

BAG INDEX



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA



Leibniz Institute for Economic Research
at the University of Munich



Research

III QUARTER 2024

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**



**INVESTMENT
SURVEY**

**III QUARTER
2024**

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The Business Association of Georgia (BAG) Index is a joint product of the Business Association of Georgia, PMC Research Center and the ifo Institute for Economic Research. The BAG Index summarizes the BAG Business Climate, BAG Employment Barometer and BAG Investment Environment, which are calculated according to the assessments of the top managers of BAG member businesses and companies in their corporate group ¹. PMC Research Center publishes the BAG Index on a quarterly basis.

BAG BUSINESS CLIMATE

The BAG Business Climate is based on the responses of BAG member businesses and companies in their corporate group. Companies assess their present business situation and outline their expectations for the next six months ². Apart from this, businesses are also asked to assess their situation regarding sales, sales prices, and the number of employees for the last quarter, the current quarter, and the next quarter. Moreover, companies are asked questions related to factors hindering their business activity, access to finance, exchange rate expectations, and investment environment. For the purposes of this index, BAG members are divided into the following four sectors: trade, service, manufacturing, and construction. The survey was conducted in Q3 of 2024 in the period 16 August – 5 September.

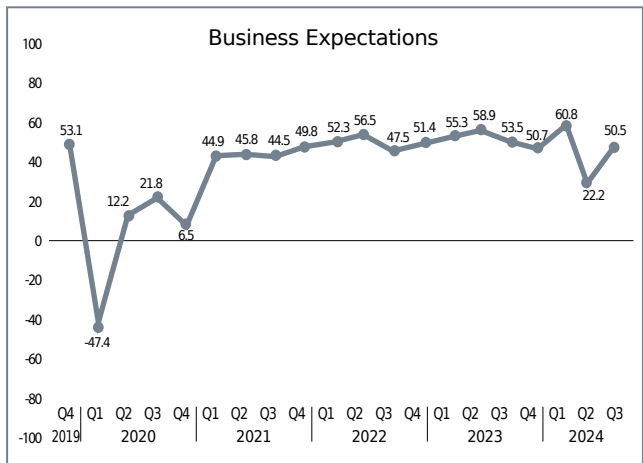
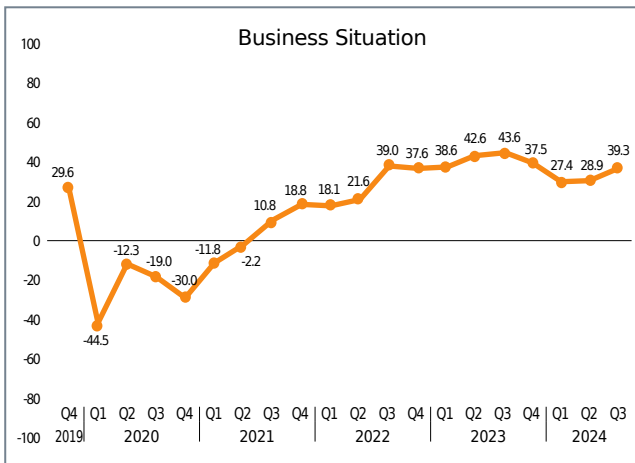
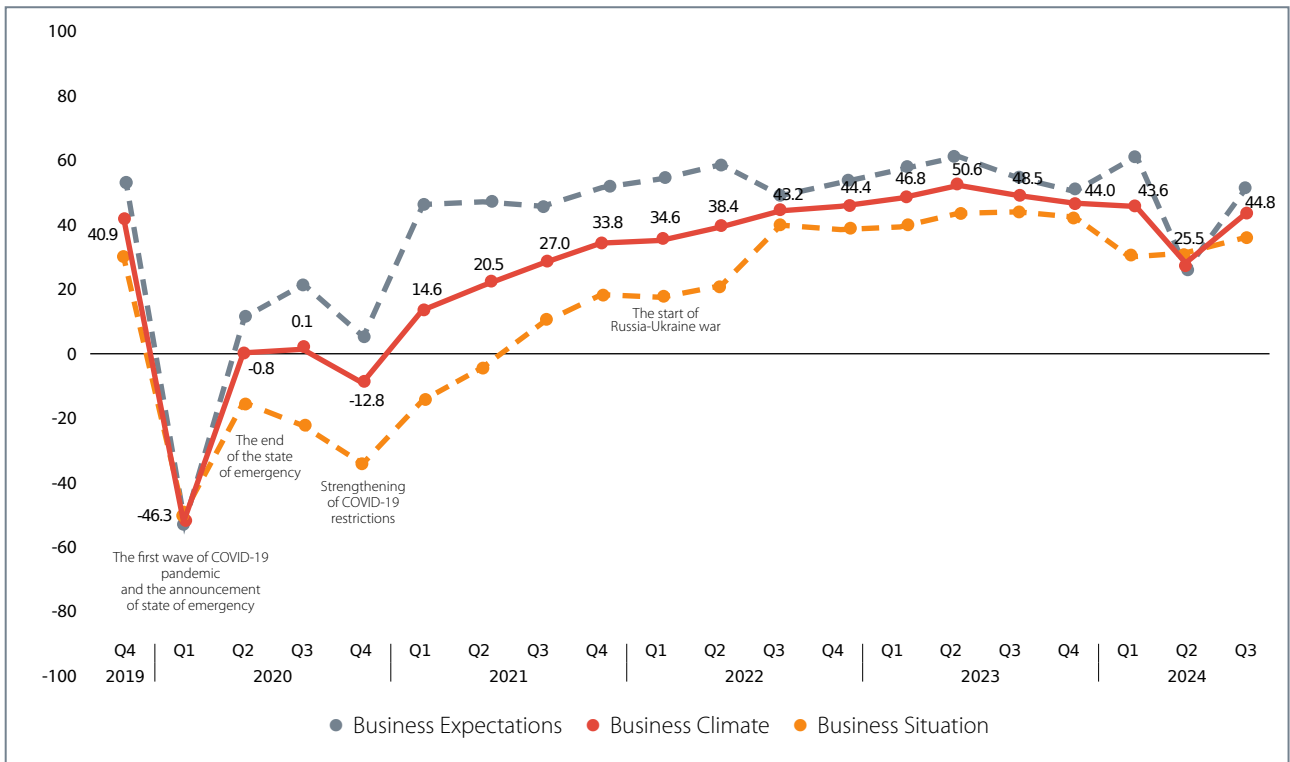
IN Q3 OF 2024, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 44.8 POINTS IN Q3 OF 2024, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 39.3 AND THE BUSINESS EXPECTATIONS INDICATOR AT 50.5.

In Q3 of 2024, compared to Q2 of 2024, the BAG Business Climate increased by 19.3 points. Moreover, in this period, the assessment of the present business situation improved by 10.4 points, and business expectations improved by 28.3 points.

The figures for Q3 of 2024 demonstrate a slight deterioration compared to Q3 of 2023. In Q3 of 2023, the BAG Business Climate indicator was 48.5. The present business situation (43.6) and the business expectations indicators also decreased (53.5) (see graph 1).

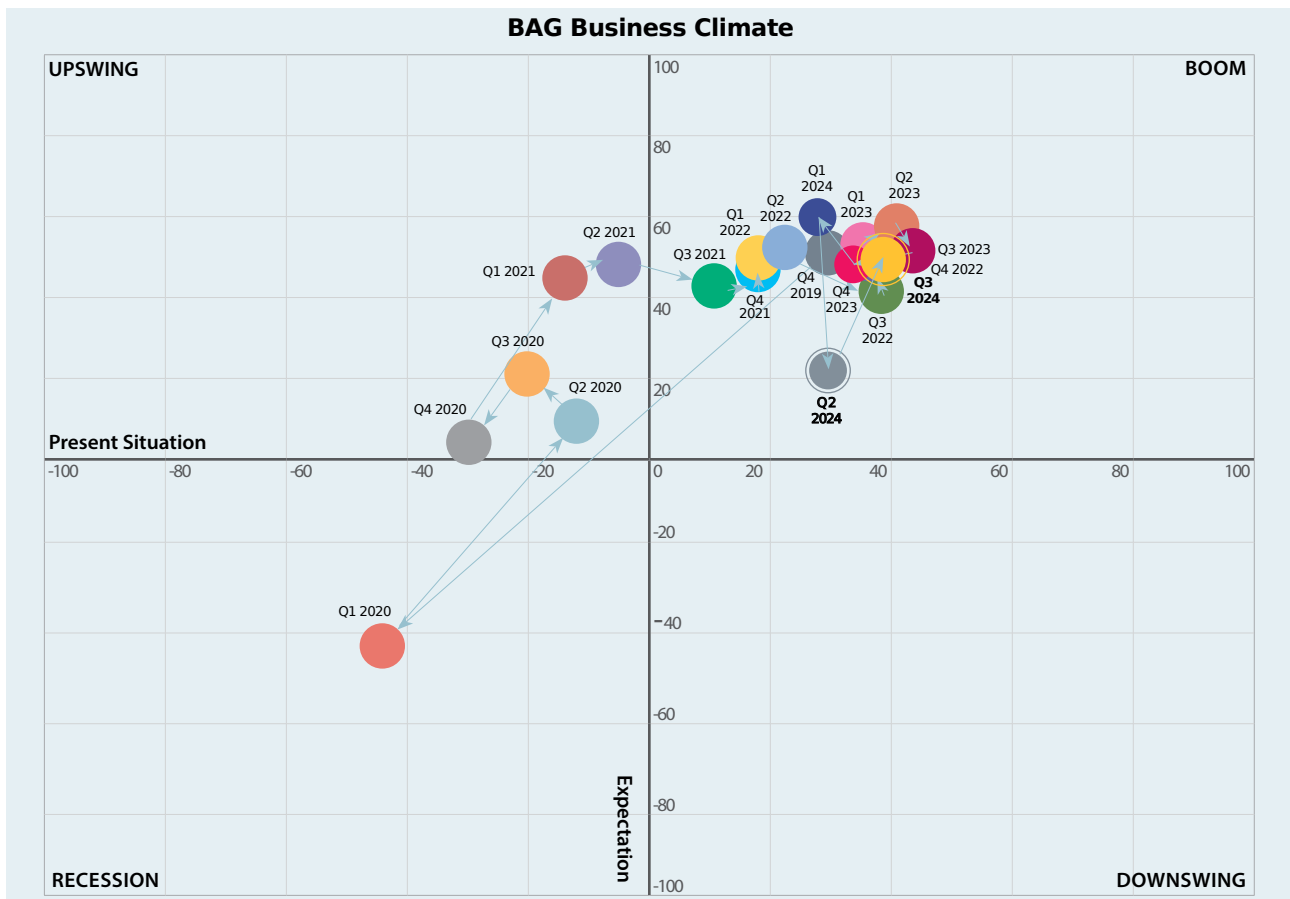
¹ In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

² The balance value for the present business situation is the difference in the percentage shares of the “good” and “bad” responses, and the balance value for the expectations for the next six months is the difference in the percentage shares of the “more favorable” and “less favorable” responses. The BAG Business Climate is a transformed mean of the balance values of the present business situation and the expectations for the next six months. The BAG Business Climate can be between -100 and +100. +100 means that all surveyed businesses assess the business climate positively, while -100 means all surveyed businesses assess the business climate negatively.



Graph 1: BAG Business Climate, Business Expectation, and Present Business Situation

In Q3 of 2024, as in Q2 of 2024, the BAG Business Climate Indicator is in **the boom phase**.



Graph 2: BAG Business Climate³

BAG BUSINESS CLIMATE BY SECTORS

In Q3 of 2024, the **business climate indicator** was positive for all sectors. Compared to Q2 of 2024, in Q3 of 2024, the indicator improved for all sectors (see Graph 3).

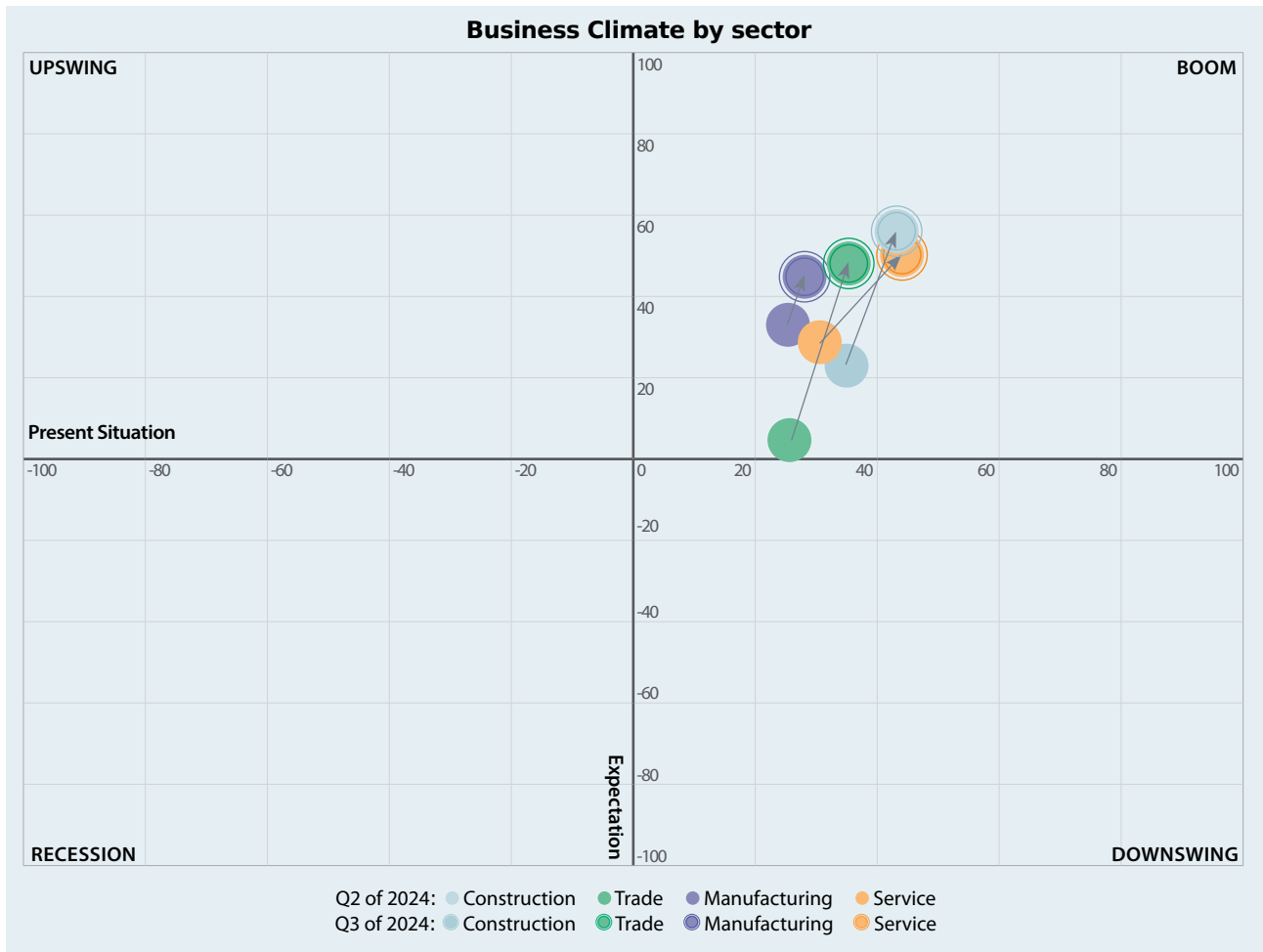
In Q3 of 2024, compared to Q2 of 2024, the **present business situation indicator** improved in the service sector by 12.8 points, in the trade sector by 11.4 points, in the construction by 7.6 points, and in the manufacturing sector by 3.6 points. In Q1 of 2024, the **business expectations indicator** improved in the trade sector by 45.4 points, in the construction by 33.6 points, in the service sector by 20.1 points, and in the manufacturing sector by 9.2 points.

