



BAG

INDEX



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

ifo INSTITUTE

Leibniz Institute for Economic Research
at the University of Munich



Research

I QUARTER 2024

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**



**INVESTMENT
SURVEY**

**I 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 Q1 of 2024 in the period 19 February – 10 March.

IN Q1 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 43.6 POINTS IN Q1 OF 2024, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 27.4 AND THE BUSINESS EXPECTATIONS INDICATOR AT 60.8.

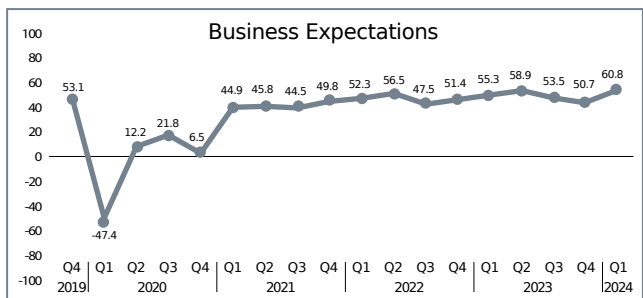
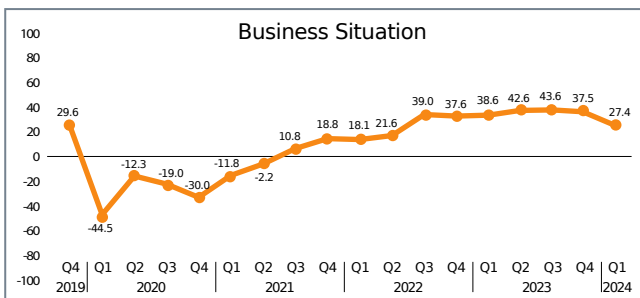
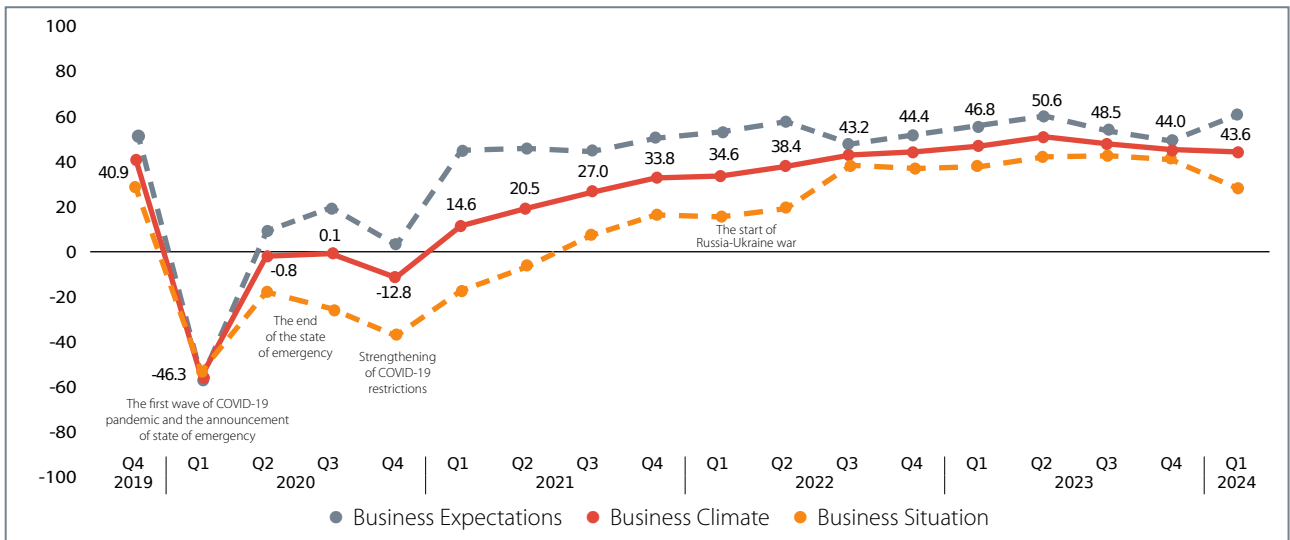
In Q1 of 2024, compared to Q4 of 2023, the BAG Business Climate declined by 0.4 points. Moreover, in this period, the assessment of the present business situation declined by 10.1 points, and business expectations increased by 10.1 points.

The figures for Q1 of 2024 demonstrate a deterioration compared to Q1 of 2023. In Q1 of 2023, the BAG Business Climate indicator was 46.8. The present business situation indicator also declined (38.6), meanwhile, the business expectations indicator increased (55.3).

It is worth noting that starting from Q1 of 2021, the BAG Business Climate indicator has been positive and gradually improving up until Q3 of 2023 (following the increasing trend, since Q3 of 2023, the business climate index is slightly declining compared to the previous quarter) (see graph 1).

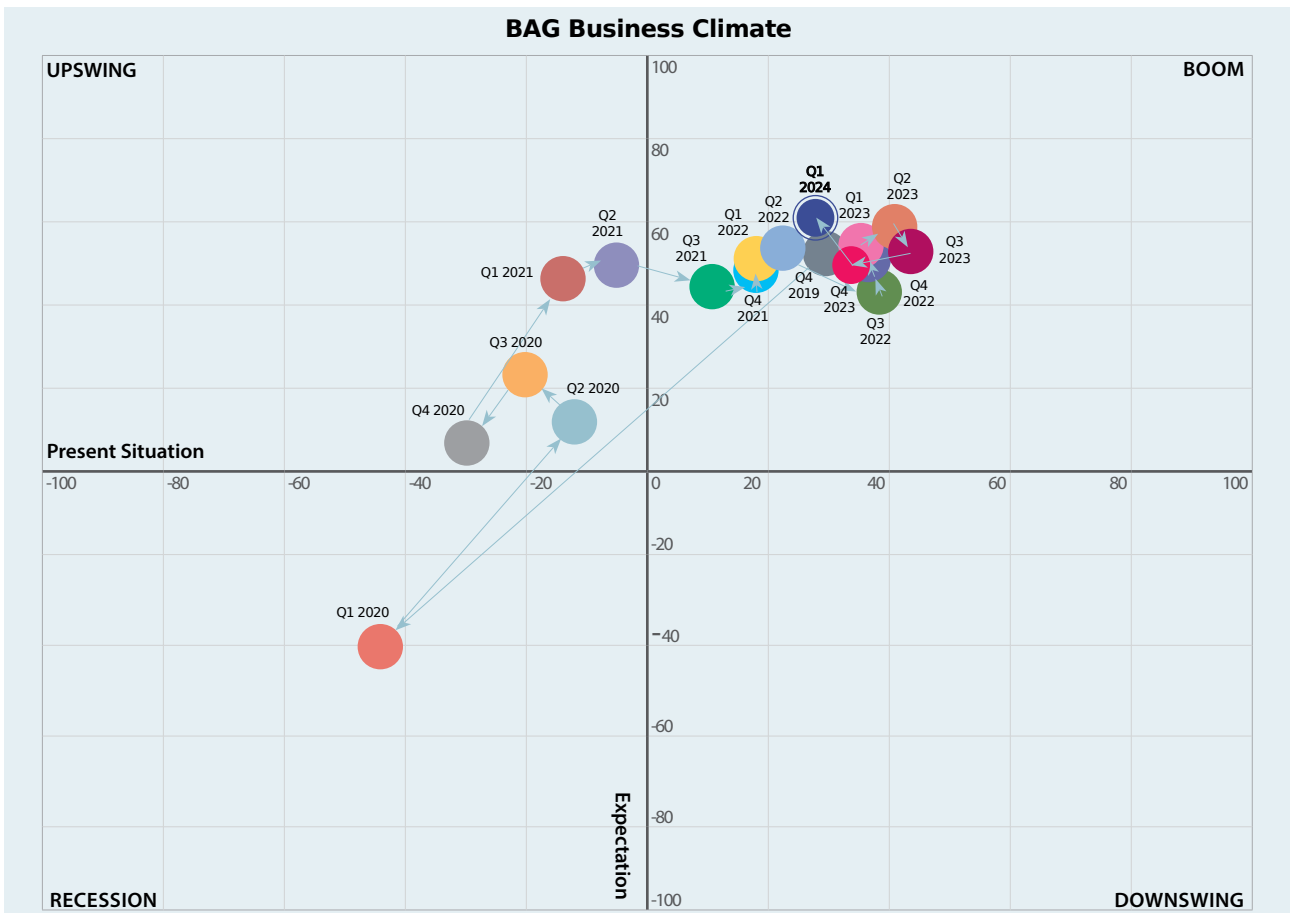
¹ In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

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 Q1 of 2024, as in Q4 of 2023, the BAG Business Climate Indicator is in the **boom phase**.



Graph 2: BAG Business Climate

The Graph 2 depicts the relationship between the present business situation and business expectations for the next six months in a four-quadrant diagram. The quadrants are labeled “upswing,” “boom,” “downswing,” and “recession” and each of these is explained below:

- ✘ If survey participants assess the present business situation negatively but have positive business expectations for the next six months on balance, then the BAG business climate indicator falls in the **“upswing”** quadrant.
- ✘ If survey participants assess both the present business situation and business expectations for the next six months positively on balance, then the business climate indicator resides in the **“boom”** quadrant.
- ✘ If survey participants assess the present business situation positively but have negative business expectations for the next six months on balance, then the BAG business climate indicator is in the **“downswing”** quadrant.
- ✘ If survey participants assess the present business situation negatively and also have negative business expectations for the next six months on balance, then the BAG business climate indicator is placed in the **“recession”** quadrant.

BAG BUSINESS CLIMATE BY SECTOR

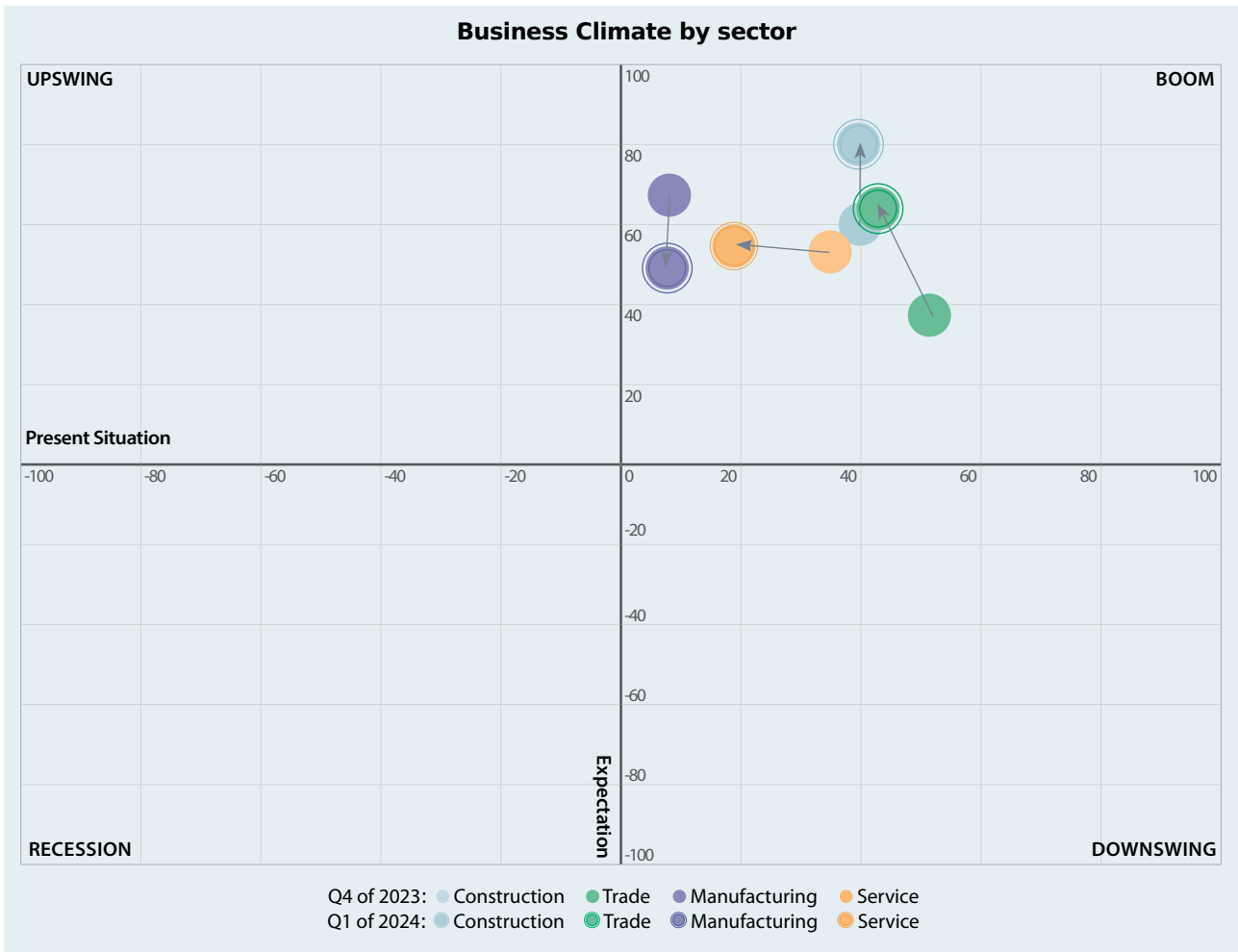
In Q1 of 2024, the **business climate indicator** was positive for all sectors. Compared to Q4 of 2023, in Q1 of 2024, the indicator improved in the trade and construction sectors but worsened in the manufacturing and service sectors (see Graph 3).

