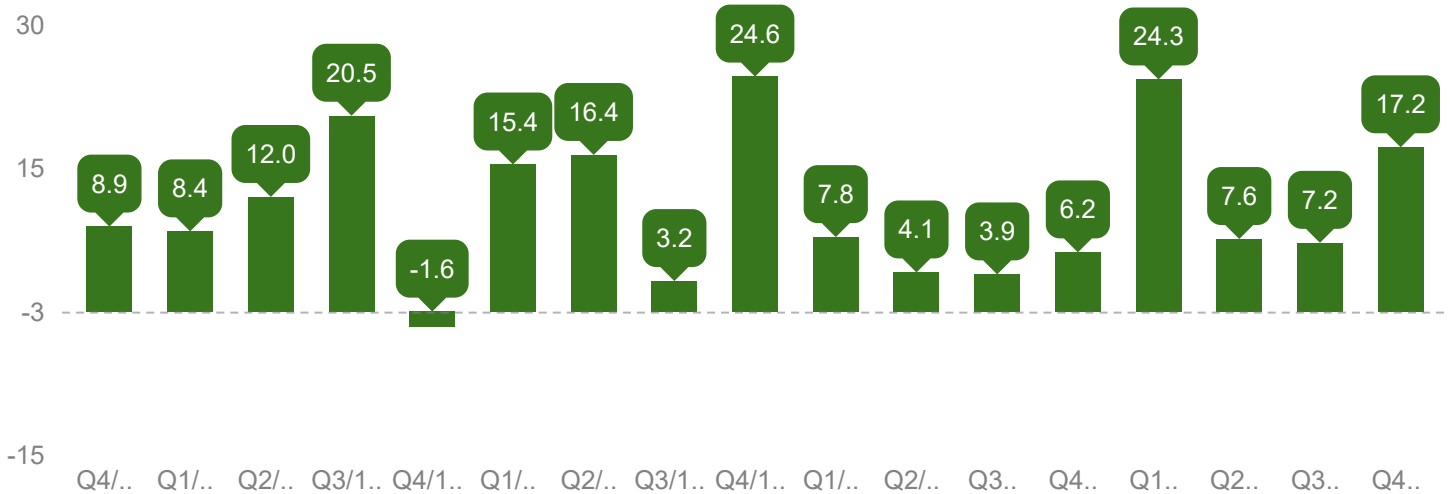
The majority (65%) of surveyed businesses do not expect any changes in employment over the next three months. Furthermore, 28% of firms stated that they would employ more employees in the future (which is lower compared to the previous quarter, by 3%).

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



47% of the surveyed firms expected that the economic condition of their businesses would improve over the next three months, and 41% did not expect any changes in the future, while a slightly higher share of businesses expect their business conditions to worsen.

## Sales Price Expectations

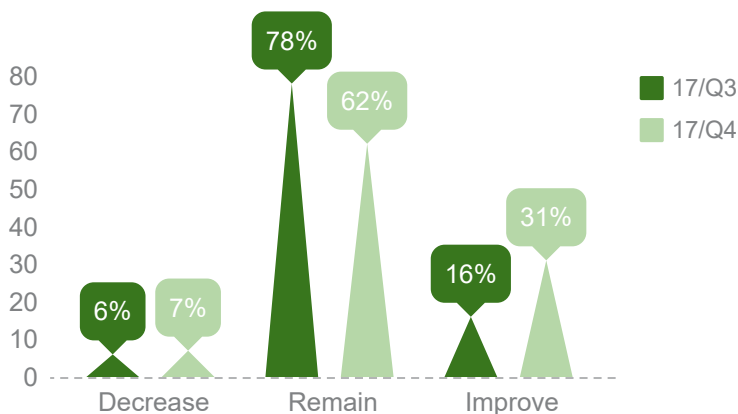


The Sale Price Expectation Index increased from 7.2 points (Q3 2017) to 17.2 points (Q4 2017). Such a large hike in expectations may be related to renewed depreciation of the national currency (GEL) against our main trade currency (USD). The increase in the Index is driven by the agriculture, construction and retail trade sectors. The agriculture sector's sales price expectations have increased the most, by 74.4 points. The manufacturing and service sectors expect 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	Q4/17	Change
Manufacturing	2.7	-15.2
Construction	34.3	32.2
Retail Trade	38.5	31.1
Service	1.6	-3.3
Agriculture	74.4	74.4
Other	77.1	19.9