It is worth noting that in Q3 of 2024, the present business situation indicator was highest in the service sector and lowest in the manufacturing sector. Among the sectors, the most positive business expectations were recorded in the construction sector, while the most negative expectations were observed in the manufacturing sector (see Table 1).

³ The Graph 2 depicts the relationship between the present business situation and business expectations for the next six months in a four-quadrant diagram. If survey participants assess the present business situation negatively but have positive business expectations for the next six months, then the BAG business climate indicator falls in the “upswing” quadrant. If both business situation and expectations are assessed positively, indicator resides in “boom” quadrant. If surveyed businesses assess present business situation positively, but have negative expectations, business climate indicator is in “downswing”. If both business situation and expectations are assessed negatively, indicator is placed in “recession” quadrant.

Table 1: Balance values by sector in Q3 of 2024

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	42.3	36.4	48.5
Service Sector	47.5	43.9	51.2
Manufacturing Sector	37.4	28.6	46.7
Construction Sector	49.9	42.9	57.1
All Sectors	44.8	39.3	50.5



Graph 3: Business climate by sector in Q2 and Q3 of 2024

In Q3 of 2024, compared to Q3 of 2023, the business climate indicator declined in all four sectors, except the service sector. Namely, the business climate indicator declined in the construction sector by 13.1 points, in the trade sector by 12.9 points, and in the manufacturing sector by 7.1 points. As for the service sector, the business climate indicator improved by 7.0 points. Notably, in the manufacturing and construction sectors, a decrease in business climate indicators is associated with deteriorated business expectations, while in the trade sector, the decline is associated with deteriorated assessments of present business situation.

It should be noted that since Q1 of 2023, the decreasing tendency of the business climate indicator in the construction and trade sectors has been recorded only in Q2 of 2024. As for the manufacturing sector, a negative dynamic has been recorded since Q1 of 2024 and since Q3 of 2023 in the service sector (see Graph 4).

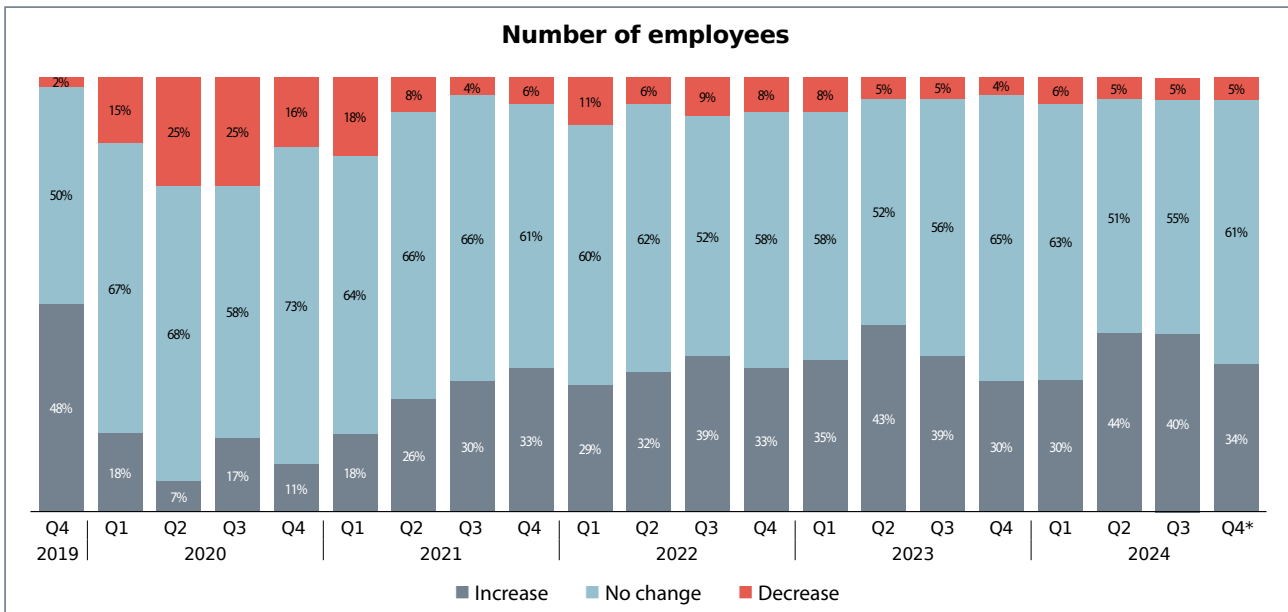


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

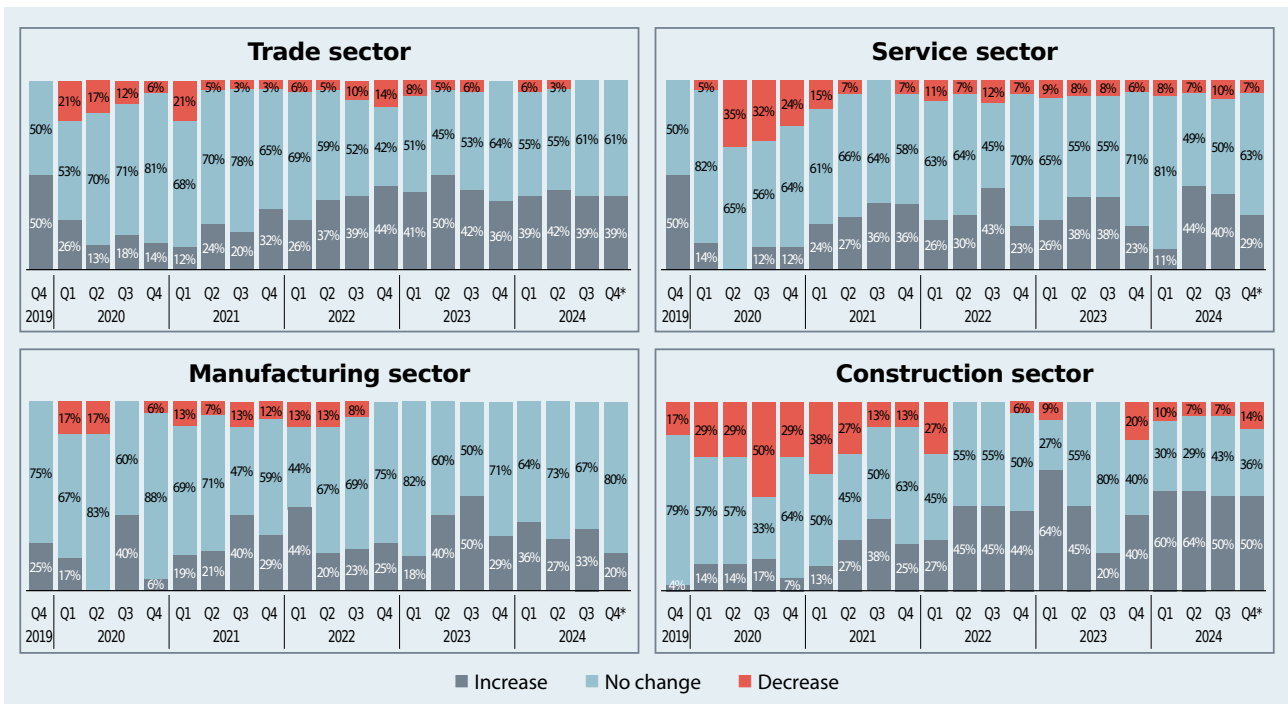
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- ✘ 40% of surveyed companies stated that the number of employees increased in Q3 of 2024. As for the expectations for Q4 of 2024, 34% expect the number of employees to increase, however, 61% do not plan to increase the number of employees. (see Graph 5).
- ✘ Across the sectors covered, the situation regarding employment in Q3 of 2024 is most positively assessed in the construction sector. Additionally, the expectations for Q4 of 2024 are most positively assessed in the construction sector as well (see Graph 6).



Graph 5: Number of employees in BAG member businesses and companies in their corporate group⁴



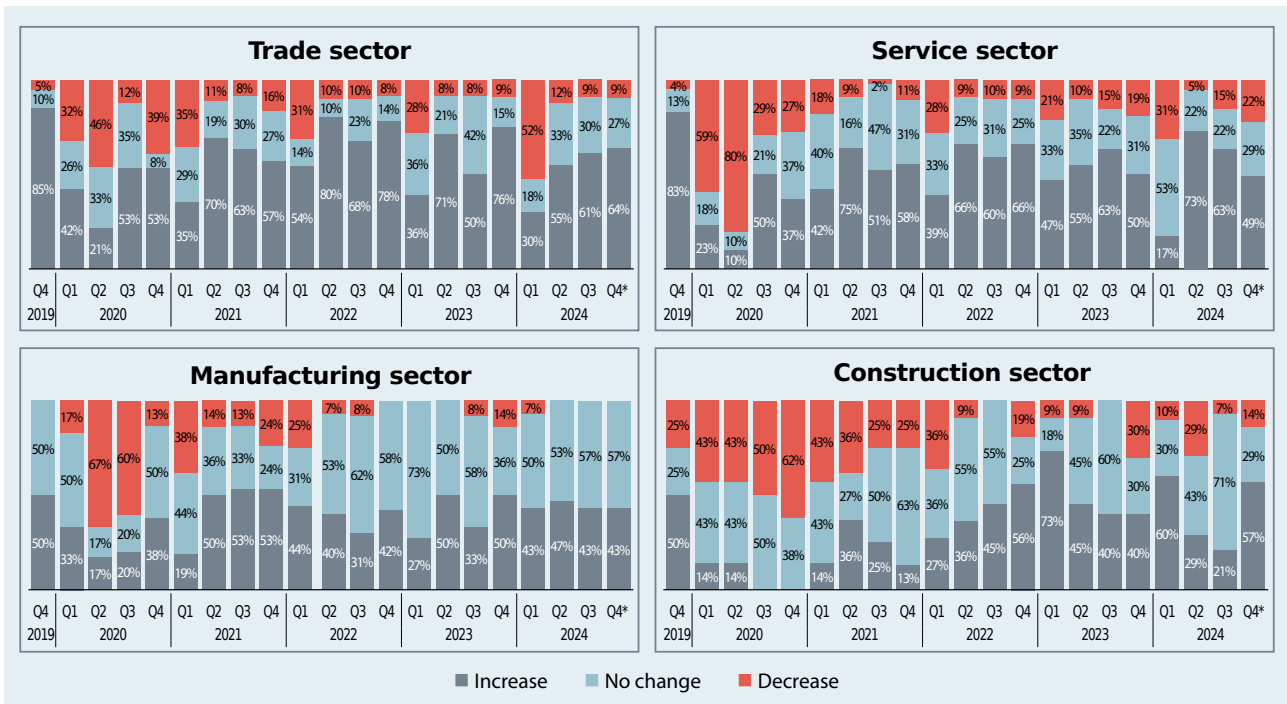
Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- ✘ The situation in Q3 of 2024 regarding sales was assessed most positively in the service sector, however, 23% still anticipate the decline in sales in Q4 of 2024. As for the expectations in Q4 of 2024, the situation was most positively assessed in the trade sector (see Graph 7).
- ✘ It should be noted that in Q3 of 2024, in the construction sector 71% of surveyed companies did not change their sales, while 57% expects increased sales in Q4 of 2024.

⁴ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.

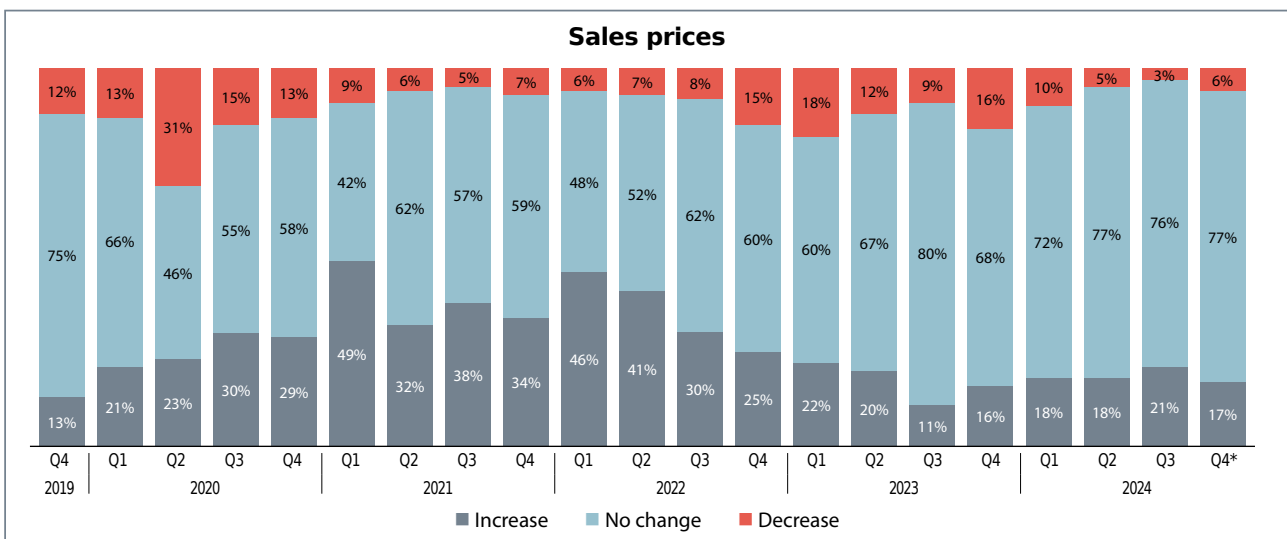
* Expectation.