In Q1 of 2024, compared to Q4 of 2023, the **present business situation indicator** worsened in service (by -14.7 points), trade (by -10.4 points), and manufacturing (by -1.2 points) sectors, and remained the same in the construction sector.

In Q1 of 2024, the **business expectations indicator** was positive for all sectors. The most positive expectations were recorded in the construction sector. It is worth noting that, compared to Q4 of 2023, expectations worsened in the manufacturing (-16.7 points) sector, while for trade (26.5 points), construction (20.0 points) and service (3.5 points) sectors business expectations improved.

Table 1: Balance values by sector in Q1 of 2024

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	52.8	42.4	63.6
Service Sector	37.5	19.4	57.1
Manufacturing Sector	27.6	7.1	50.0
Construction Sector	59.2	40.0	80.0
All Sectors	43.6	27.4	60.8

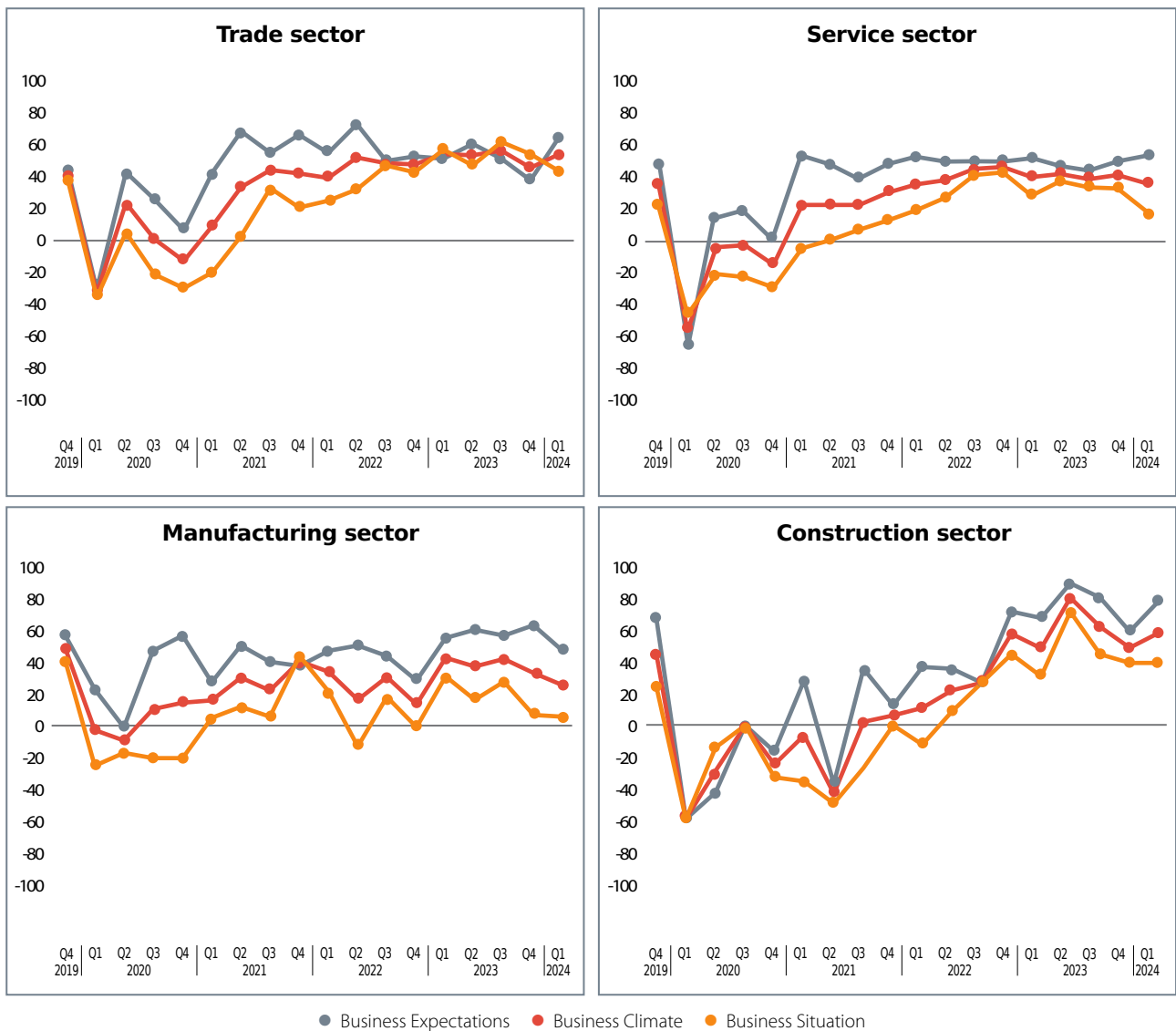


Graph 3: Business climate by sector in Q4 of 2023 and Q1 of 2024

Since Q1 of 2021, the business climate indicator has been consistently positive in the trade, manufacturing, and service sectors. The positive assessment of the business climate reflects both the positive assessment of the present situation and optimistic expectations for the following quarter.

The business climate indicator had been improving in trade and service sectors from Q1 of 2021 to Q3 of 2023, compared to the corresponding periods of the previous year. However, for these sectors, the business climate indicator declined in Q4 of 2023. In Q1 of 2024, compared to the corresponding period of the previous years, the decreasing trend of business climate indicator continued in the service sector, and the indicator remained the same in the trade sector. In both sectors, a decrease in business climate indicator is associated with deteriorated assessments of the present situation.

In the construction sector, from Q3 2021 to Q3 2023, the business climate indicator had been positive and gradually improving, compared to the corresponding periods of the previous year. Despite a temporary decrease in Q4 of 2023, in Q1 of 2024, compared to the corresponding period of the previous year, business climate indicator improved again. Until Q2 of 2022, this improvement has been mainly due to the optimistic outlook under the business expectations element, however, since Q2 of 2022, the optimistic assessment of the present situation also became a determining factor (see Graph 4).

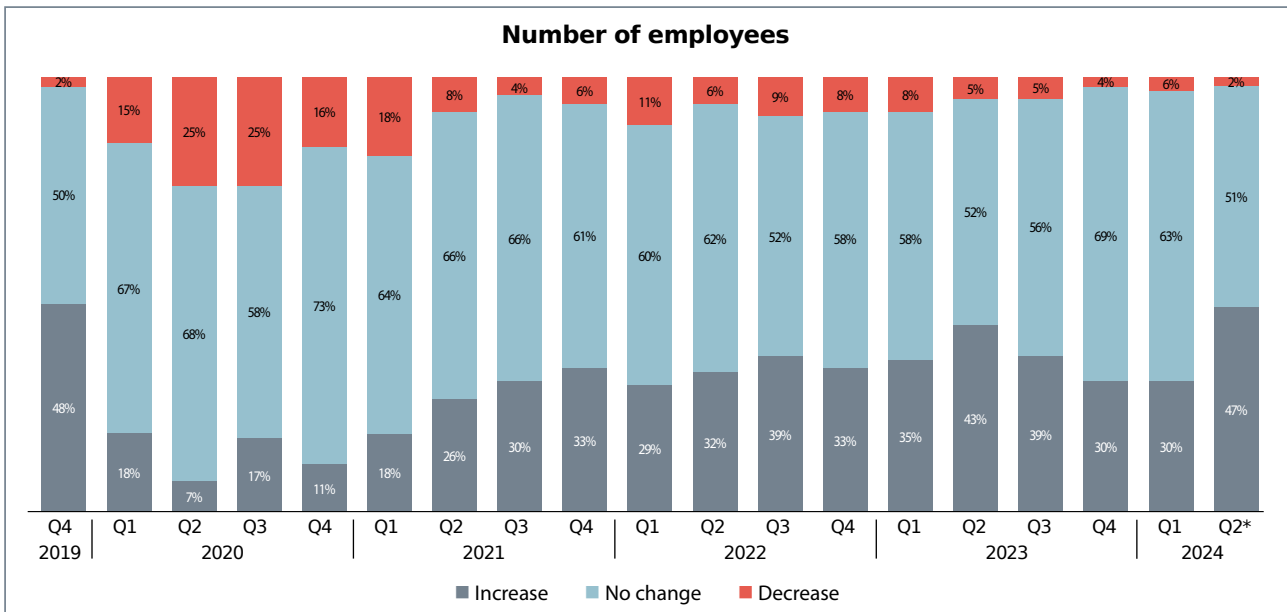


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

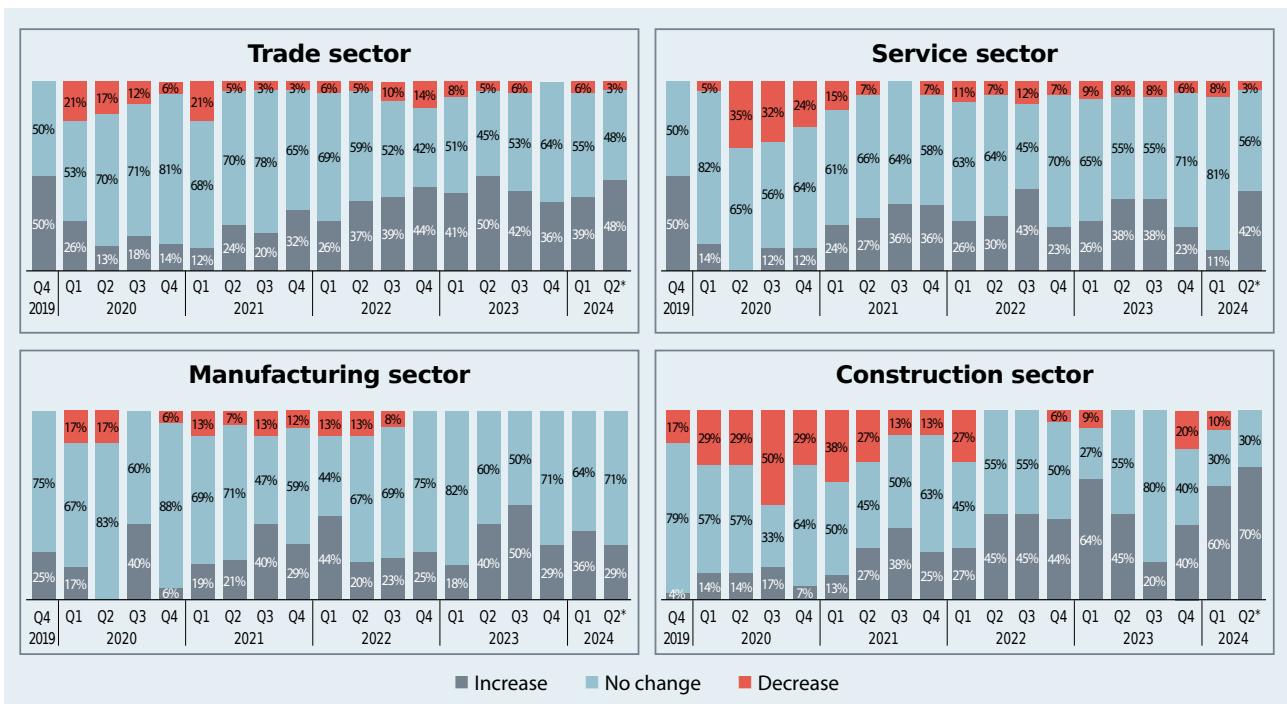
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- ✘ 30% of surveyed companies stated that the number of employees increased in Q1 of 2024. As for the expectations for Q2 of 2024, 47% expect the number of employees to increase (see Graph 5).
- ✘ Across the sectors covered, the situation regarding employment in Q1 of 2024 is most positively assessed in the construction sector. Additionally, the expectations for Q2 of 2024 is most positively assessed in construction sector as well, similar to the corresponding period of the previous year (see Graph 6).