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

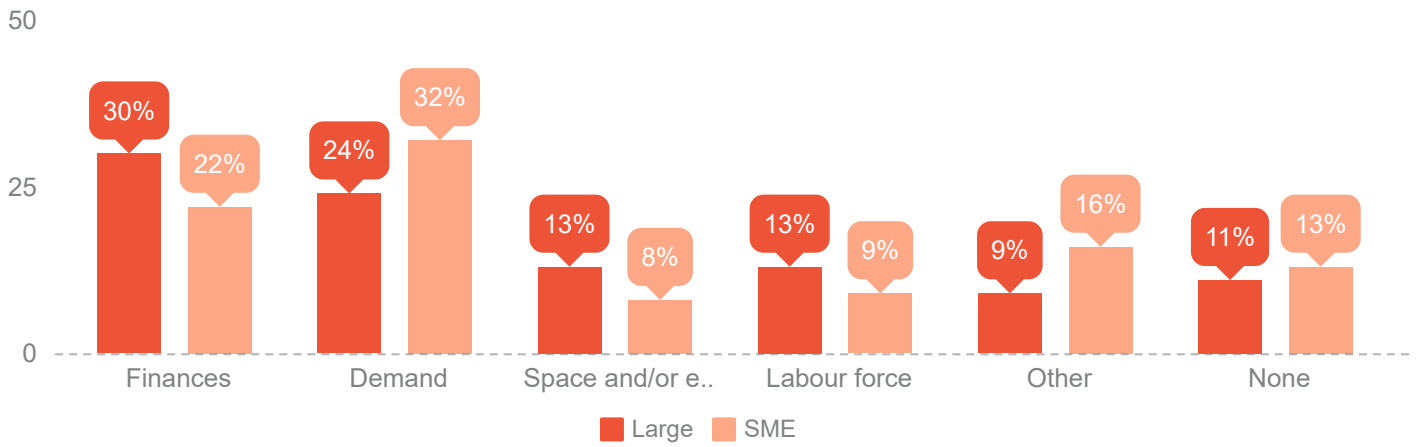


Q4/17	Change	Q4/17	Change
21.11	▲ 15.2	17.45	▲ 9.9

The majority (62%) 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 31% expect to increase prices in the future.



# WHAT ARE THE MAIN FACTORS CURRENTLY LIMITING YOUR BUSINESS? Quarter 4, 2017



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 124 firms participating in the survey, 30% of large sized firms and 22% 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	17/Q3	17/Q3
Manufacturing	6	5%	19	8%
Construction	15	12%	19	8%
Retail Trade	25	20%	44	19%
Service	50	40%	90	40%
Agriculture	12	10%	21	9%
Financial	12	10%	17	7%
Other	4	3%	17	7%
Source: BCI Survey Data	<b>124</b>	% share	<b>227</b>	% 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	17/Q4	
	Large	SME
Manufacturing	1	5
Construction	3	12
Retail Trade	13	12
Service	6	44
Agriculture	1	11
Financial	4	8
Other	3	1
Source: BCI Survey Data	<b>31</b>	<b>93</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 Q4 2017 was 124. This is a decrease of nearly 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 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.