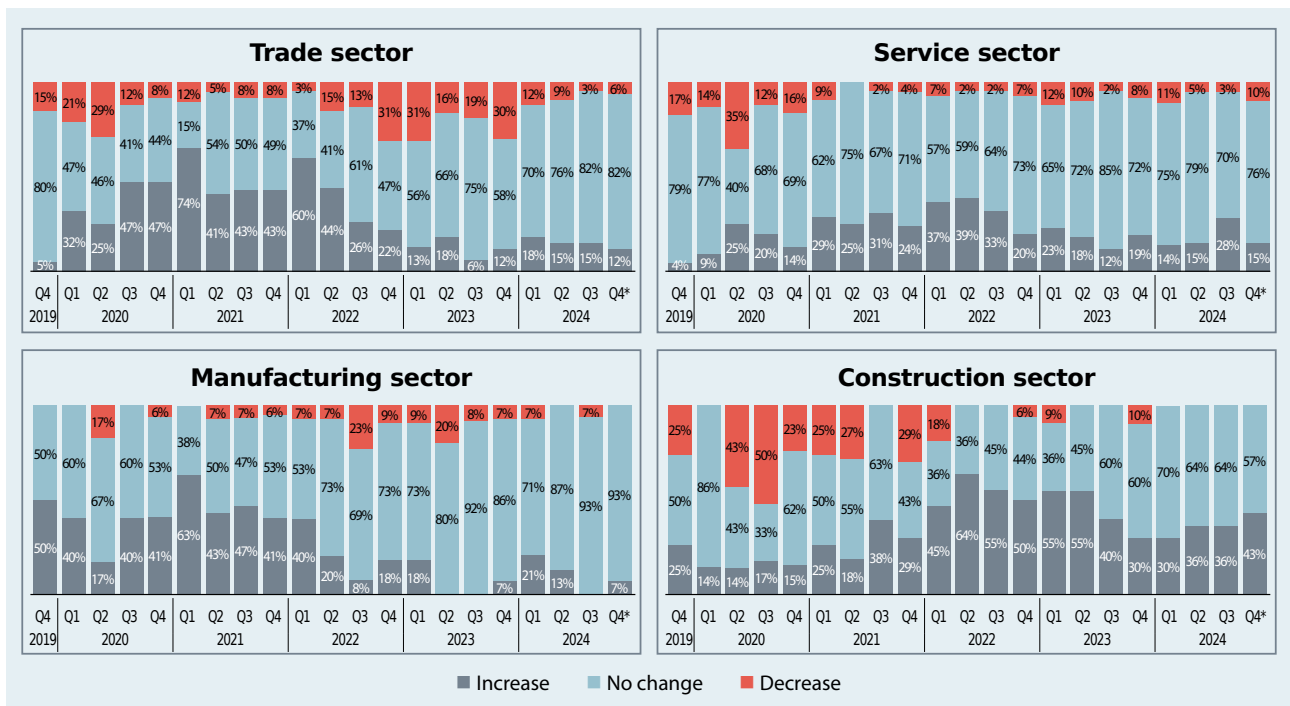
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✘ In Q3 of 2024, 21% of surveyed companies increased sales prices, and 17% of the companies expect the prices to rise in Q4 of 2024 (see Graph 8).
- ✘ Among sectors, in Q3 of 2024, the share of the companies that are increasing sales prices is the highest for the construction sector. Additionally, as for the expectations for Q4 of 2024, the highest share of companies predicting sales prices to increase was also recorded in the construction sector, while in other sectors, 75% or more of companies do not expect sales prices to increase (see Graph 9).
- ✘ The price increase dynamics are least present in the manufacturing sector, in which none of the surveyed companies stated that they increased prices in Q3 of 2024.



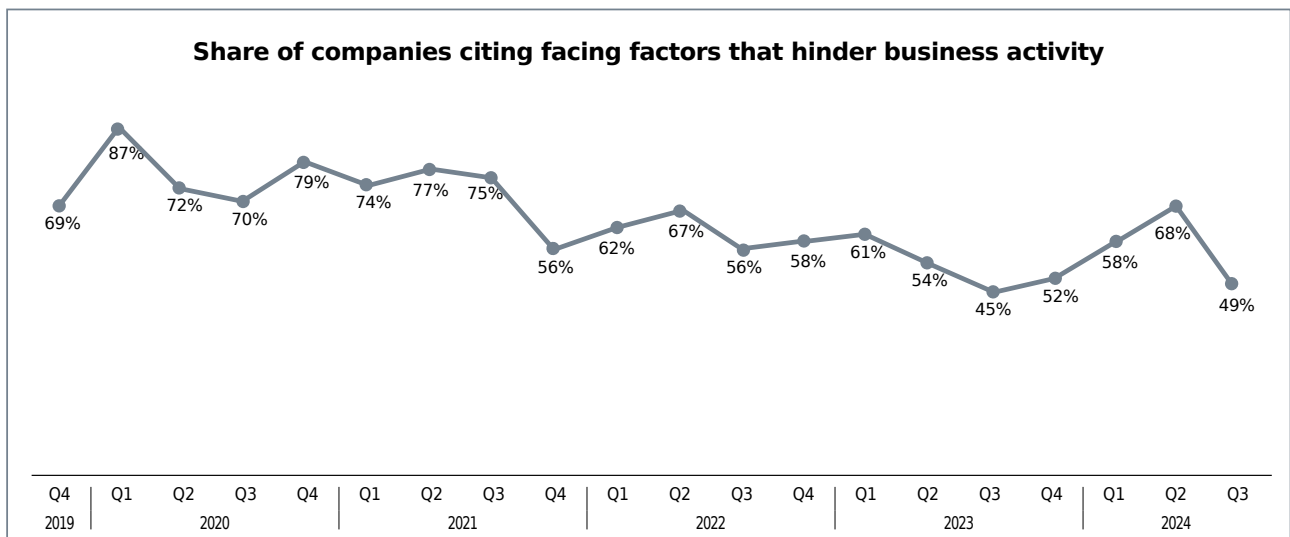
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



Graph 9: Sales prices in trade, service, manufacturing, and construction sectors

FACTORS HINDERING BUSINESS ACTIVITY

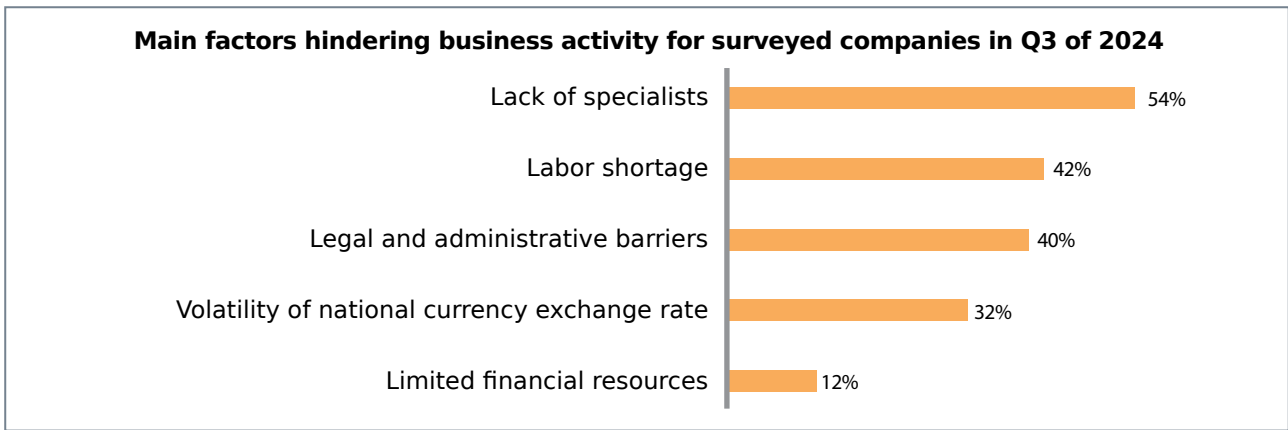
In Q3 of 2024, compared to Q2 of 2024, the share of surveyed companies claiming that there are factors hindering their business activity decreased by 19 percentage points.



Graph 10: Existence of factors hindering business activity

In Q3 of 2024, the following five factors were emphasized as the most hindering for business activity: lack of specialists, labor shortage, legal and administrative barriers, volatility of national currency exchange rate⁵, and limited financial resources (see Graph 11).

⁵ Volatility of national currency exchange rate as a factor hindering business activity was added to the survey questionnaire in Q3 of 2021.



Graph 11: Main factors hindering business activity for surveyed companies in Q3 2024

In Q3 of 2024, **lack of specialists** was cited as the top factor hindering business activities (54% of surveyed companies cited this factor as the most hindering). From a sector-by-sector view, this factor was most frequently pointed out in the manufacturing sector (78%), while it was considered the least hindering for the trade sector (33%) (see Graph 12). In terms of the size of the enterprise⁶, lack of specialists was most cited by medium enterprises as a factor hindering business activity (33%) (see Graph 13).

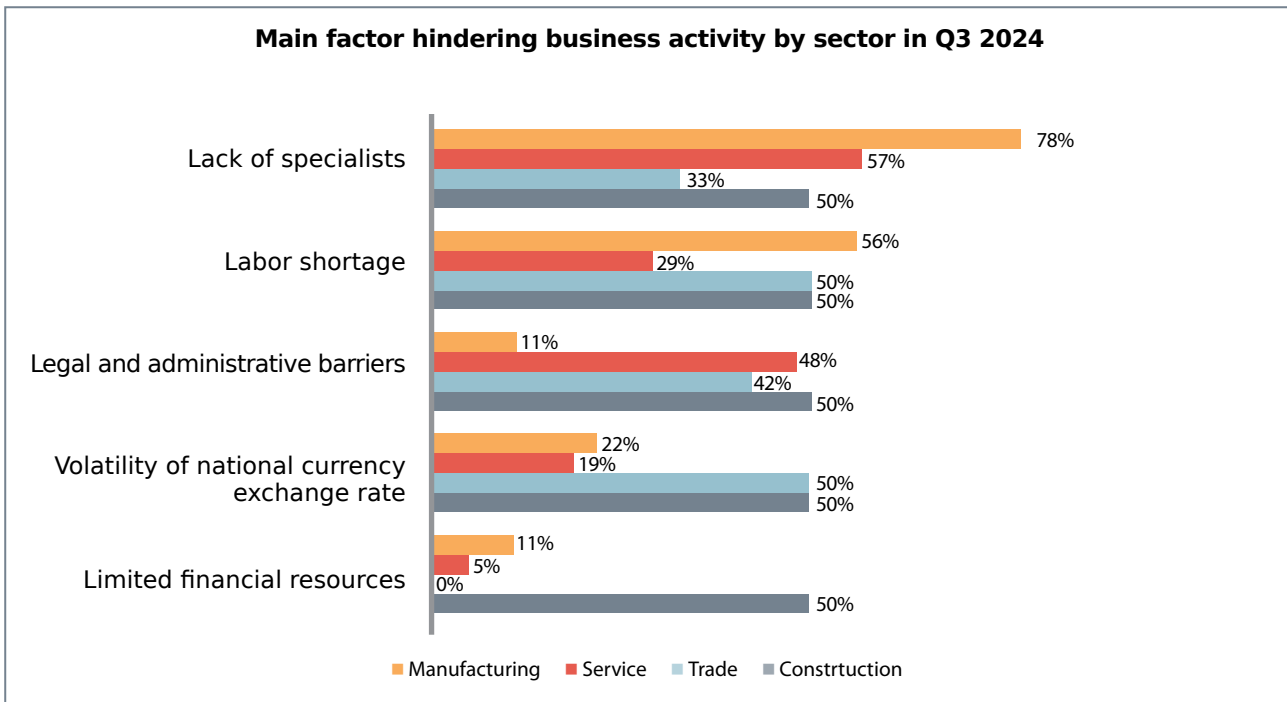
In Q3 of 2024, **labor shortage** was cited as a hindering factor by 42% of surveyed companies. This issue was felt most acutely in the manufacturing sector (56%), while it was less of a hindrance for the service sector (29%). In terms of the size of the enterprise, lack of specialists was considered the most problematic for medium enterprises (cited by 22% of them as a hindering factor).

In Q2 of 2024, **legal and administrative barriers** were cited as a hindering factor by 40% of surveyed companies. Across the covered sectors, this factor was deemed the most hindering for the construction sector (50%), while it was less of a hindrance for the manufacturing sector (11%). In Q3 of 2024, legal and administrative barriers were considered the most problematic for large enterprises (cited by 24% of them as a hindering factor).