Graph 5: Number of employees in BAG member businesses and companies in their corporate group³

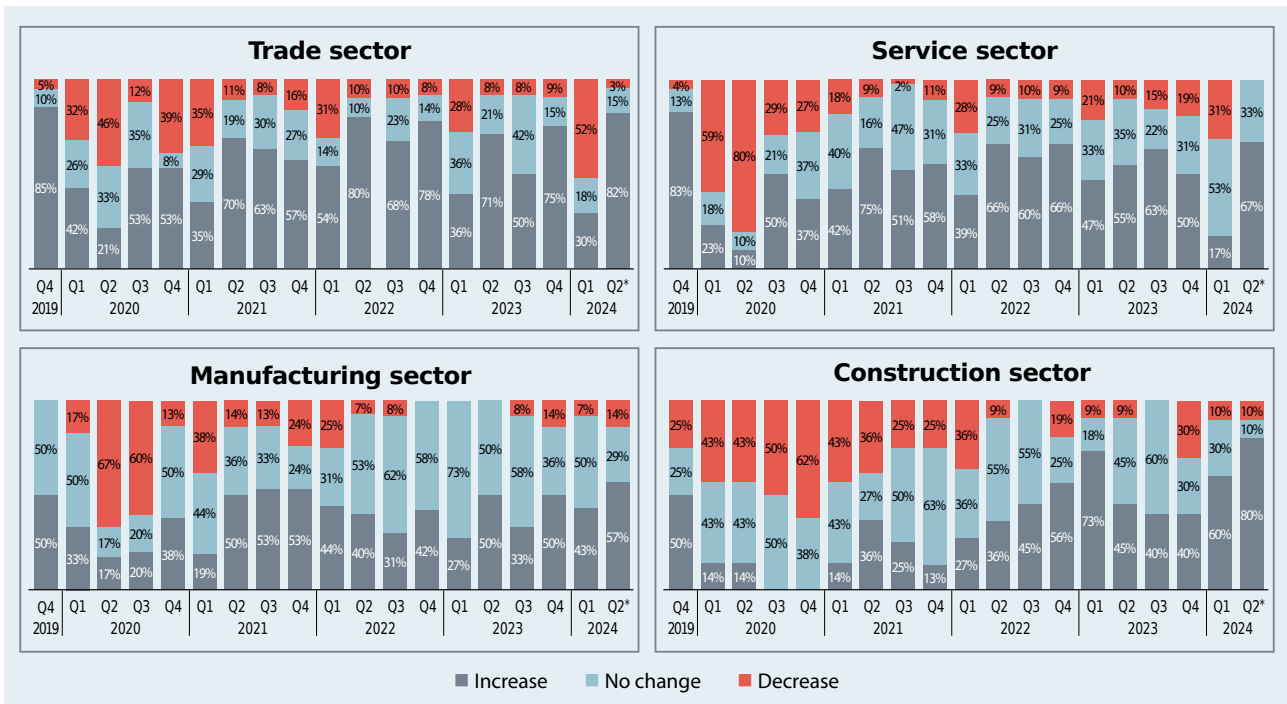


Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- ✘ The situation in Q1 of 2024 regarding sales was assessed most positively in the construction sector. As for the expectations in Q2 of 2024, the situation was most positively assessed in the trade sector (see Graph 7).
- ✘ The situation in Q1 of 2024 regarding sales was assessed most negatively in the trade sector: 52% of companies in the sector stated sales to decrease (worsened by 24 percentage points compared to Q1 of 2023).

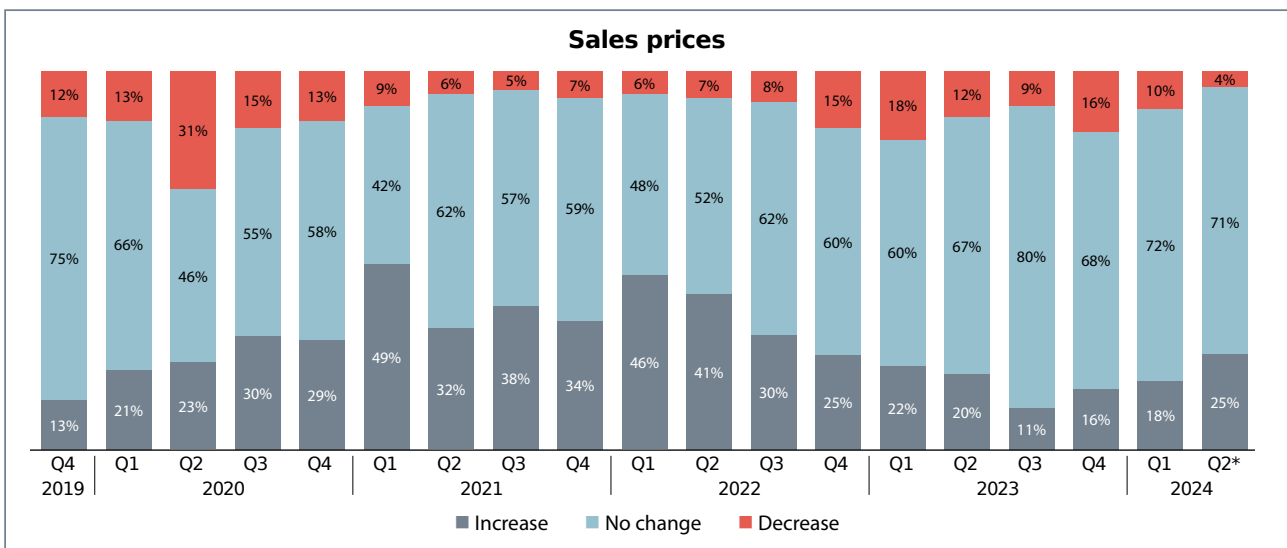
³ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.
*Expectation.



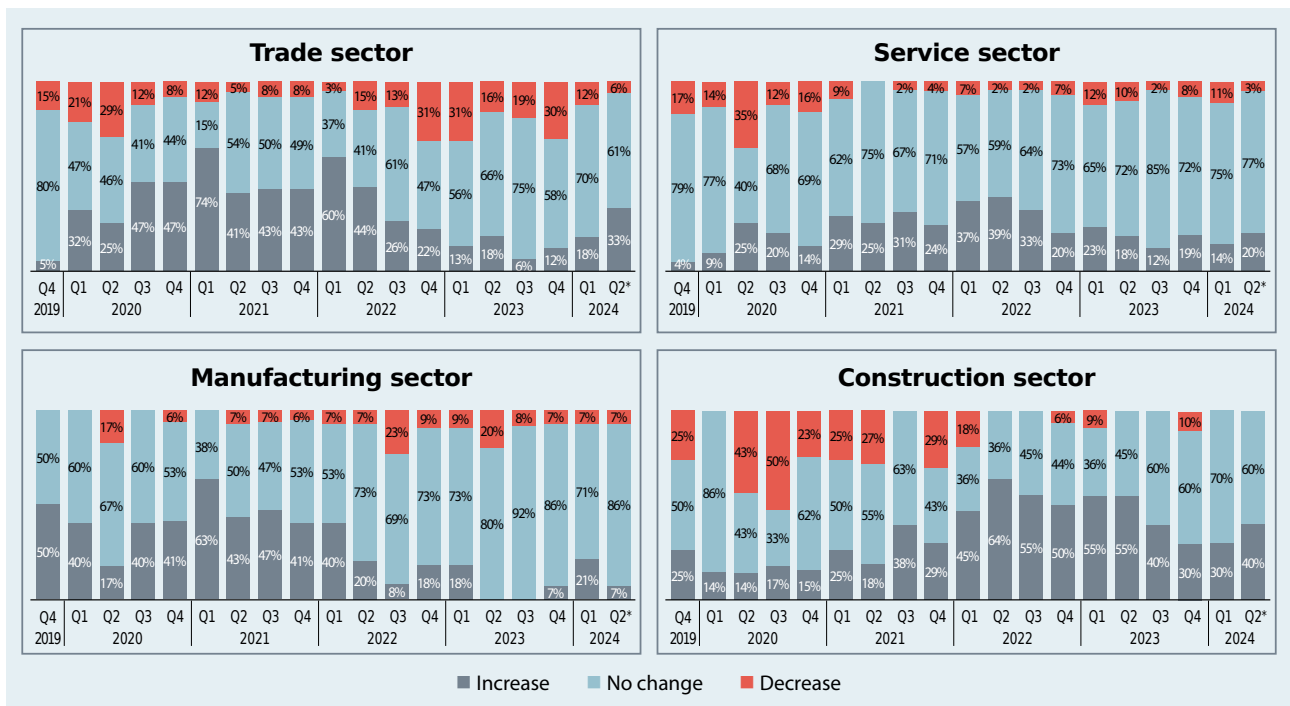
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✘ In Q1 of 2024, 18% of surveyed companies increased sales prices, and 25% of the companies expect the prices to rise in Q2 of 2024 (see Graph 8).
- ✘ Among sectors, in Q1 of 2024, the share of the companies that are increasing sales prices is the highest for the construction sector, which might be attributed to high demand in the sector. Additionally, as for the expectations for Q2 of 2024, the highest share of companies predicting sales prices to increase was also recorded in the construction sector (see Graph 9).
- ✘ The price increase dynamics are least present in the service sector, in which only 14% of the companies stated that they increased prices in Q1 of 2024.



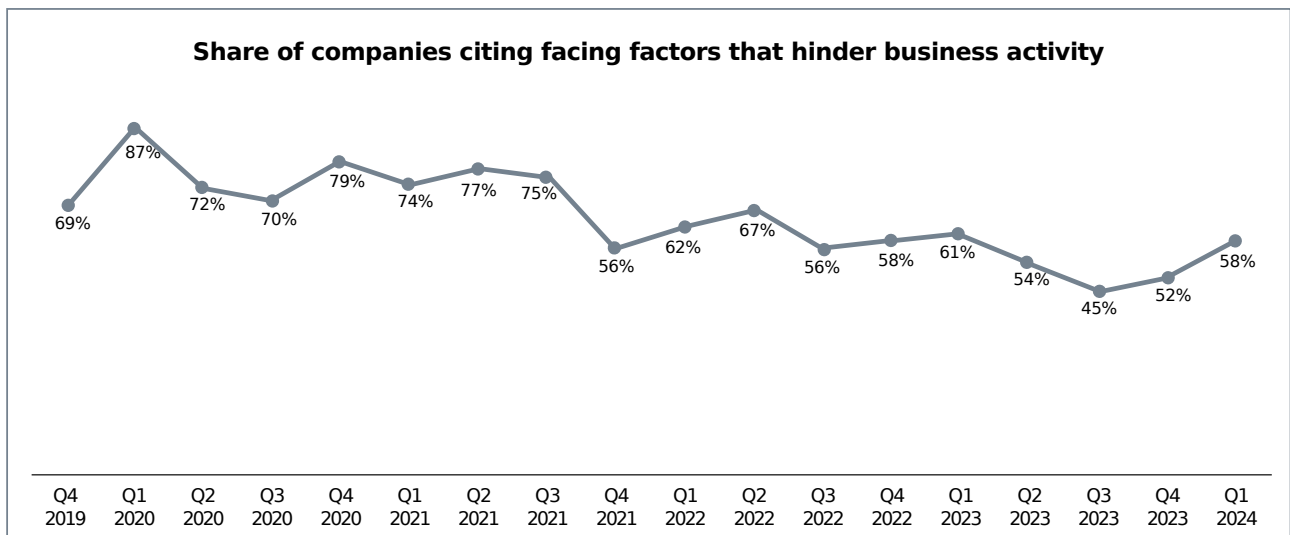
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

FACTORS HINDERING BUSINESS ACTIVITY

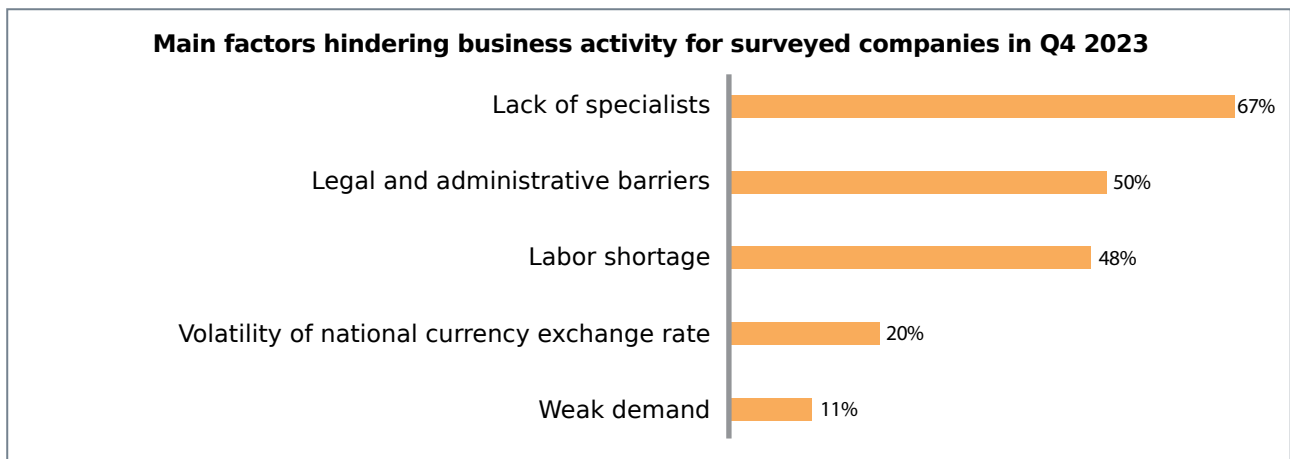
In Q1 of 2024, compared to Q4 of 2023, the share of surveyed companies claiming that there are factors hindering their business activity increased (by 6 percentage points). However, this figure is 3 percentage points lower compared to the corresponding number from Q1 of 2023.