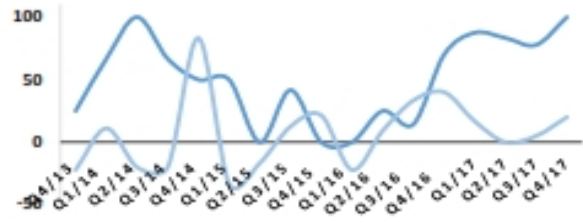
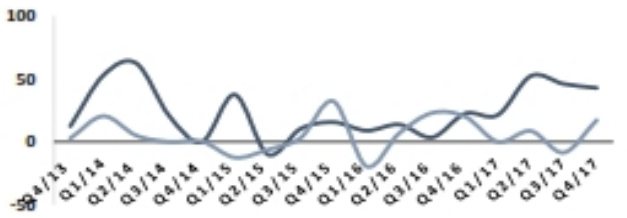
# APPENDIX 1 – BCI, Production/Turnover/Sales, Expectations, Sales Expectations by Sectors and Sizes

## Overall BCI

## Sales/Production/Turnover for past 3 months

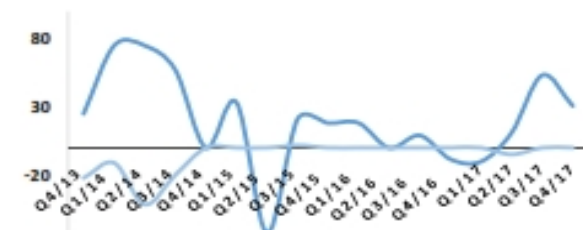
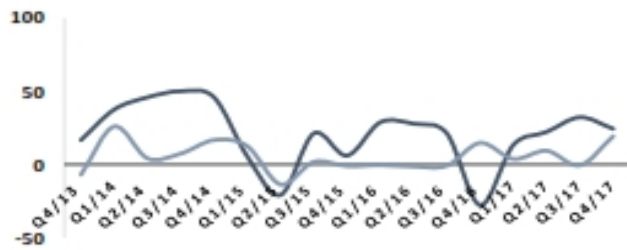
### Manufacturing

### Manufacturing



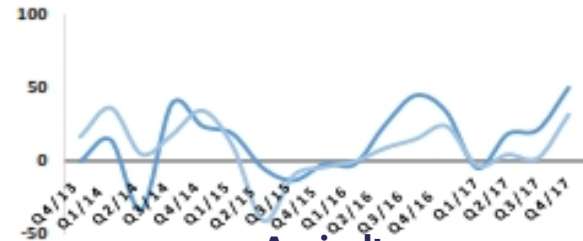
### Retail Trade

### Retail Trade



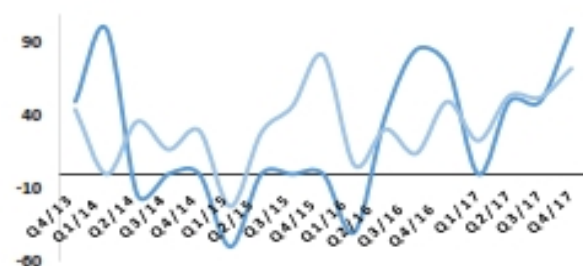
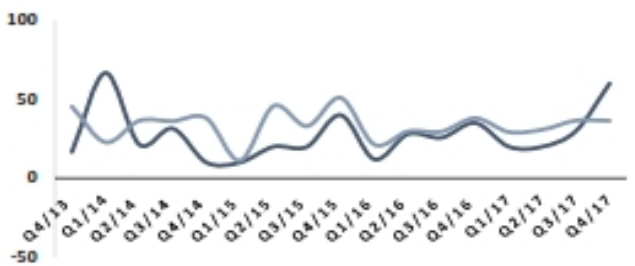
### Service