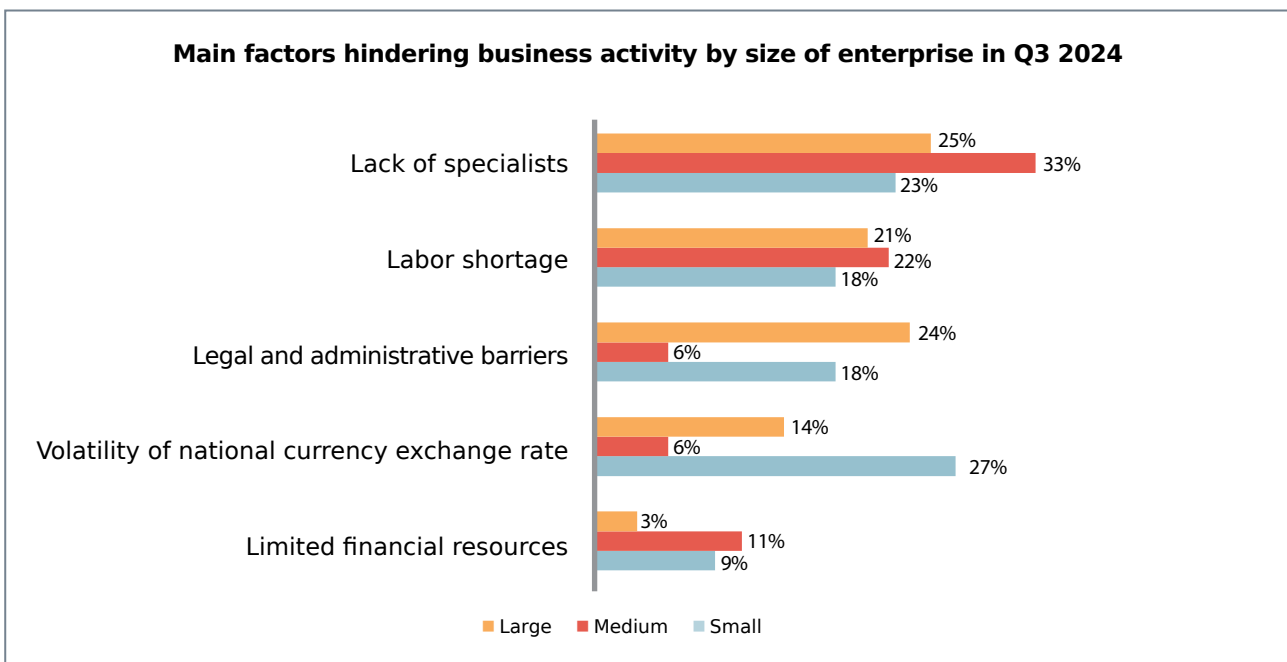
In Q3 of 2024, **volatility of the national currency exchange rate** was cited as a hindering factor by 32% of surveyed companies. This issue was felt most acutely in the construction and trade sectors (50%), while it was less of a hindrance for the service sector (19%). The volatility of the national currency exchange rate was considered the most problematic for small enterprises (cited by 27% of them as a hindering factor).

In Q3 of 2024, **limited financial resources** were cited as a hindering factor by 12% of surveyed companies. This issue was felt most acutely in the construction sector (50%). limited financial resources were considered the most problematic for medium enterprises (11%).

⁶ The size of enterprise was determined according to the methodology of the National Statistics Office of Georgia (i.e. small, medium, or large).



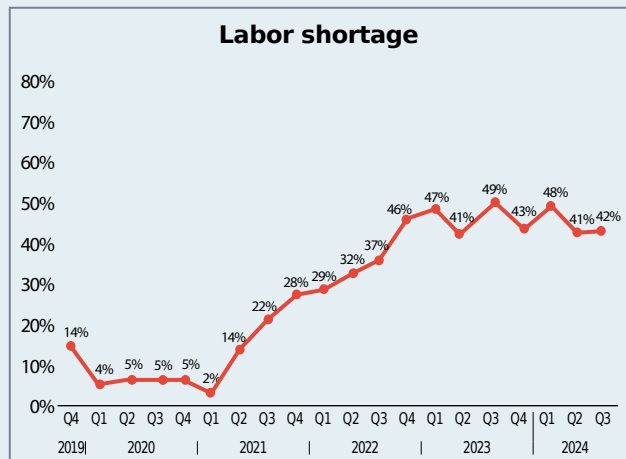
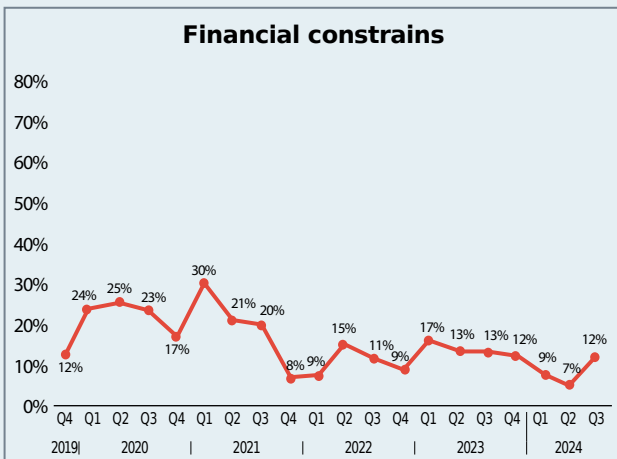
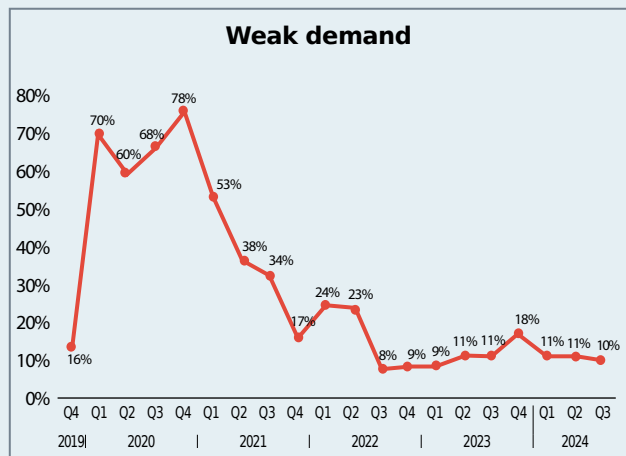
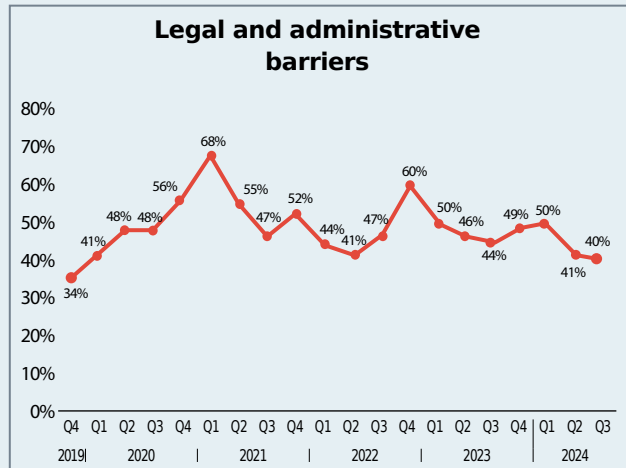
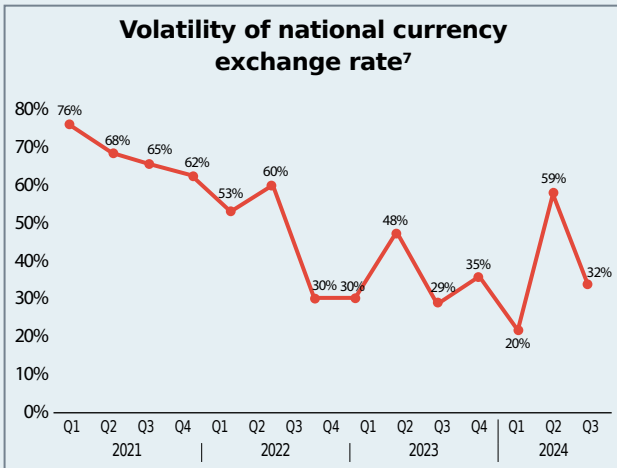
Graph 12: Main factors hindering business activity by sectors in Q3 2024



Graph 13: Main factors hindering business activity by the size of the enterprise in Q2 2024

In Q3 of 2024, compared to the previous quarter, among the factors hindering business activity, the share of companies citing the Lack of Specialists Rate as a hindrance increased the most (by 7 percentage points). Meanwhile, the share of companies citing Volatility of National Currency Exchange as a hindering factor decreased the most (by 27 percentage points) (See Graph 14).

Hindering factors for business activity Q4 2019-Q3 2024



Graph 14: Main hindering factors for surveyed companies

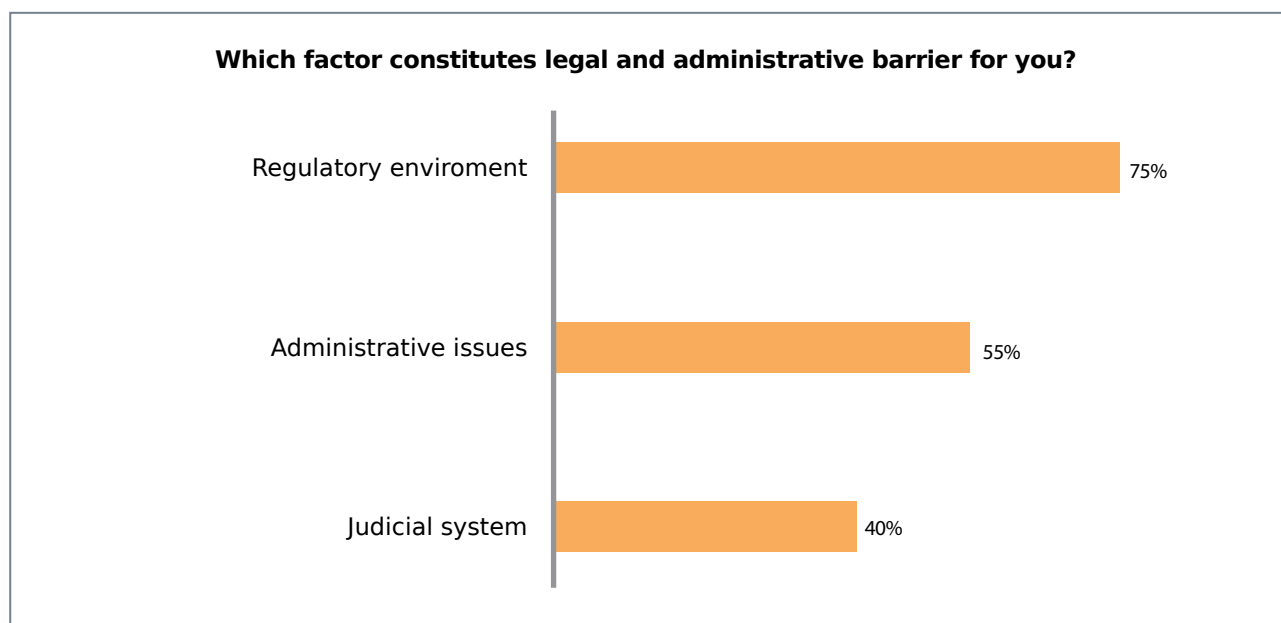
⁷ Volatility of national currency exchange rate as a factor hindering business was added to the survey questionnaire in Q3 of 2021.

The main factors determining legal and administrative barriers for business

In Q3 of 2024, the **regulatory environment** has been considered the main element of legal and administrative barriers hindering business activity, similar to previous quarters. Looking from a sector-by-sector view, the regulatory environment was most cited as a hindering factor in the service sector (50%), and least cited in the manufacturing sector (7%).

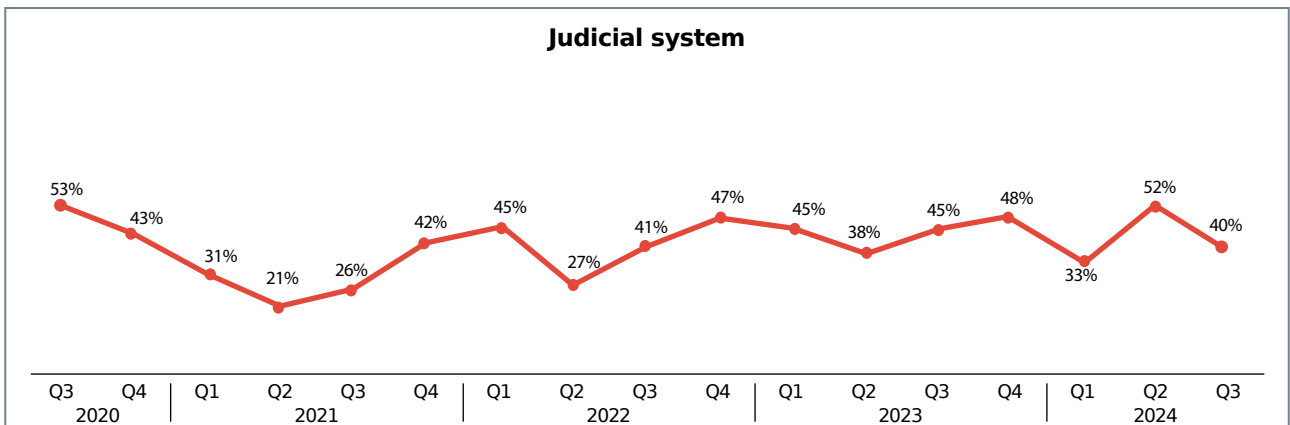
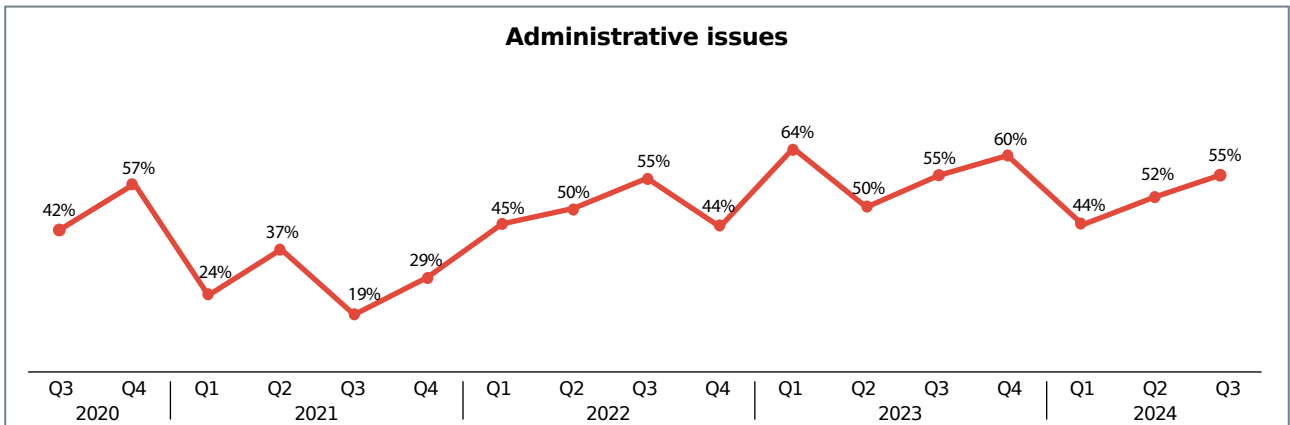
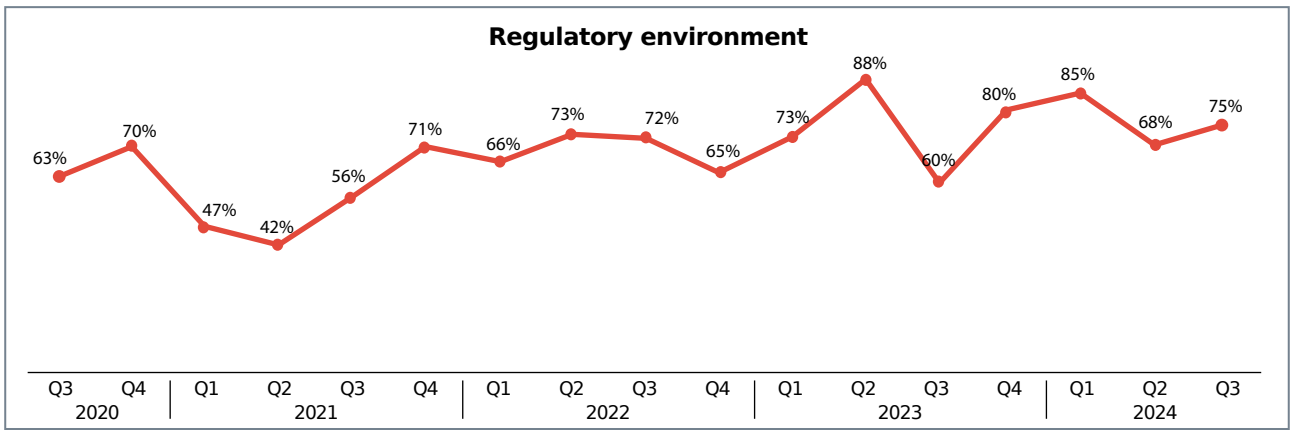
Among legal and administrative barriers, **administrative issues** were the second-most cited hindering factor. This was deemed the most hindering in the service sector (73%), while none of the surveyed companies identified it as a hindrance in the manufacturing sector.