Graph 10: Existence of factors hindering business activity

In Q1 of 2024, the following five factors were emphasized as the most hindering for business activity: a lack of specialists, legal and administrative barriers, labor shortage, volatility of national currency exchange rate⁴, and weak demand (see Graph 11).

⁴ 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 Q1 2024

In Q1 of 2024, **a lack of specialists** was cited as the top factor hindering business (67% 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 construction sector (all surveyed companies with hindering factors identified the mentioned problem as a hindrance), while it was considered the least hindering for the trade sector (50%) (see Graph 12). In terms of the size of the enterprise⁵, a lack of specialists was most cited by small enterprises as a factor hindering business activity (77%) (see Graph 13).

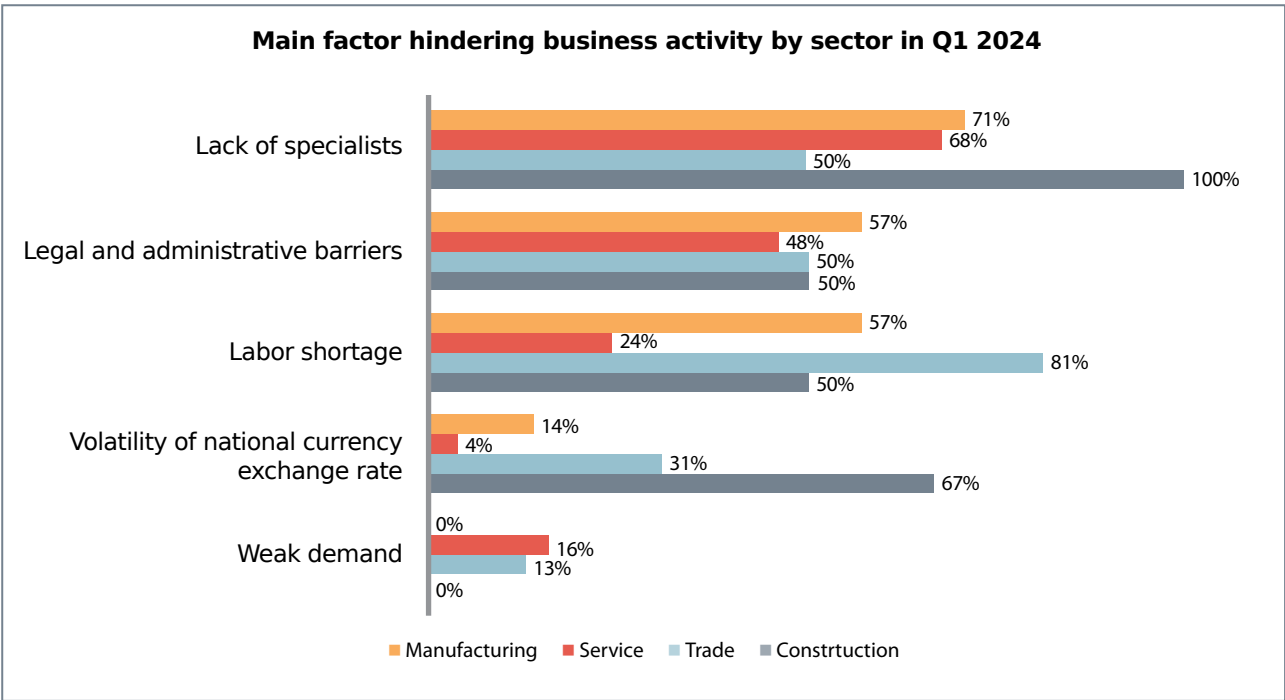
In Q1 of 2024, **legal and administrative barriers** were cited as a hindering factor by 50% of surveyed companies. This issue was felt most acutely in the manufacturing sector (57%), while it was less of a hindrance for the service sector (48%). Legal and administrative barriers were considered the most problematic for large enterprises (cited by 67% of them as a hindering factor).

In Q1 of 2024, **labor shortage** was cited as a hindering factor by 48% of surveyed companies. Across the covered sectors, this factor was deemed the most hindering for the trade sector (81%). In Q1 of 2024, labor shortage was considered the most problematic for large enterprises (cited by 50% of them as a hindering factor).

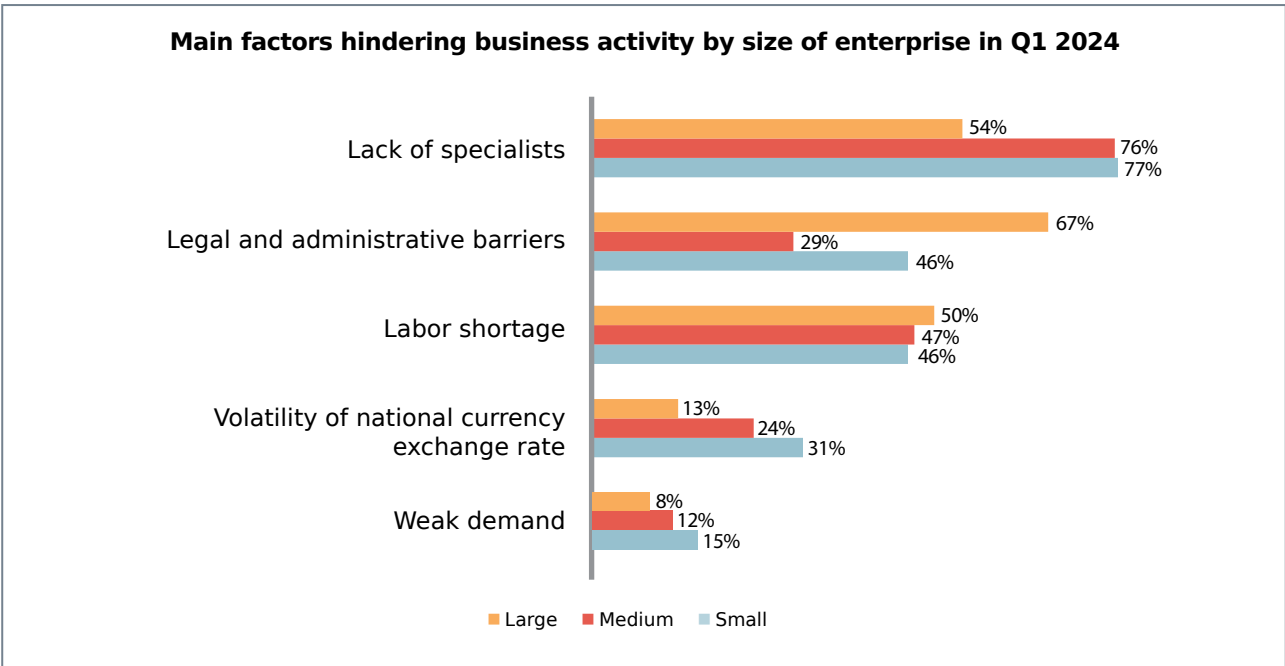
In Q1 of 2024, **volatility of the national currency exchange rate** was cited as a hindering factor by 20% of surveyed companies. This issue was felt most acutely in the construction sector (67% of the surveyed companies with hindering factors identified the mentioned problem as a hindrance), while it was less of a hindrance for the service sector (4%). The volatility of the national currency exchange rate was considered the most problematic for small enterprises (cited by 31% of them as a hindering factor).

In Q1 of 2024, **weak demand** was cited as a hindering factor by 11% of surveyed companies. This issue was felt most acutely in the service sector (16%). Weak demand was considered the most problematic for small enterprises (cited by 15% of them as a hindering factor).

⁵ The size of enterprise was determined according to the methodology of the National Statistics Office of Georgia (i.e. small, medium, or large).



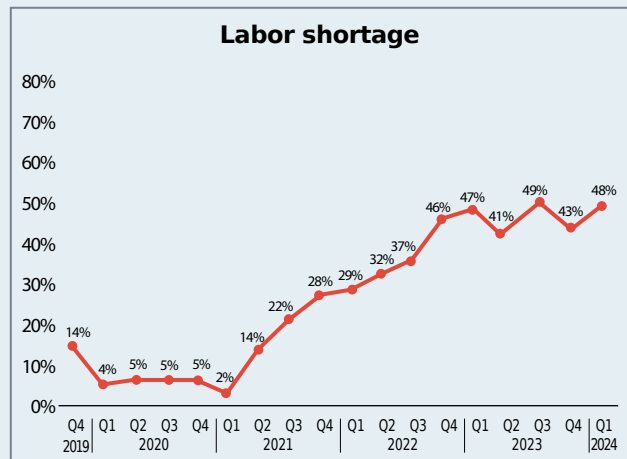
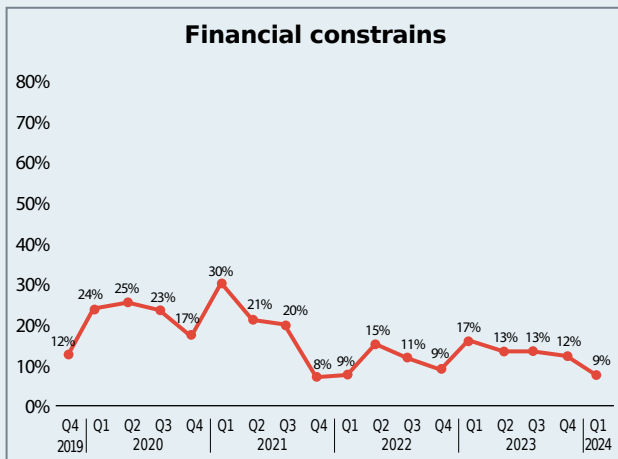
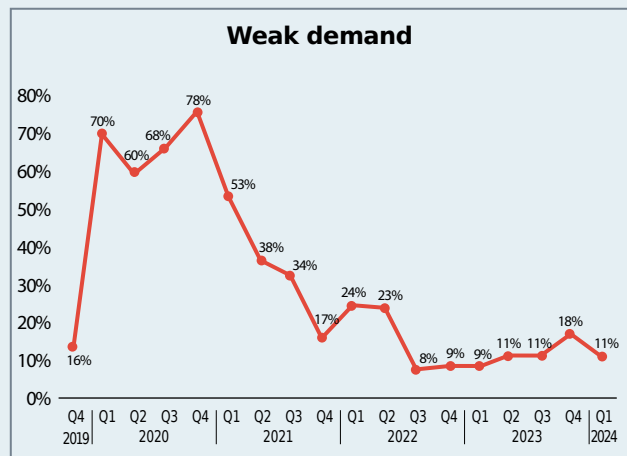
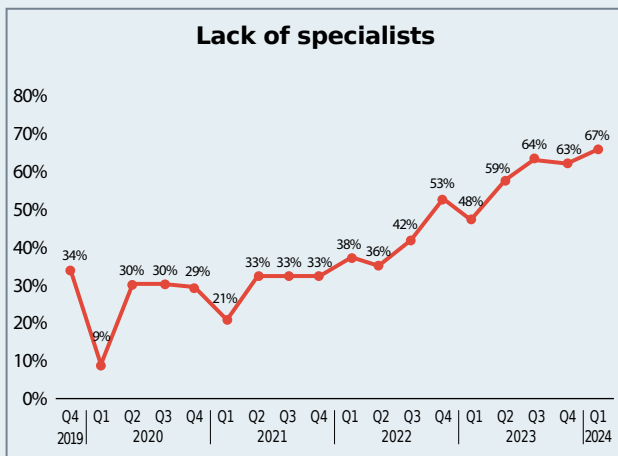
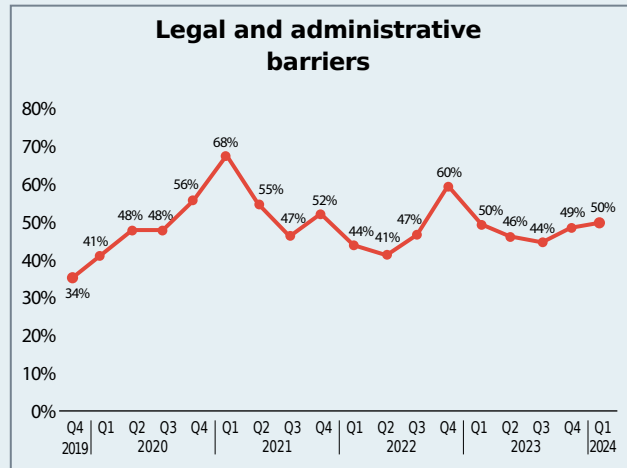
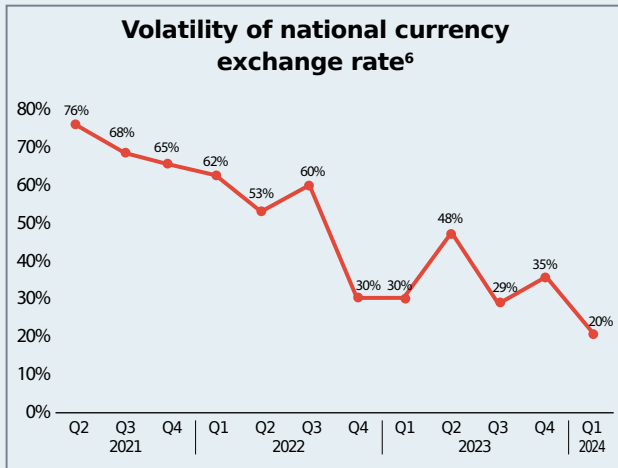
Graph 12: Main factors hindering business activity by sectors in Q1 2024