### Service



### Agriculture

### Agriculture



### Financial

### Financial

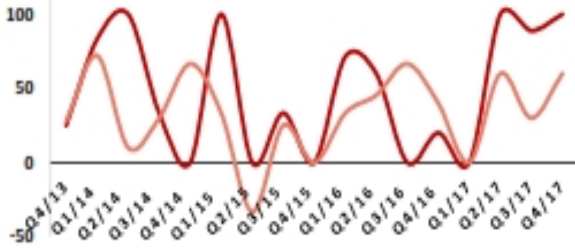


— LARGE — SME

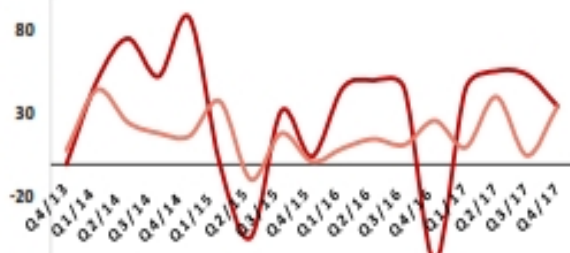
— LARGE — SME

## Expectations Index

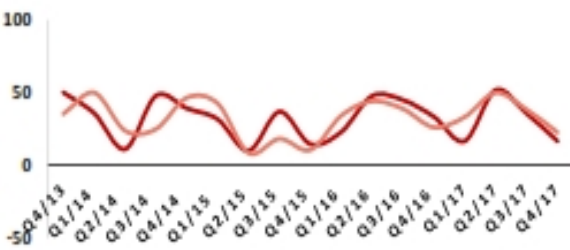
### Manufacturing



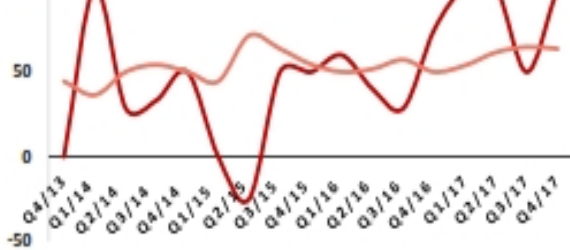
### Retail Trade



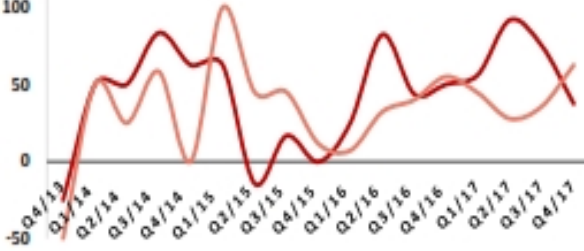
### Service



### Agriculture



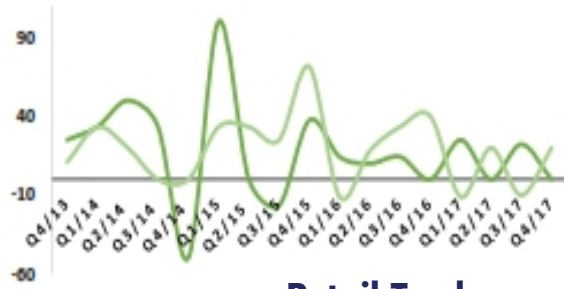
### Financial



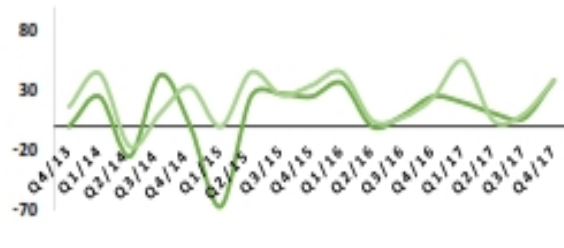
— LARGE — SME

## Sales Price Expectations Index

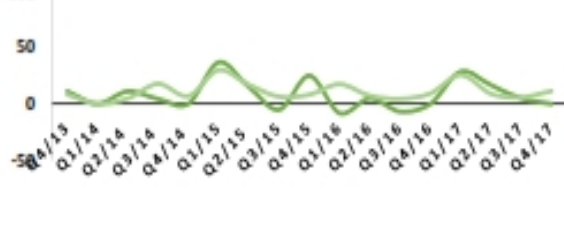
### Manufacturing



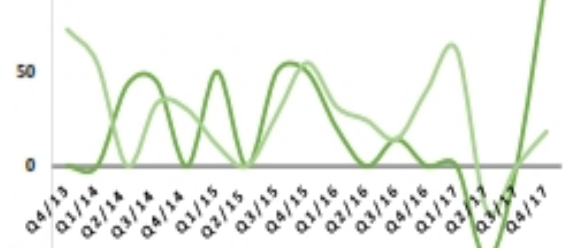
### Retail Trade



### Service



### Agriculture



— LARGE — SME

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