Meanwhile, the **judicial system** was the most cited as a hindering factor under legal and administrative barriers in the construction and service sectors (38%), while none of the surveyed companies identified it as a hindrance in the manufacturing sector.



Graph 15: Main legal and administrative hindering factors for surveyed companies

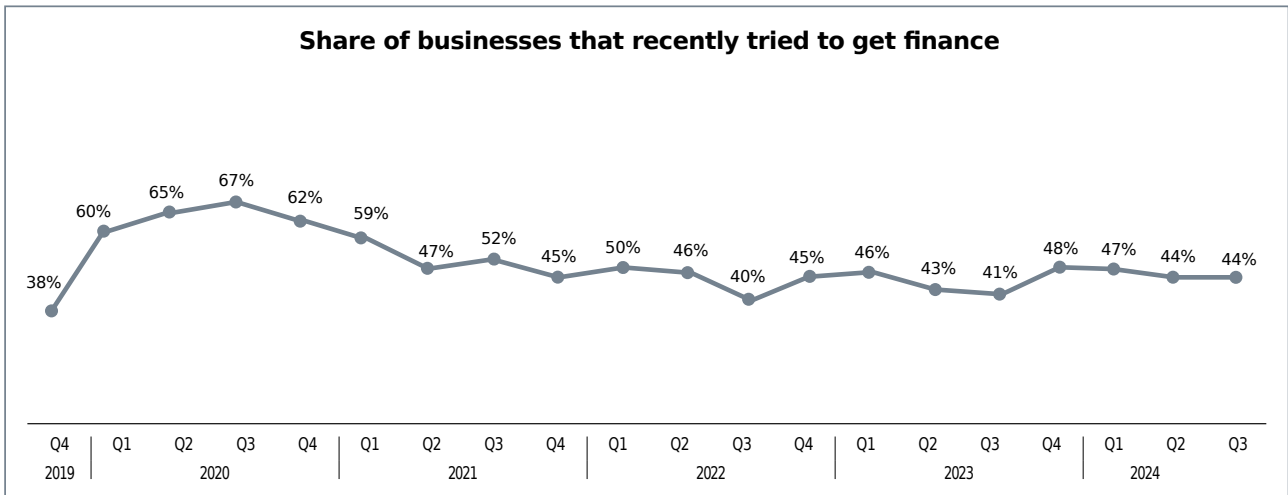
In summary, in Q3 of 2024, compared to the previous quarter, the share of companies to cite regulatory environment and administrative issues as hindering factors increased (by 7 and 3 percentage points respectively). Meanwhile, the share of companies to cite judicial system as hindering factor decreased (by 12 percentage points).



Graph 16: Main legal and administrative hindering factors for surveyed companies

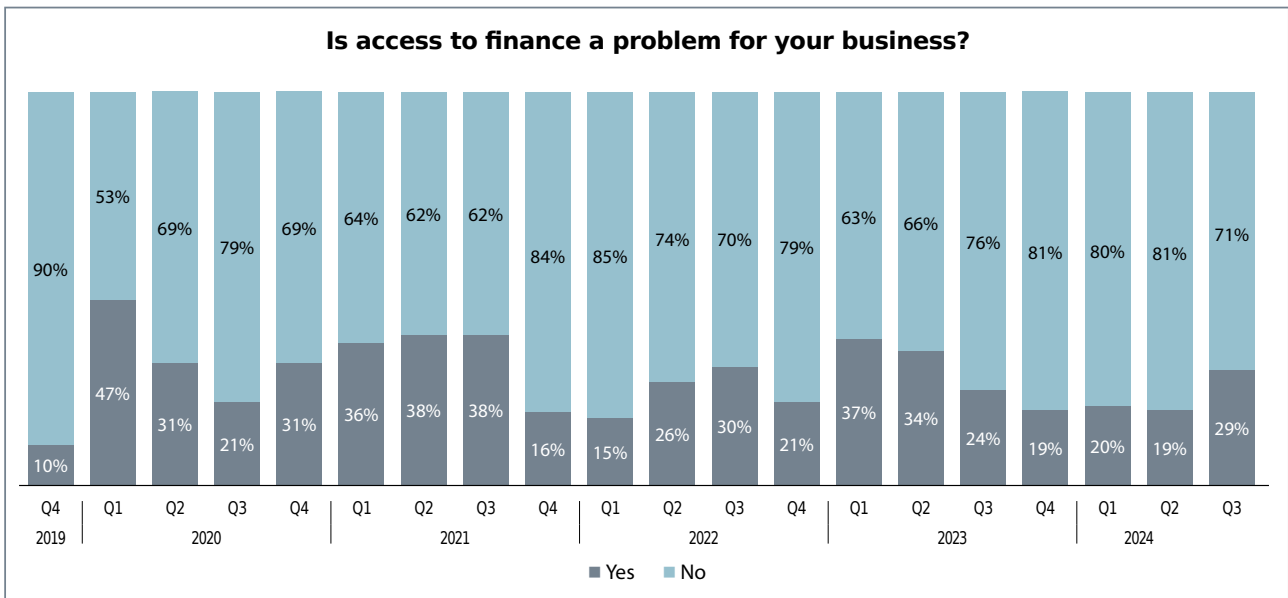
FINANCING

In Q3 of 2024, 44% of surveyed companies claimed to have recently tried to obtain finance, which did not change compared to the figure recorded in the previous quarter (see Graph 17). By the size of the enterprise, large (48%) and medium (44%) enterprises tried to get finance more, compared to small-sized enterprises (33%).



Graph 17: Businesses that recently tried to get finance

In Q3 of 2024, 29% of those companies that recently tried to access finance also noted that access to finance was a problem for their business. This figure is higher (by 10 percentage point) than that of the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in medium-sized enterprises (38% of those that tried to obtain finance) and relatively less in small (29%) and large (27%) enterprises.

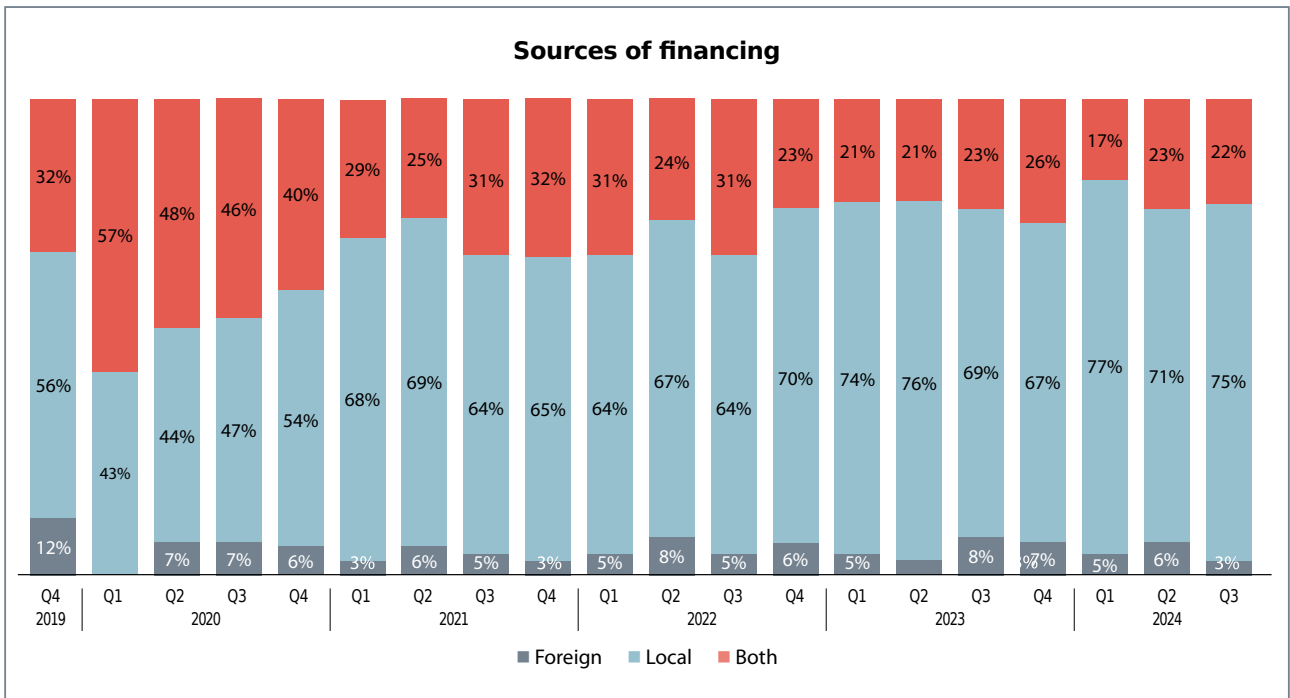


Graph 18: Access to finance⁸

Regarding sources of financing⁹, in Q3 of 2024, similar to previous quarters, the majority of surveyed companies stated that they were financed by local sources. The share of companies stating that they were financed by foreign sources decreased by 3 percentage point in Q3 of 2024, compared to the previous quarter, and reached 3%. It's noteworthy that by the size of the enterprise, medium (6%) and large (3%) enterprises are more often financed by foreign sources, while none of the surveyed small enterprises (4%) are financed by foreign sources.

⁸ The question was only answered by those companies that stated they had recently sought finance.

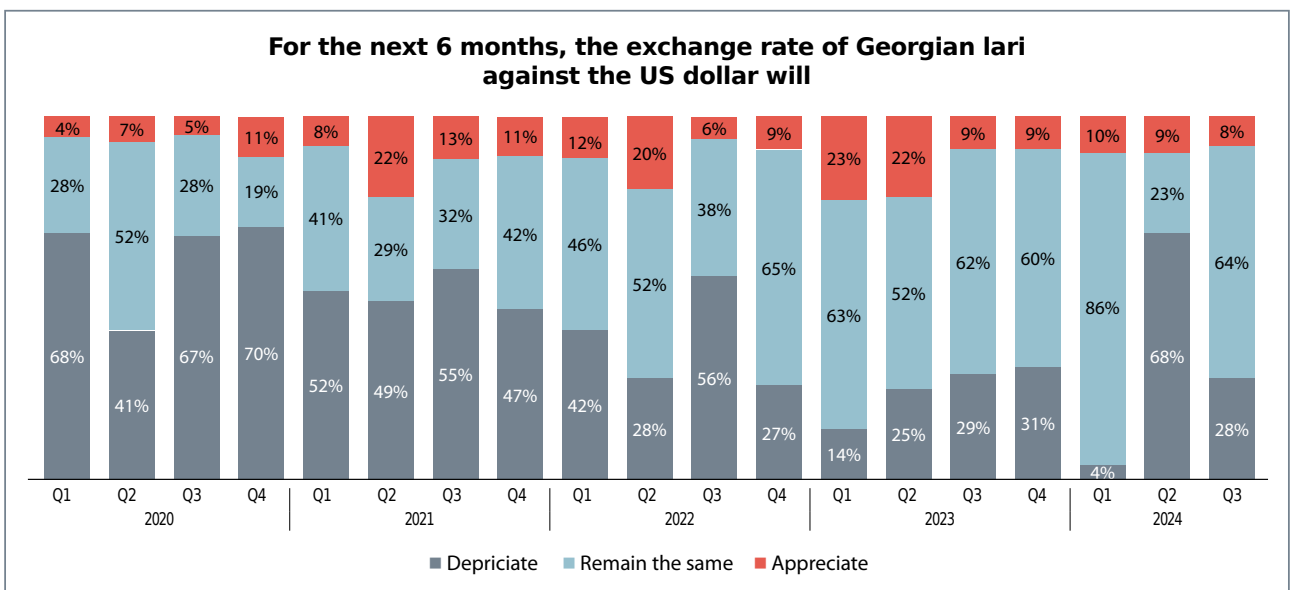
⁹ The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q3 of 2024, most of the surveyed companies (64%) do not expect any change in the exchange rate of the national currency against the US Dollar over the next 6 months. Meanwhile, 28% of companies expect the national currency to depreciate, and 8% expect it to appreciate. In Q3 of 2024, compared to Q2 of 2024, the share of companies expecting that the national currency would depreciate against the US Dollar decreased significantly (by 40 percentage points). Moreover, in Q3 of 2024, compared to the previous quarter, the share of companies expecting that the national currency exchange rate would remain the same throughout the next 6 months, increased by 41 percentage points.