Graph 13: Main factors hindering business activity by the size of the enterprise in Q1 2024

In Q1 of 2024, compared to previous quarters, among the factors hindering business activity, the share of companies citing Volatility of National Currency Exchange Rate decreased the most (by 15 percentage points). Elsewhere, the share of companies citing Labor Shortage as a hindering factor increased the most (by 5 percentage points) over the same period (See Graph 14).

Hindering factors for business activity Q4 2019-Q1 2024



Graph 14: Main hindering factors for surveyed companies

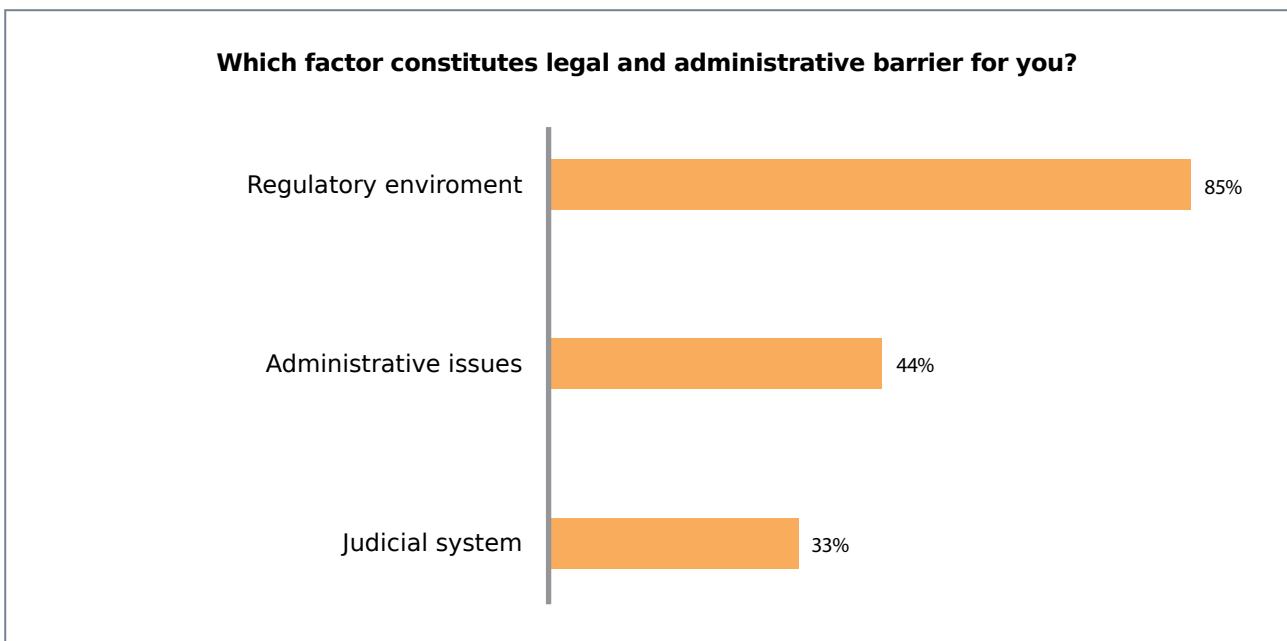
⁶ Volatility of national currency exchange rate as a factor hindering business was added to the survey questionnaire in Q3 of 2021.

The main factors determining legal and administrative barriers for business

In Q1 of 2024, similar to the previous quarter, the **regulatory environment** has been considered the main element of legal and administrative barriers hindering business activity. Meanwhile, looking from a sector-by-sector view, the regulatory environment was most cited as a hindering factor in the construction sector (100% of surveyed companies in the trade sector for which there are legal and administrative barriers named the regulatory environment as a hindrance). The regulatory environment is deemed the least hindering for the manufacturing sector (50%).

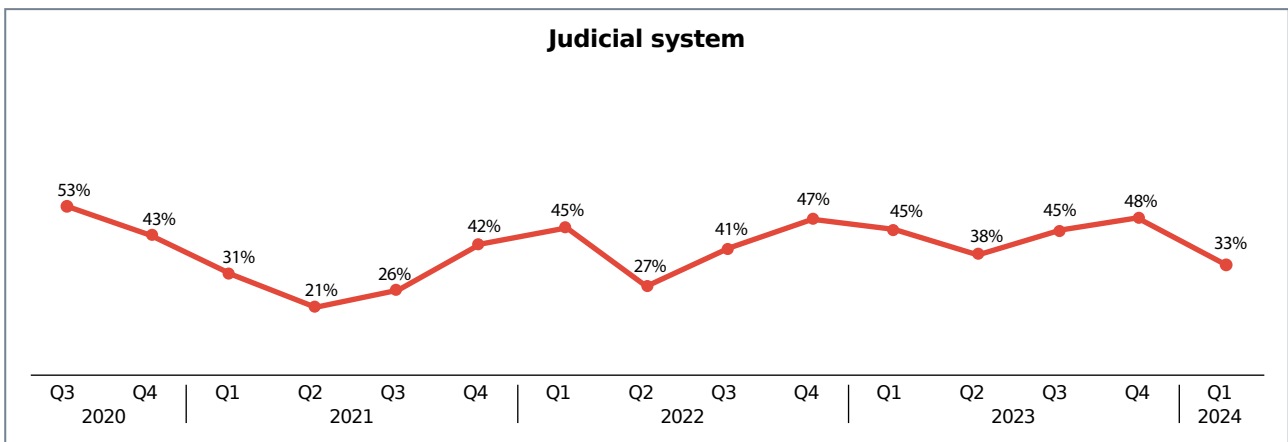
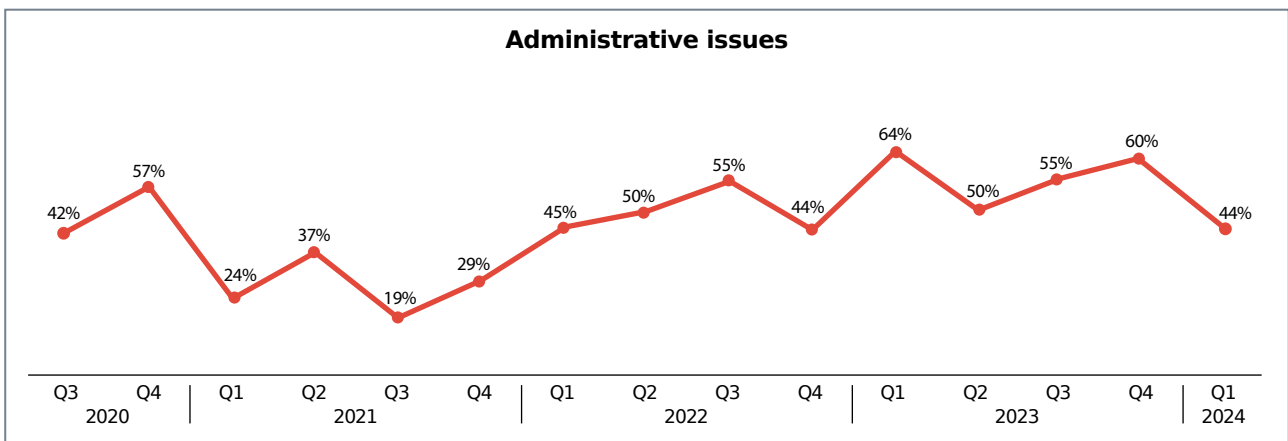
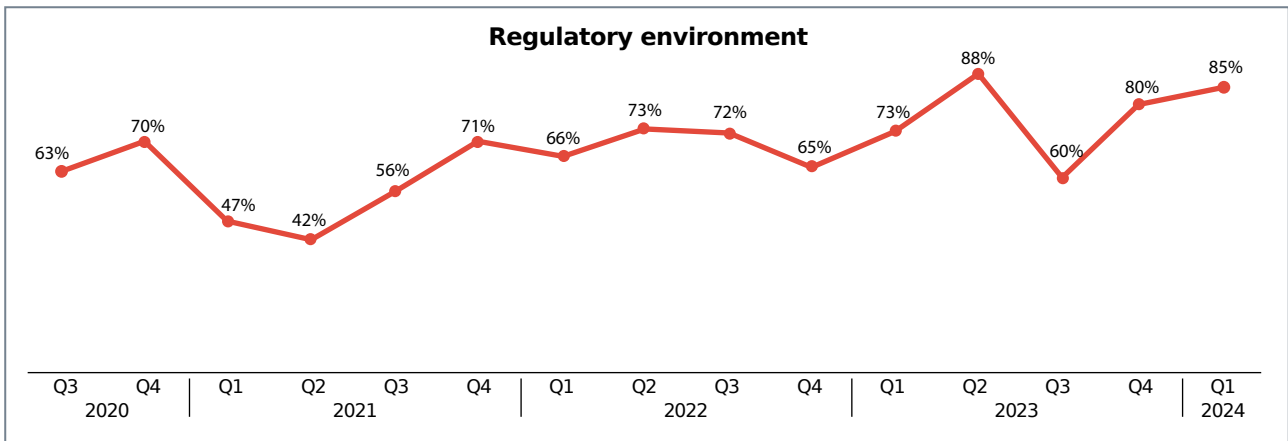
Among legal and administrative barriers, **administrative issues** were the second-most cited hindering factor. This was deemed the most hindering in the construction sector (67%), while it was least cited in the trade sector (38%).

Meanwhile, the **judicial system** was the most cited as a hindering factor under legal and administrative barriers in the construction sector (67%), while it was least cited in the manufacturing sector (25%).



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

In summary, in Q1 of 2024, compared to previous quarter, the share of companies to cite regulatory environment as hindering factor increased by 5%, while shares of companies to cite judicial system and administrative issues decreased by 15 and 16 percentage points, respectively.