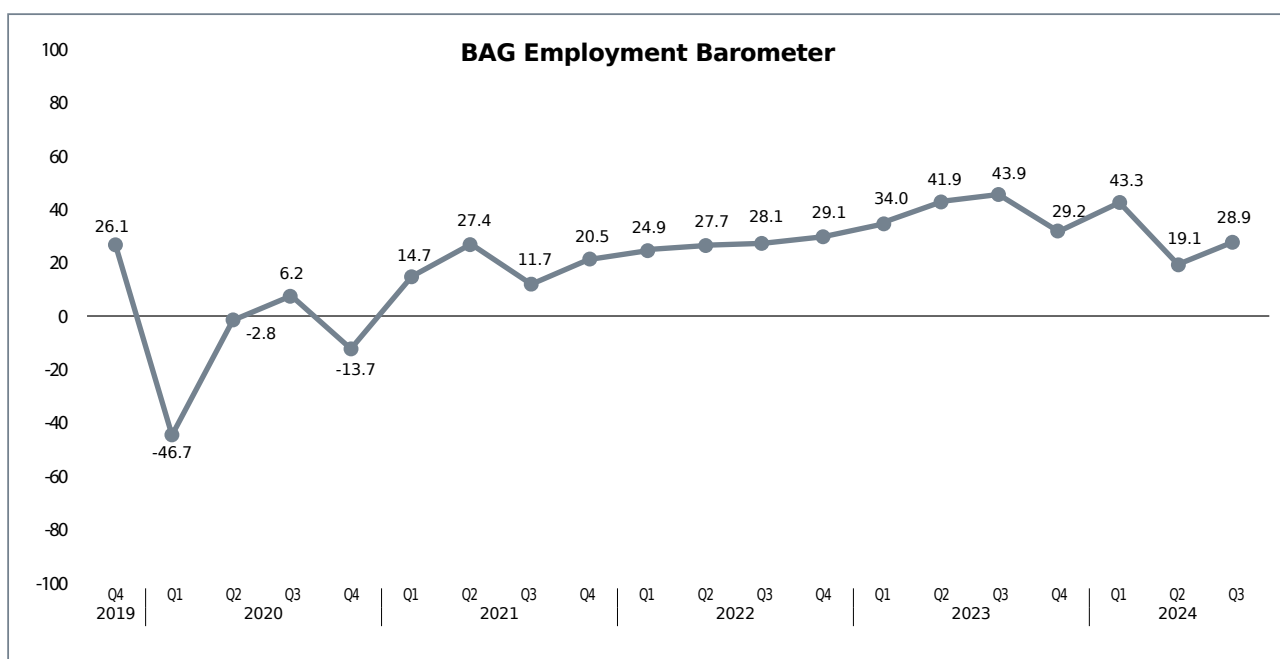


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months.¹⁰

IN Q3 OF 2024, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 28.9 POINTS, MARKING AN INCREASE COMPARED TO THE Q2 OF 2024 (BY 9.8 POINTS), BUT A DECREASE COMPARED TO Q3 OF 2023 (BY 15.0 POINTS).



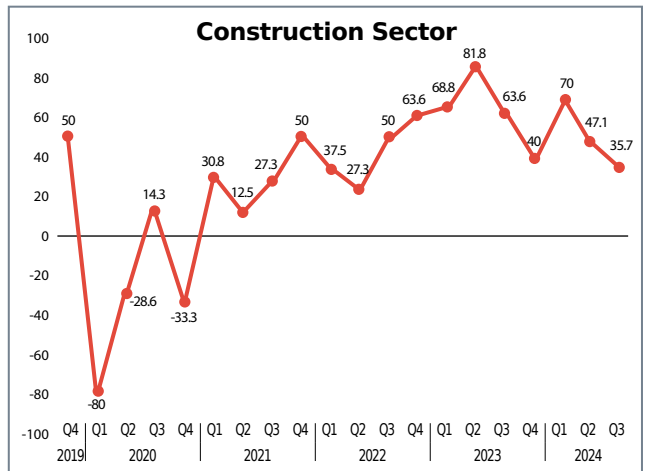
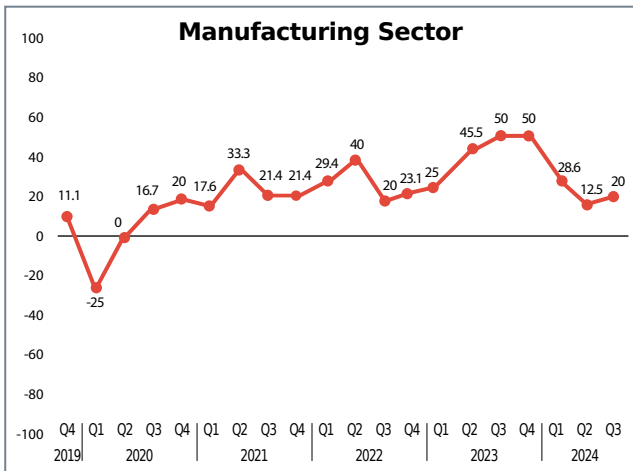
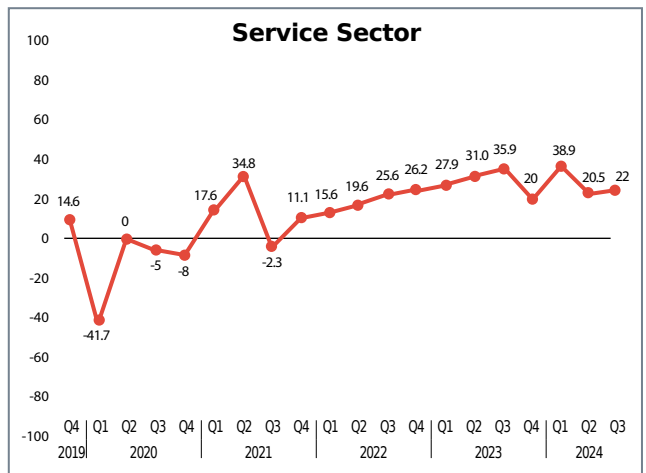
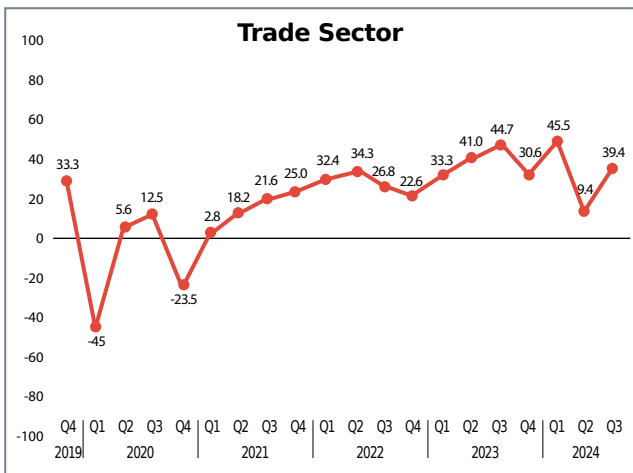
Graph 21: BAG Employment Barometer

In Q3 of 2024, the BAG Employment Barometer was positive for all sectors. In Q3 of 2024, compared to Q2 of 2024, the employment barometer indicator increased in trade (by 30.0 points), manufacturing (by 7.5 points) and services (by 1.5 points), but decreased in the construction sector (by 11.3 points) (see graph 22).

¹⁰ Respondents could describe their plans regarding the number of employees for the next three months as "increasing," "stable," or "decreasing". The balance value of these plans is the difference in the percentage shares of the "increasing" and "decreasing" responses. The BAG Employment Barometer is a weighted mean of the balances in different sectors. The BAG Employment Barometer can be between -100 and +100. -100 means all surveyed businesses expect employment to decrease in the next three months, while +100 means all surveyed businesses expect employment to increase in the next three months.

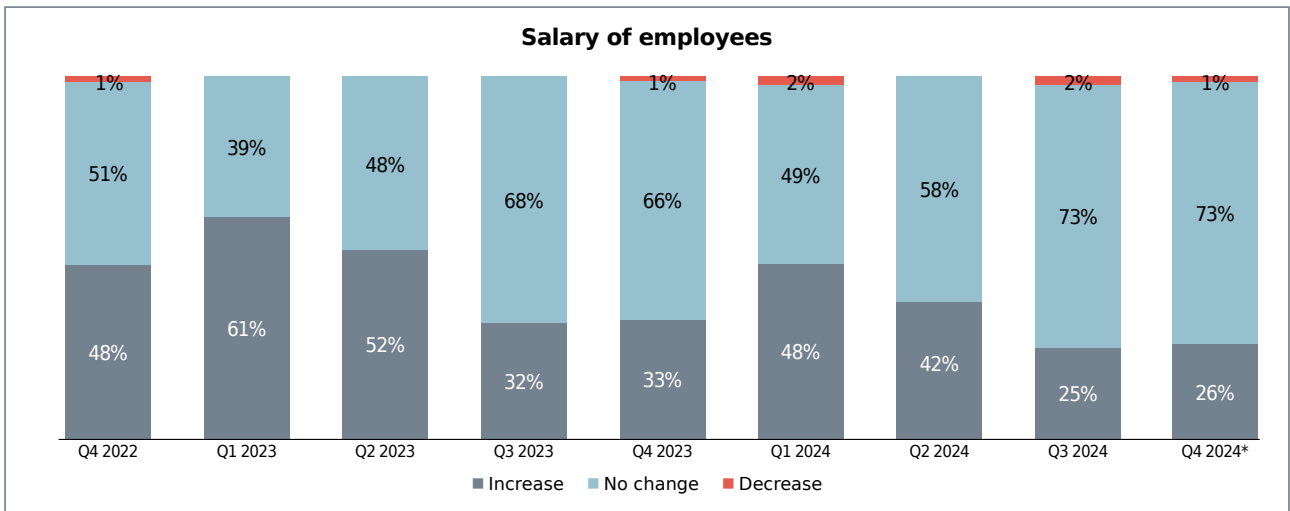
Table 2: Employment Barometer. Balance values by sector

Sector	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Trade	33.3	-45.0	5.6	12.5	-23.5	2.8	18.2	21.6	25.0	32.4	34.3	26.8	22.6	33.3	41.0	44.7	30.6	45.5	9.4	39.4
Service	14.6	-41.7	0.0	-5.0	-8.0	17.6	34.8	-2.3	11.1	15.6	19.6	25.6	26.2	27.9	31.0	35.9	20.0	38.9	20.5	22.0
Manufacturing	11.1	-25.0	0.0	16.7	20.0	17.6	33.3	21.4	21.4	29.4	40.0	20.0	23.1	25.0	45.5	50.0	50.0	28.6	12.5	20.0
Construction	50.0	-80.0	-28.6	14.3	-33.3	30.8	12.5	27.3	50.0	37.5	27.3	50.0	63.6	68.8	81.8	63.6	40.0	70.0	47.1	35.7
BAG	26.1	-46.7	-2.8	6.2	-13.7	14.7	27.4	11.7	20.5	24.9	27.7	28.1	29.1	34.0	41.9	43.9	29.2	43.3	19.1	28.9



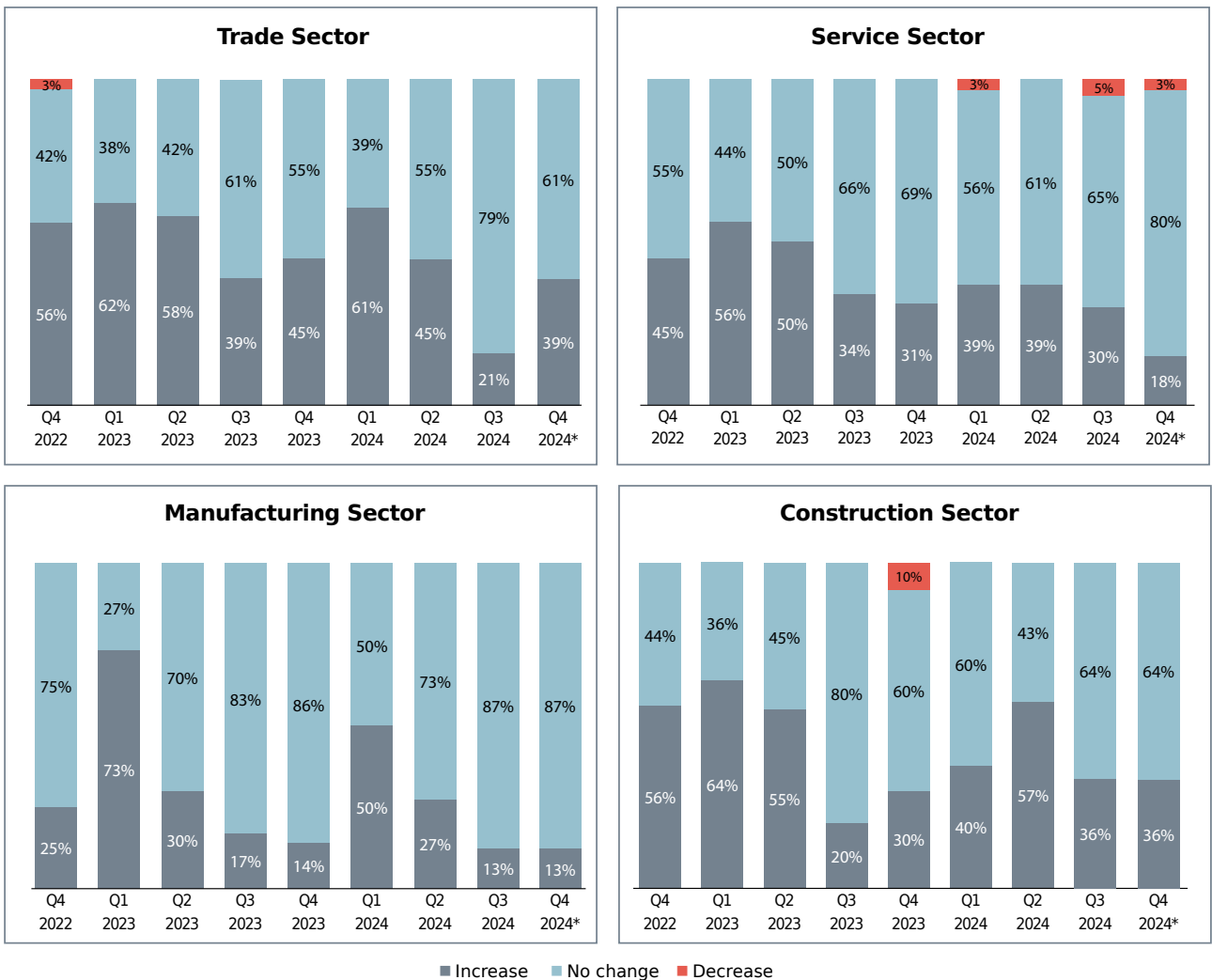
Graph 22: BAG Employment Barometer by sector

When examining employment, it is imperative to analyze the employee compensation dynamics in the process. The survey results revealed that 25% of companies raised their employees' salaries in Q3 of 2024, which is lower compared to both previous quarter and the corresponding quarter of the previous year (see graph 3).



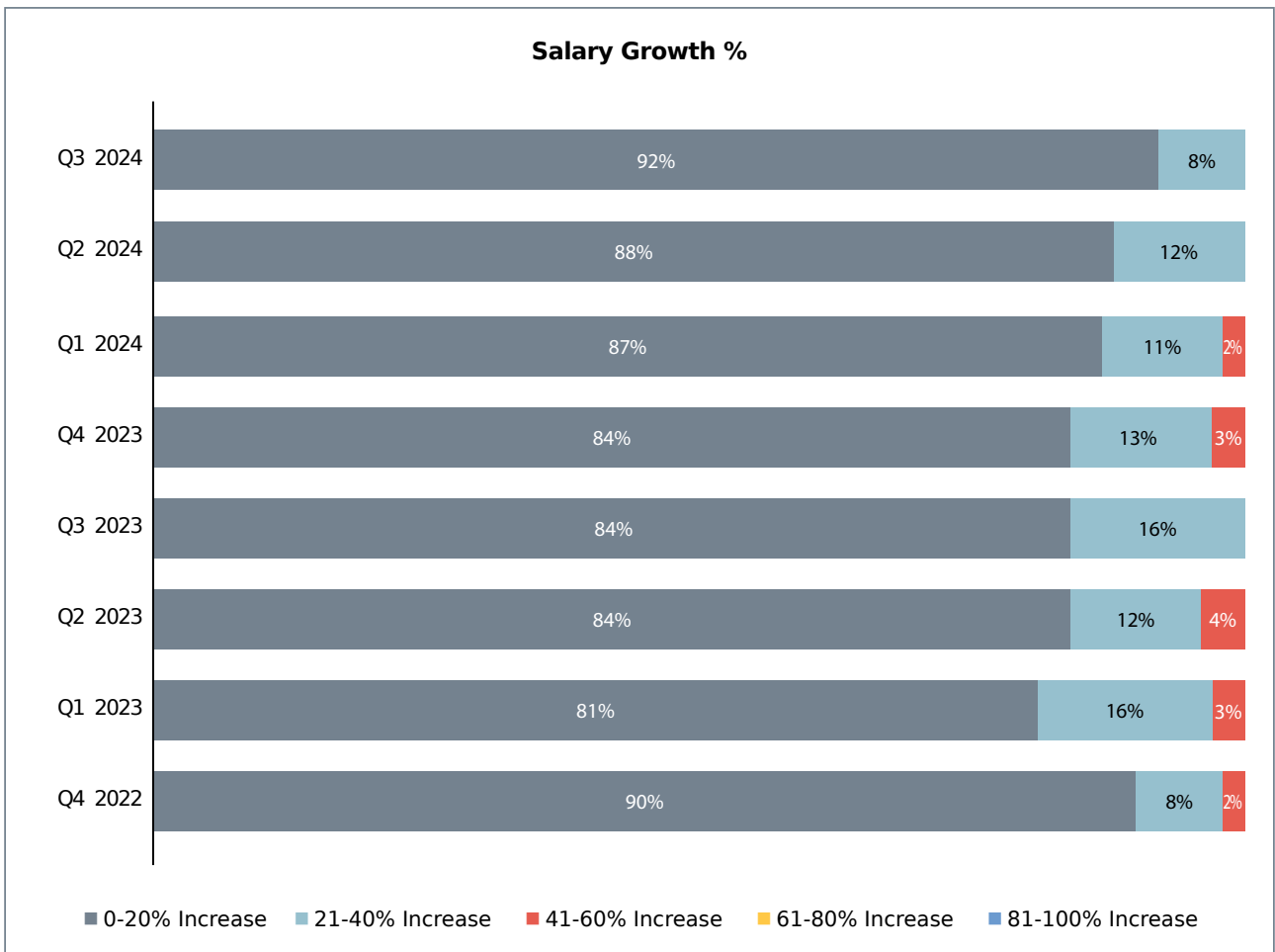
Graph 23: Salary of employees

By sector, in Q3 of 2024, the largest share of companies in the construction sector (36%) recorded an increase in the salaries of employees. In Q4 of 2024, the largest share of companies planning to increase the wages of employees was recorded in the trade sector (39%) (see Graph 4).



Graph 24: Salary of employees in trade, manufacturing, service and construction sectors

In Q3 of 2024 most surveyed companies (92%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 8% of the surveyed companies increased the salaries of their employees by 21-40%.



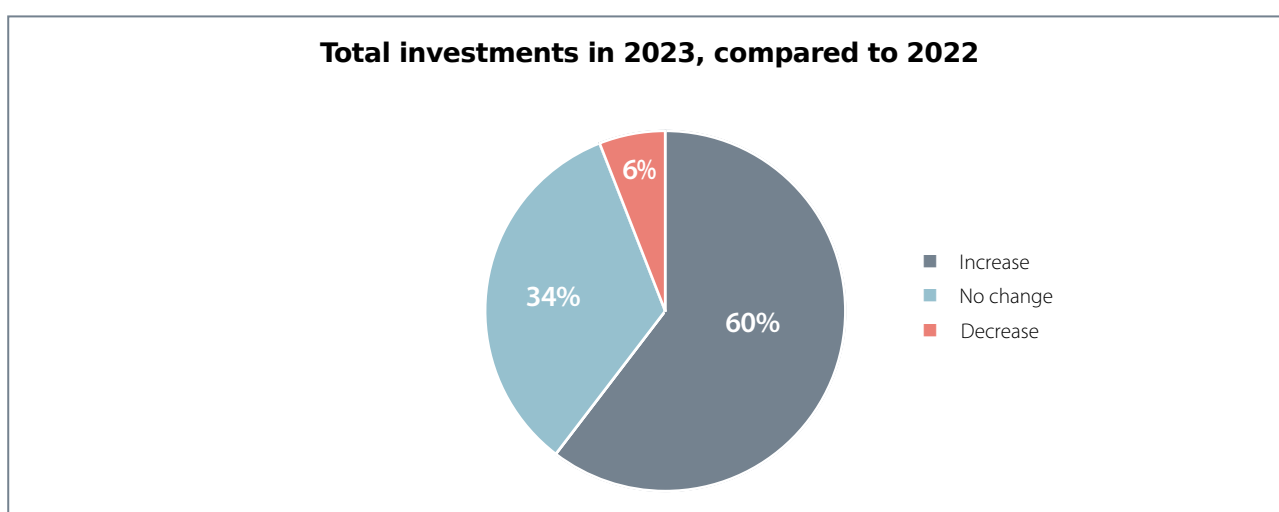
Graph 25: Growth (%) of salary of employees

BAG INVESTMENT SURVEY

As part of an investment survey, which is carried out bi-annually, PMC Research Center collects data on investment trends. For the purposes of this survey, respondents were divided into the following four sectors (similar to the BAG Business Climate): trade, service, manufacturing and construction. The survey conducted in the third quarter of 2024 covered investments made by surveyed businesses in 2023 and their plans for 2024.

INVESTMENT ENVIRONMENT IN 2023

Overall, 60% of the surveyed businesses stated that their total investments had increased in 2023, compared to 2022. Meanwhile, 34% of the surveyed companies claimed their total investments were unchanged and only 6% stated their investments had decreased over the same period.



Graph 26: Investment environment in 2023

It must be mentioned that 64% of the companies in the trade sector reported an increase in total investments in 2023, compared to 2022. In the given period, 63% of companies reported an increase in total investment in the service sector, 58% in the manufacturing sector, and 57% in the construction sector.

Furthermore, 17% of respondents in the manufacturing sector stated that total investments decreased in 2023, compared to 2022. At the same time, 7% of surveyed companies in the construction sector recorded a decrease in total investments in this timeframe, while for the service and trade sectors this figure was 3% (for detailed information see graphs 28, 29, 30 and 31).

In 2023, the majority of companies recorded an increase in their total investments in equipment (56%). The increase in investments in software and databases (54%) and plants (48%) was recorded in a relatively smaller share of the surveyed companies.

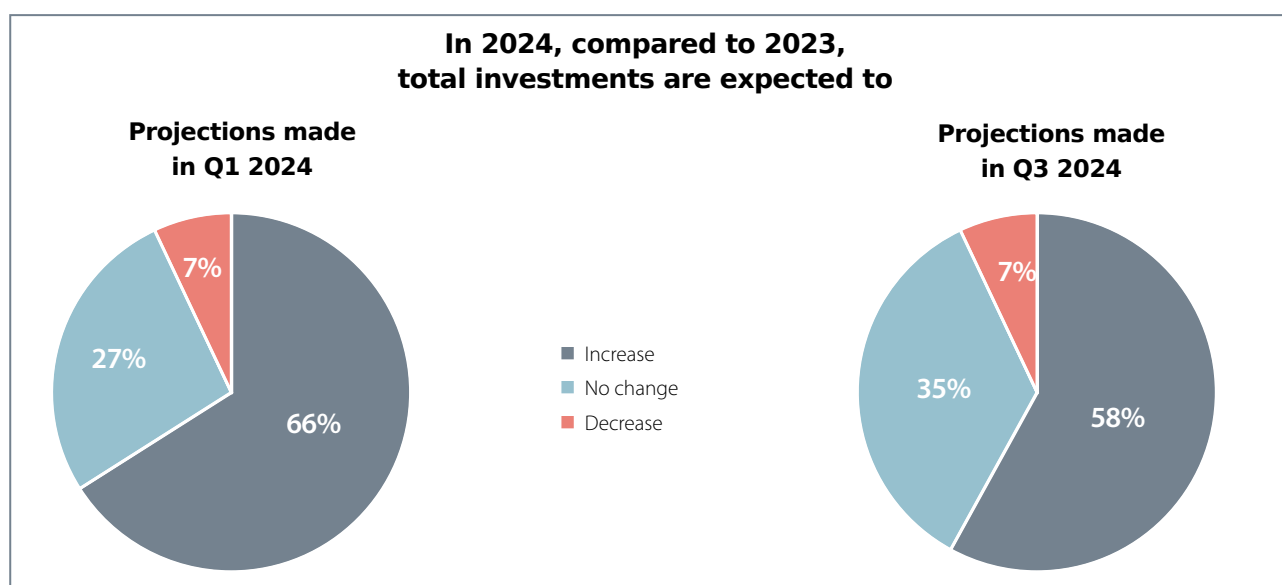
Looking at things sector by sector, the trade sector recorded the highest percentage share of companies stating an increase in their total investments in equipment (73%), software/databases (67%), and plants (58%).

INVESTMENT PLANS FOR 2024

To evaluate the investment plans for 2024, an investment survey was conducted in the first quarter of 2024, and this forecast was updated in the third quarter of 2024.

In Q3 of 2024, 58% of surveyed businesses claimed they will increase their total investments in 2024, compared to 2023. At the same time, 35% of the surveyed companies expect no change in their total investments, while only 7% expect a decrease in total investments.

It should be noted that according to the results of the survey of the third quarter of 2024, compared to projections made in the first quarter of 2024, the expectations of companies had worsened. According to the survey conducted in the first quarter of 2024, 66% of the surveyed companies were planning to increase their total investments in 2024, while now only 58% of companies are planning to increase their total investments. By sector, the construction sector saw the largest drop (33 percentage points) in investment forecasts. In the first quarter of 2024, 90% of companies expected their investments to increase, but by the third quarter, only 57% held this view.