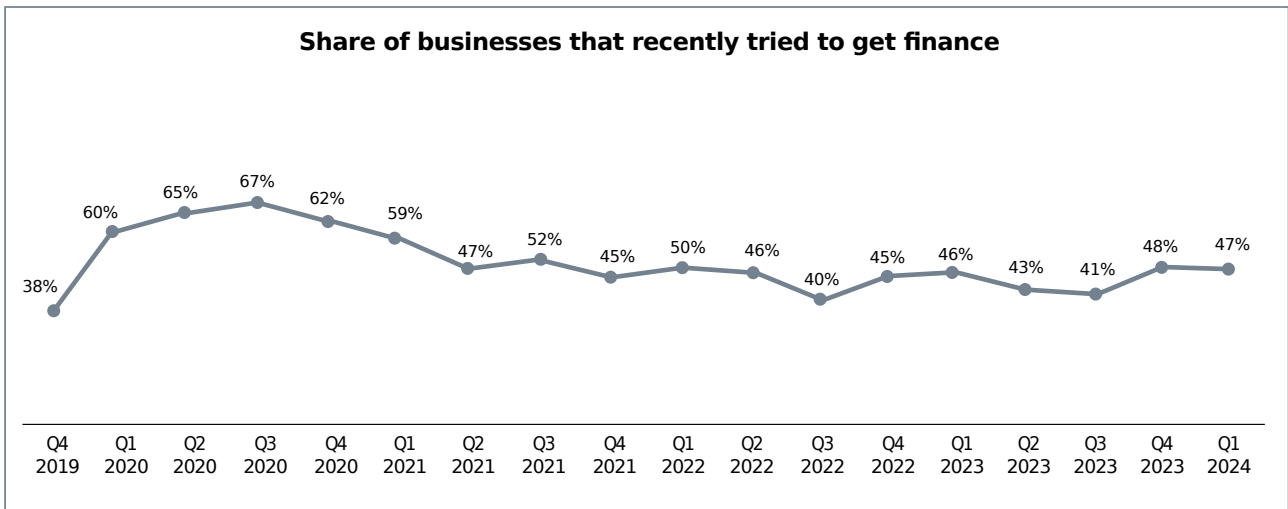


Graph 16: Main legal and administrative hindering factors for surveyed companies

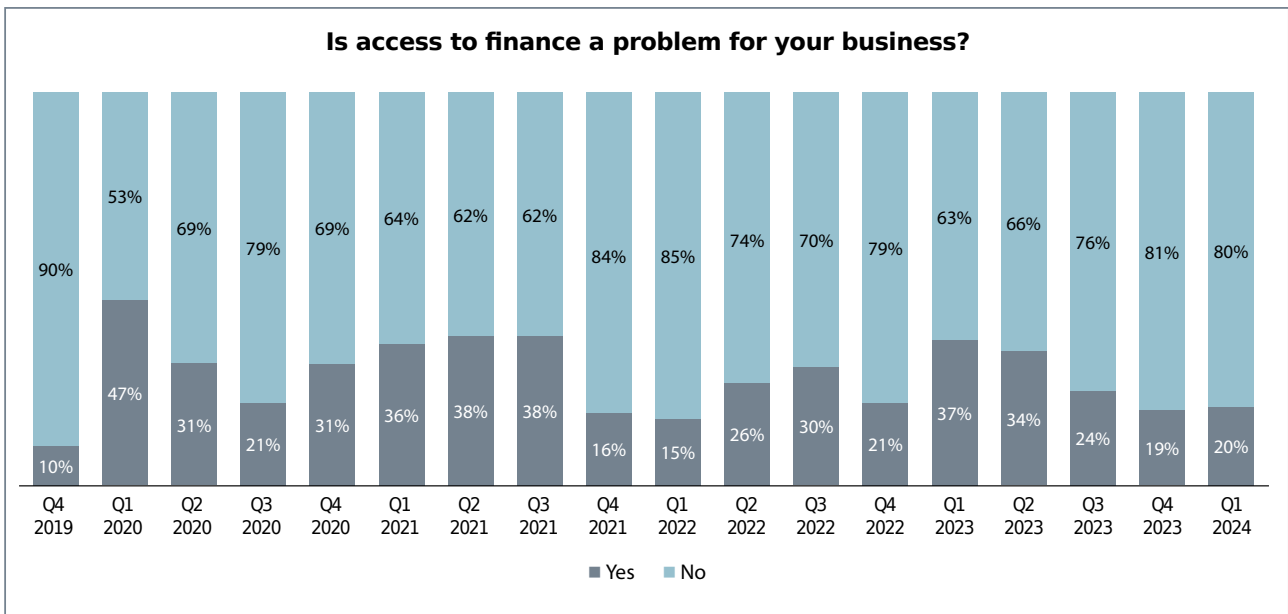
FINANCING

In Q1 of 2024, 47% of surveyed companies claimed to have recently tried to obtain finance, which is 1 percentage point lower than the figure recorded in the previous quarter (see Graph 17).

In Q1 of 2024, 20% of those companies that recently tried to access finance also noted that access to finance was a problem for their business. This figure is slightly higher (by 1 percentage point) than that of the previous quarter (see Graph 18).



Graph 17: Businesses that recently tried to get finance

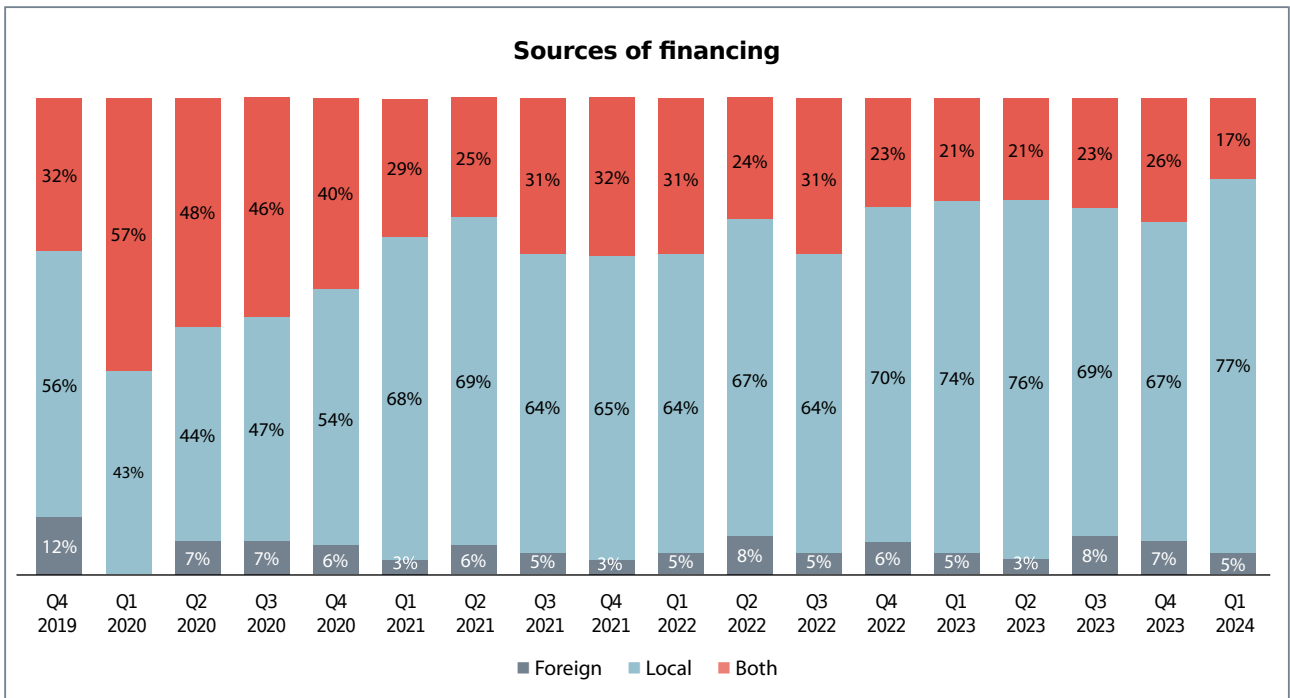


Graph 18: Access to finance⁷

Regarding sources of financing⁸, in Q1 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 only decreased by 2 percentage point in Q1 of 2024, compared to the previous quarter.

⁷ The question was only answered by those companies that stated they had recently sought finance.

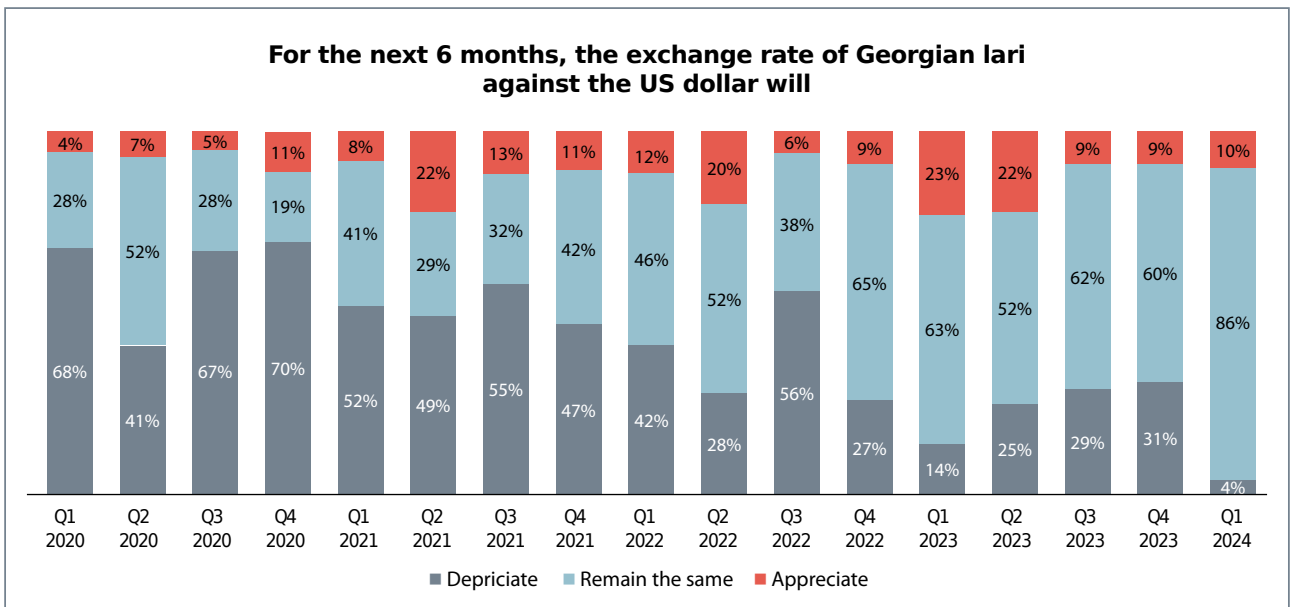
⁸ The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q1 of 2024, compared to Q4 of 2023, the share of companies expecting that the national currency would depreciate against the US Dollar decreased (by 26 percentage points). Moreover, in Q1 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 26 percentage points.

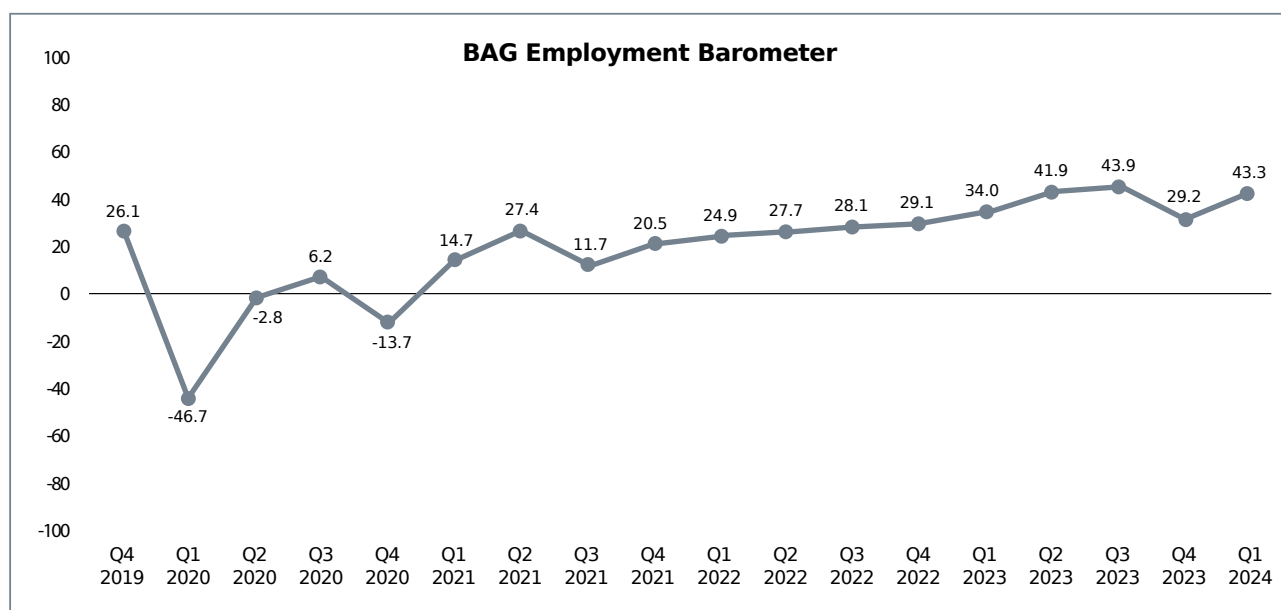


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months.⁹

IN Q1 OF 2024, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 43.3 POINTS, MARKING IMPROVEMENT, COMPARED TO THE Q1 OF 2023 (BY 9.3 POINTS) AND COMPARED TO Q4 OF 2023 (BY 14.1 POINTS).