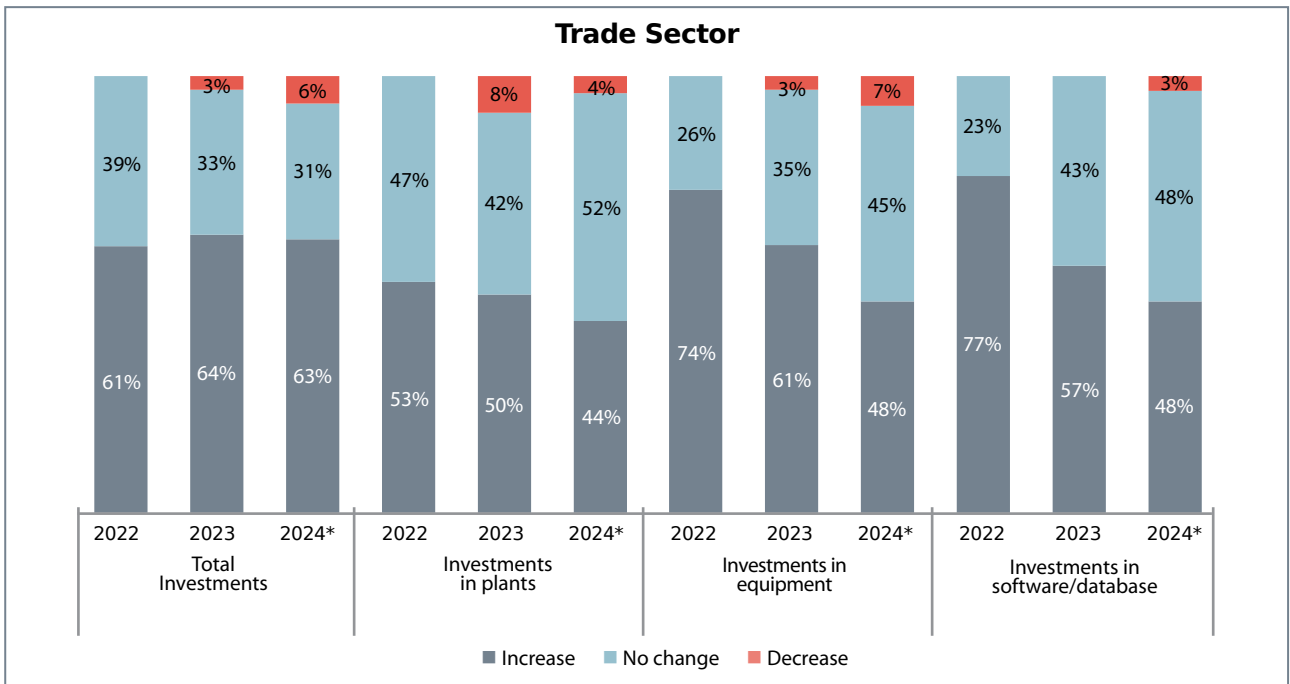


Graph 27: Investment plans of companies for 2024

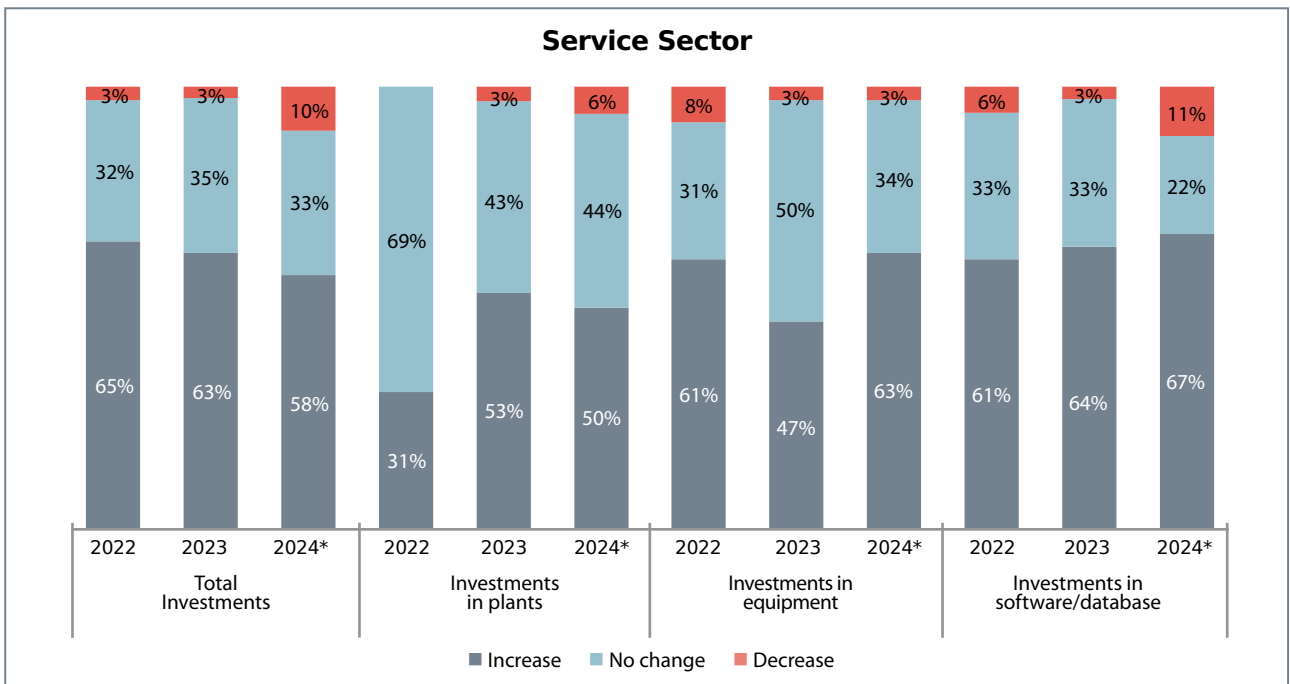
Amongst all four sectors, the trade sector conveyed the most optimistic expectations in direction of investment for 2024. 63% of companies in the trade sector claimed that they will increase their total investment in 2024, compared to 2023. Similar expectations are reported in the service and manufacturing sectors with 58% of companies planning to increase their total investments, meanwhile, for the construction sector the same figure is equal to 57%.

In 2024, more positive expectations with regard to investments were recorded in equipment, while less positive expectations were recorded with regard to investments in plants and software/databases. 58% of the surveyed companies expect to increase their investments in equipment in 2024, compared to 2023, while 54% of businesses have the same expectation for investments in software and databases. Moreover, 45% claim that their investments in plants will increase in 2024, compared to 2023.

It must be noted that, among the covered sectors, the most positive expectations regarding investments in equipment are conveyed in manufacturing sector. In particular, 75% of the companies in the manufacturing sector plan to increase investment in equipment. Regarding the investment in software/databases, the most positive expectations are recorded in the service sector with 67% of the companies planning to increase investments. Regarding the investment in plants, the most positive expectations are recorded in the construction and service sectors with 50% of surveyed companies planning to increase investments.



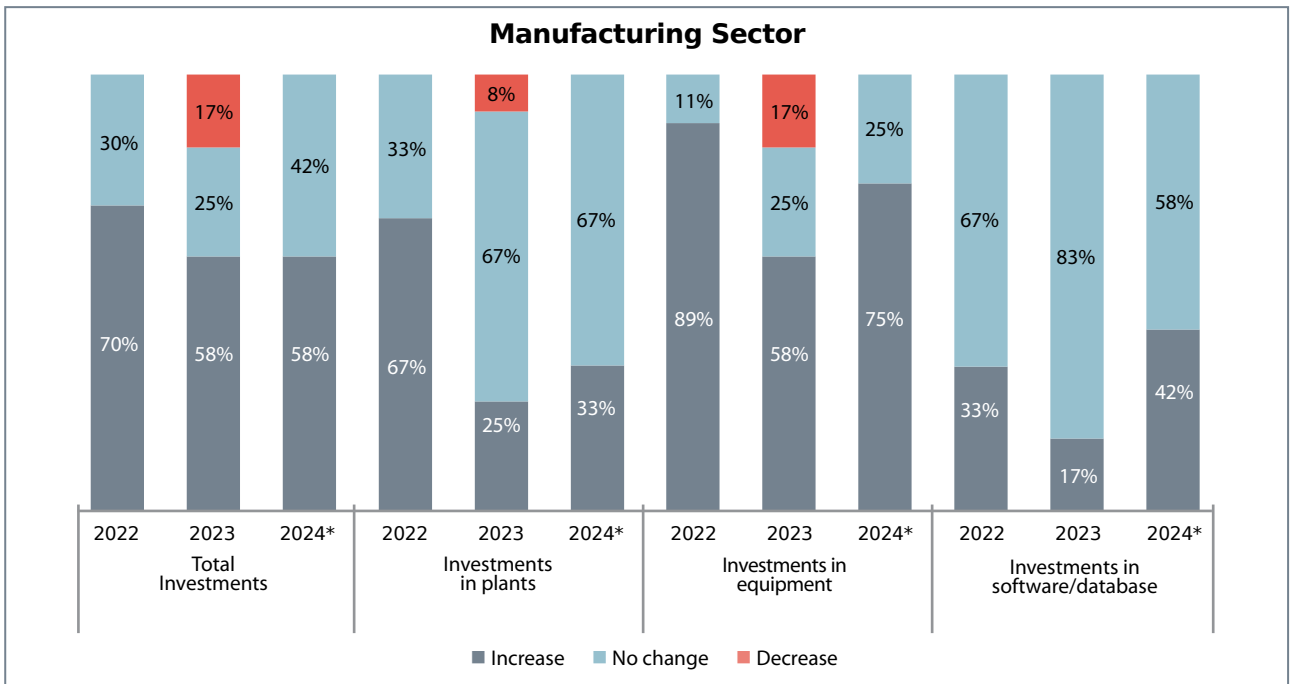
Graph 28: Investment environment in 2022 and 2023 and investment plans for 2024 in the trade sector (change compared to the previous year)¹¹



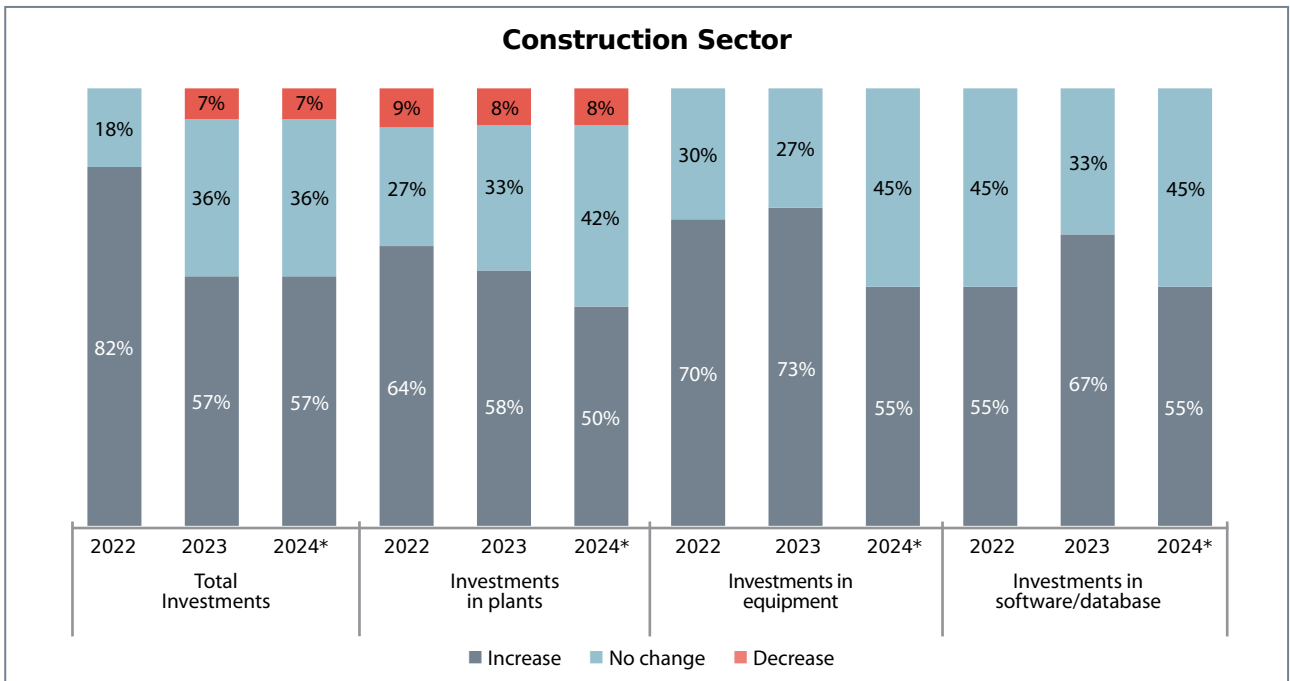
Graph 29: Investment environment in 2022 and 2023 and investment plans for 2024 in the service sector (change compared to the previous year)

¹¹ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.

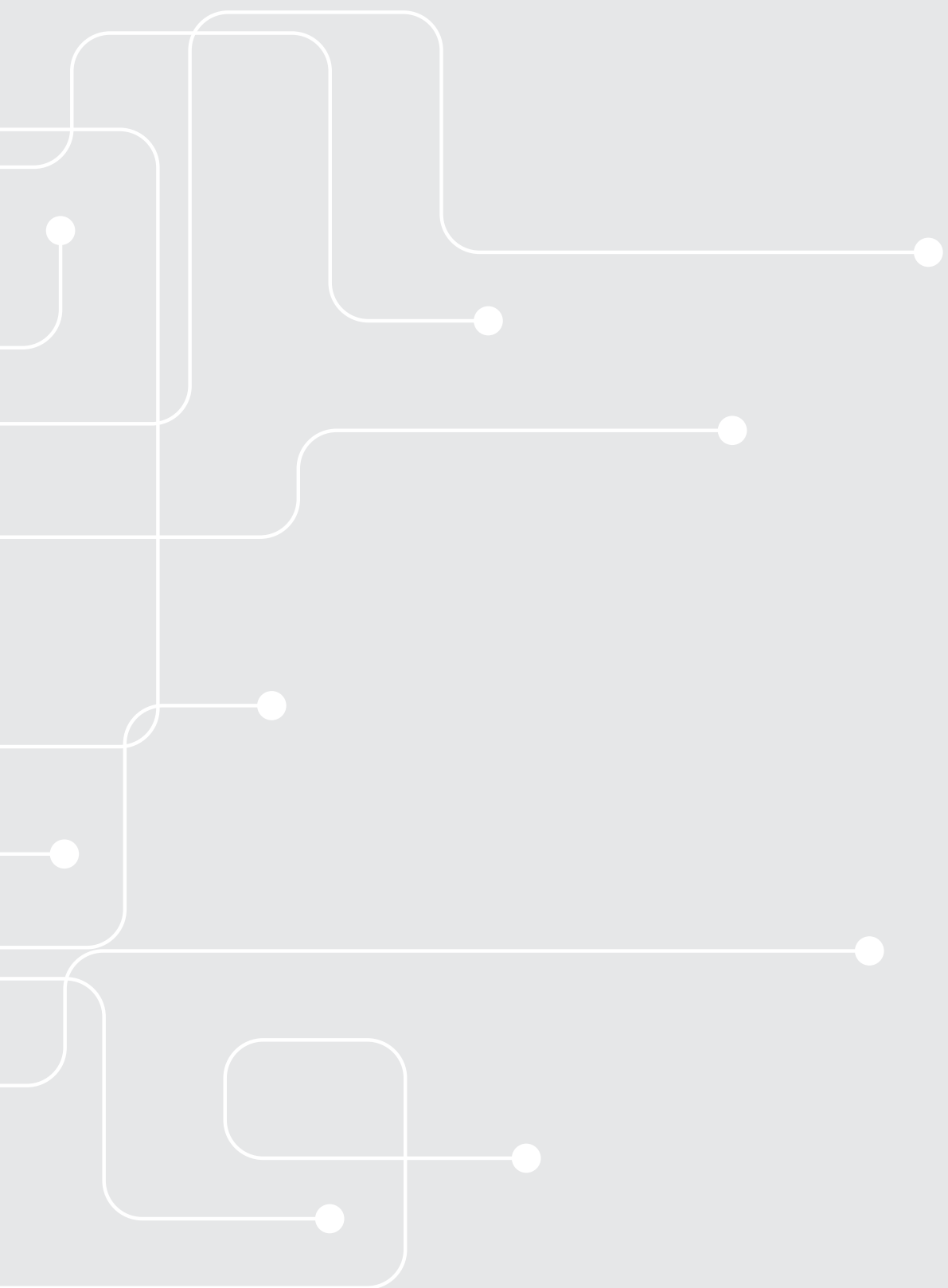
* Expectation.



Graph 30: Investment environment in 2022 and 2023 and investment plans for 2024 in the manufacturing sector (change compared to the previous year)



Graph 31: Investment environment in 2022 and 2023 and investment plans for 2024 in the construction sector (change compared to the previous year)



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