Graph 21: BAG Employment Barometer

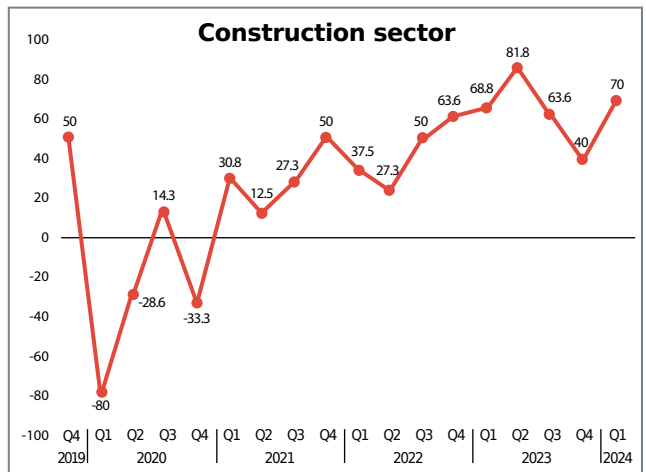
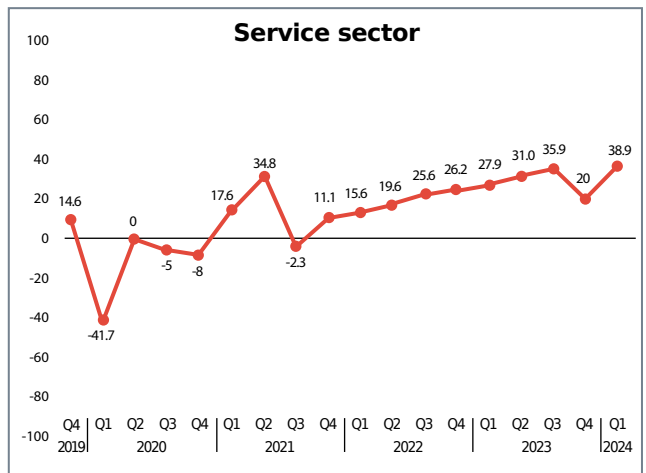
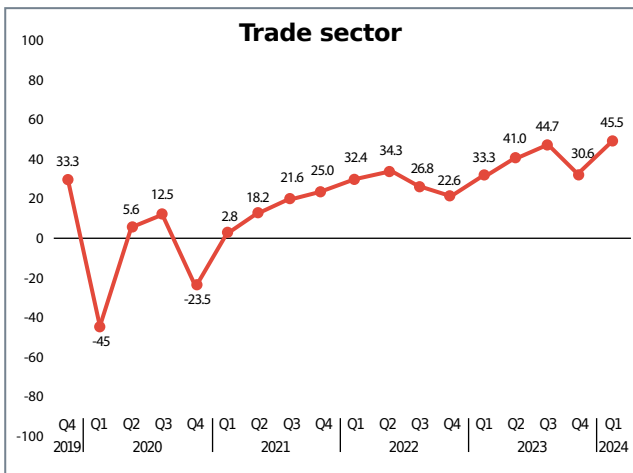
In Q1 of 2024, the BAG Employment Barometer was positive for all sectors. In Q1 of 2024, compared to Q4 of 2023, the employment barometer indicator increased in the construction (by 30.0 points), service (by 18.9 points), and trade (by 14.9 points) sectors. Meanwhile, the employment barometer indicator worsened in the manufacturing sector (by 21.4 points) (see graph 22).

In Q1 of 2024, compared to Q4 of 2023, the improvement of the employment barometer indicator in the construction, service and trade sectors can be associated with improved business expectations in these sectors.

⁹ 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.

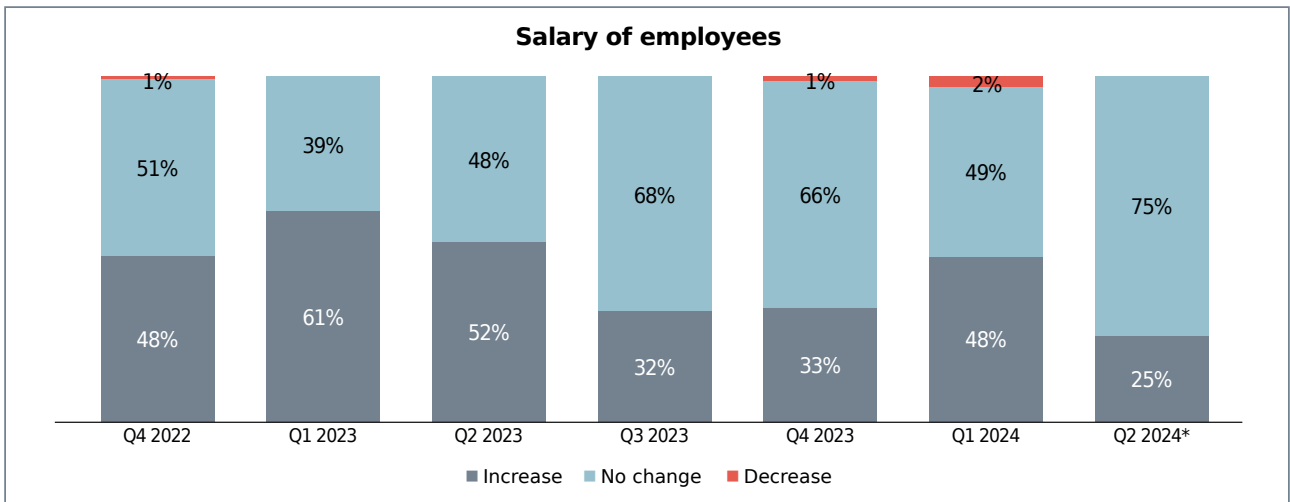
Table 2: Employment Barometer. Balance values by sector

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
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
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
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
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
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



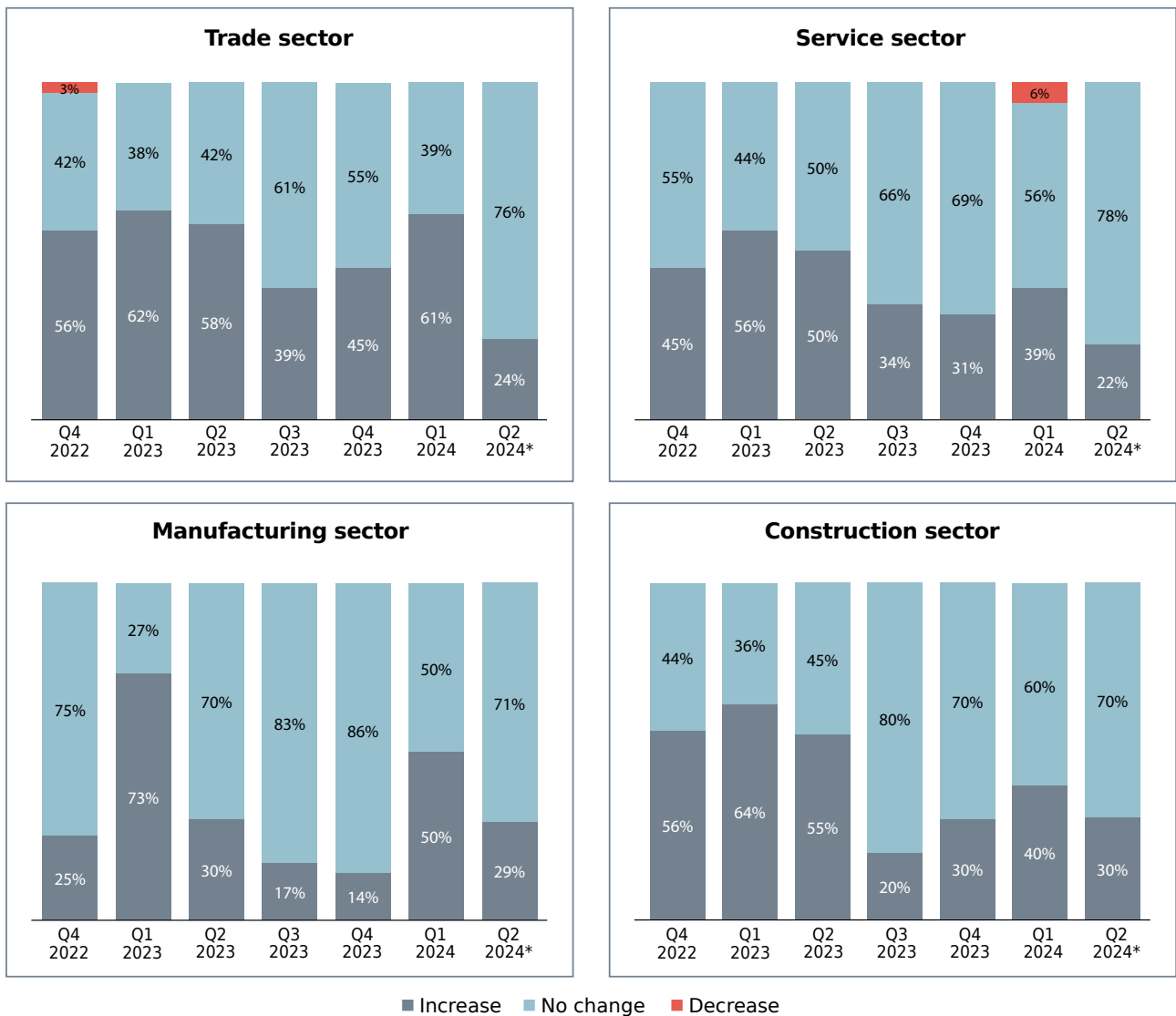
Graph 22: BAG Employment Barometer by sector

When examining employment, it is imperative to analyze the employee compensation dynamics in the process. The survey results revealed that 48% of companies raised their employees' salaries in the process. The survey results revealed that 48% of companies raised their employees' salaries in the process. The survey results revealed that 48% of companies raised their employees' salaries in the process. The survey results revealed that 48% of companies raised their employees' salaries in the process. Notably, 61% of the surveyed companies increased salaries of their employees in Q1 of 2023.



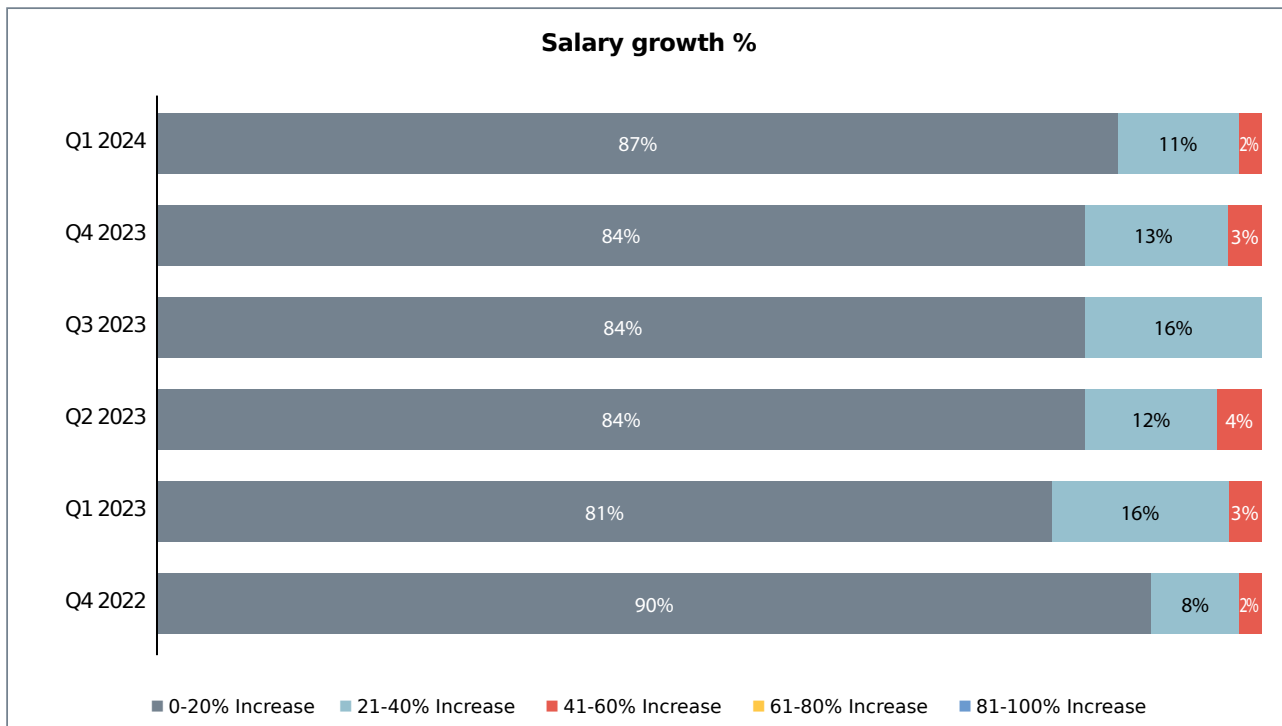
Graph 23: Salary of employees

By sector, in Q1 of 2024, the largest share of companies in the trade sector recorded an increase in the salaries of employees. In Q2 of 2024, the largest share of companies planning to increase the wages of employees was recorded in the construction sector 30% (See Graph 24).



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

In Q1 of 2024 most surveyed companies (87%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 2% of the surveyed companies increased the salaries of their employees by more than 40% (See Graph 25).



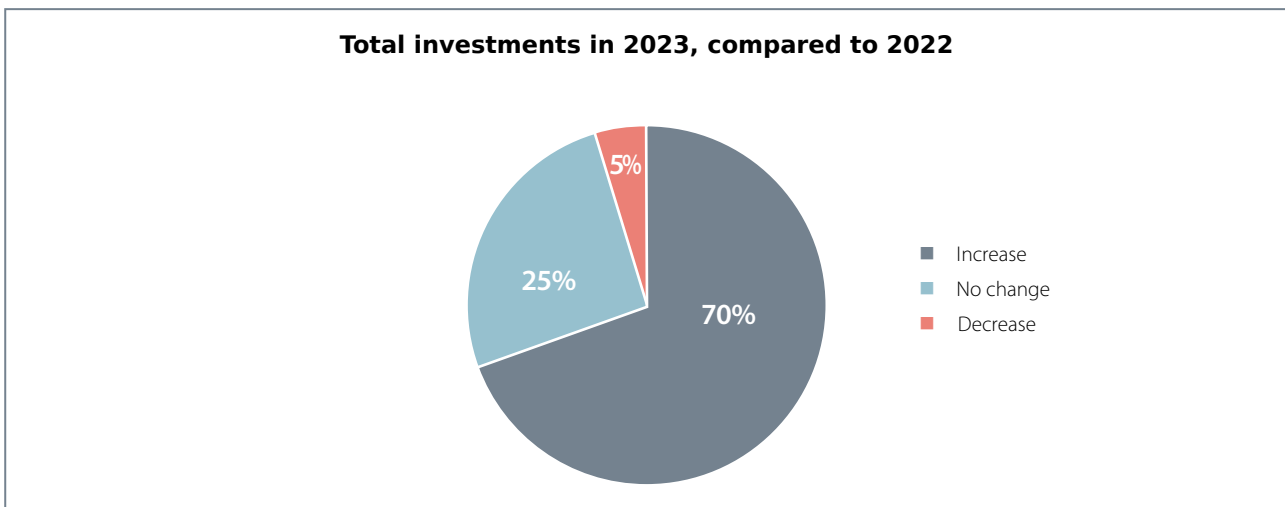
Graph 25: Growth (%) of salary of employees

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 first quarter of 2024 covered investments made by surveyed businesses in 2023 and their plans for 2024.

INVESTMENT ENVIRONMENT IN 2023

Overall, 70% of the surveyed businesses stated that their total investments had increased in 2023, compared to 2022. Meanwhile, 25% of the surveyed companies claimed their total investments were unchanged, while 5% stated their investments had decreased over the same period.



Graph 26: Investment environment in 2023

Amongst sectors, 76% of respondents in the trade sector stated that total investments increased in 2023, compared to 2022. At the same time, 69% of surveyed companies in the service and manufacturing sectors recorded an increase in total investments in this timeframe, while for the construction sector this figure was 50%.

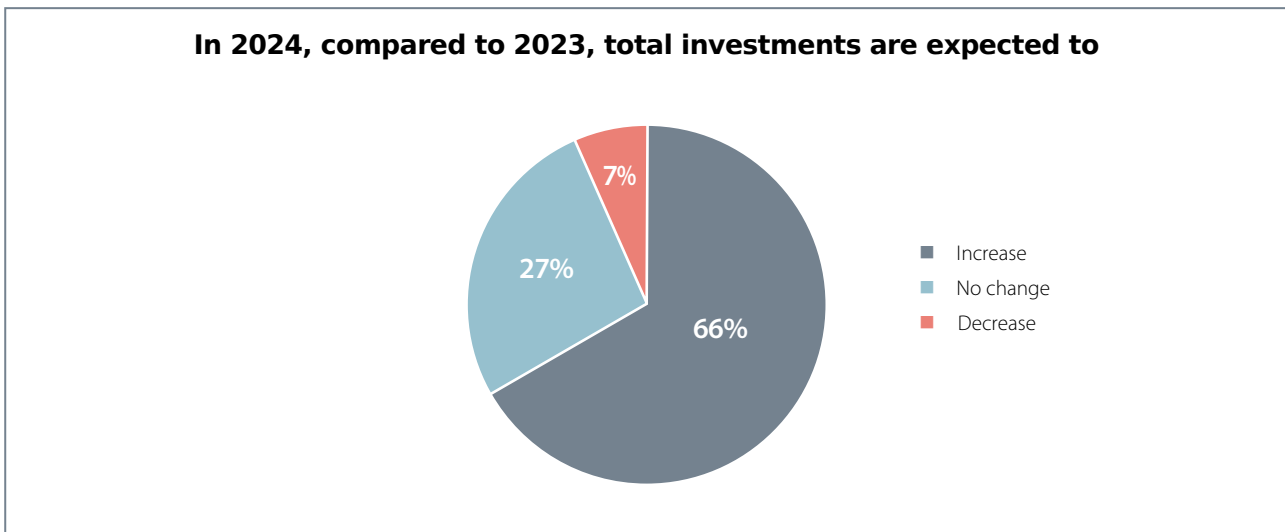
It must be mentioned that none of the companies in the trade sector reported a decrease in investments, while 23% of the companies in the manufacturing sector reported a decrease in total investments in 2023, compared to 2022. These figures for the construction and service sectors were 10% and 3% (for detailed information see graphs 28, 29, 30 and 31).

In 2023, the majority of companies recorded an increase in their total investments in equipment (65%). The increase in investments in software and databases (57%) and plants (52%) 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 (79%) stating an increase in their total investments in equipment among the four sectors. Notably, the trade sector was also performing better than other sectors regarding investments in software/databases (74% stating an increase) and plants (61%).

INVESTMENT PLANS FOR 2024

In Q1 of 2024, 66% of surveyed businesses are planning to increase their total investments in 2024, compared to 2023. At the same time, 27% of the surveyed companies expect no change in their total investments, while only 7% expect a decrease in total investments.

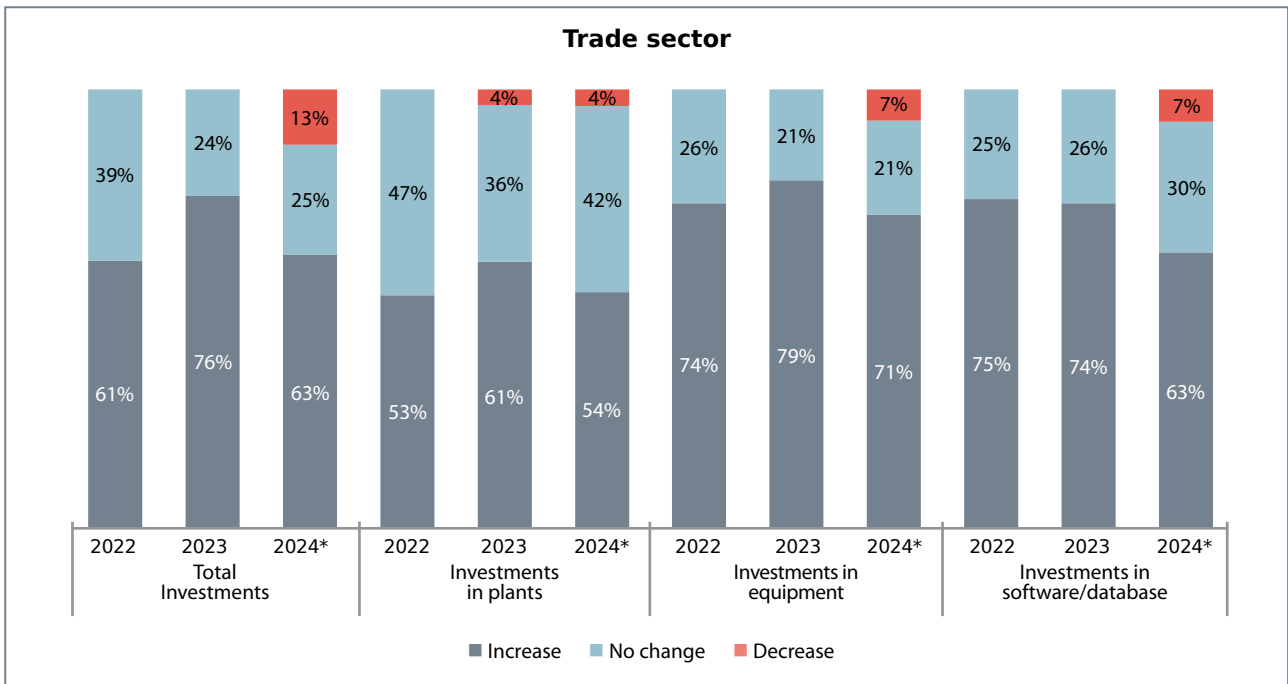


Graph 27: Investment plans of companies for 2024

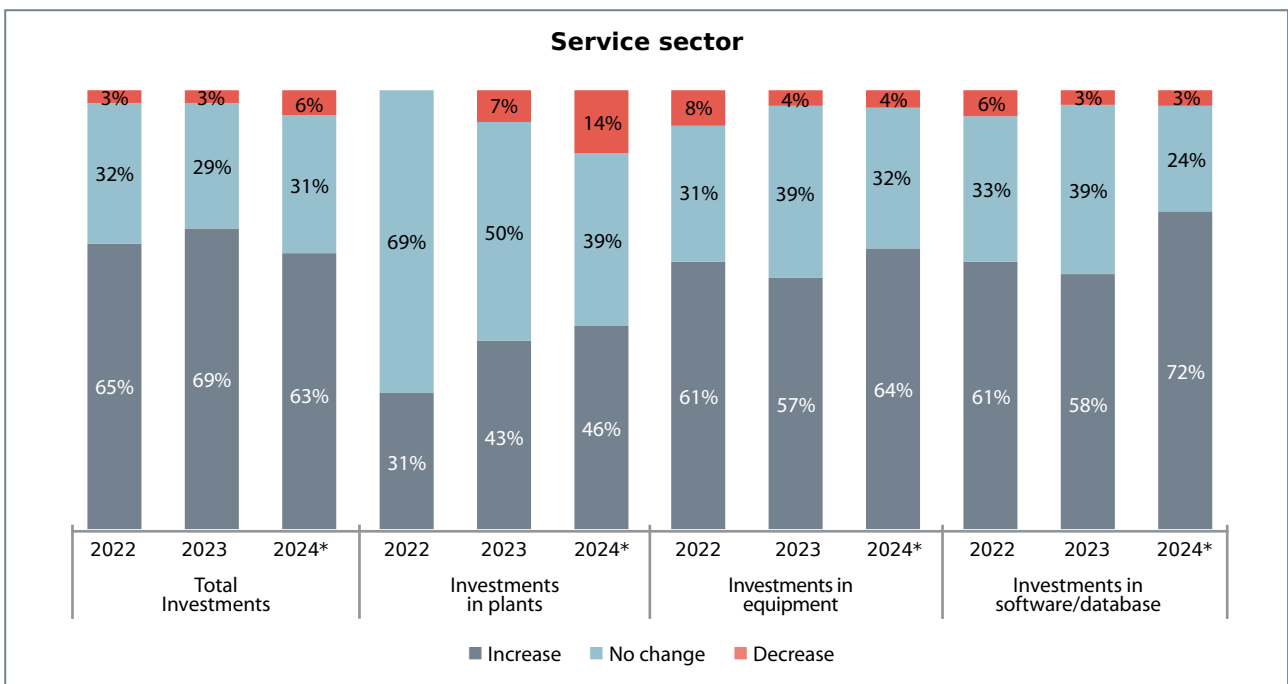
Amongst all four sectors, the construction sector conveyed the most optimistic expectations in the direction of investment for 2024. 90% of companies in the construction sector claimed that they will increase their total investment in 2024, compared to 2023. In the manufacturing sector, similar expectations are reported by 69% of the companies, while in service and trade sectors, this figure is equal to 63%.

In 2024, more positive expectations with regard to investments were recorded in equipment, while less positive expectations were recorded with regard to investments in software/databases and plants. 68% of the surveyed companies expect to increase their investments in equipment in 2024, compared to 2023. Meanwhile, 64% of the businesses have the same expectations for investments in software/databases. Moreover, 53% 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 expectation with regard to investments in equipment is conveyed in trade sector. In particular, 71% of the companies in trade sector plan to increase investment in equipment. Regarding the investments in software/databases, the most positive expectations are recorded in service sector with 72% of the companies planning to increase investments, while the most positive expectations regarding the investments in plants are recorded in construction sector (80%).



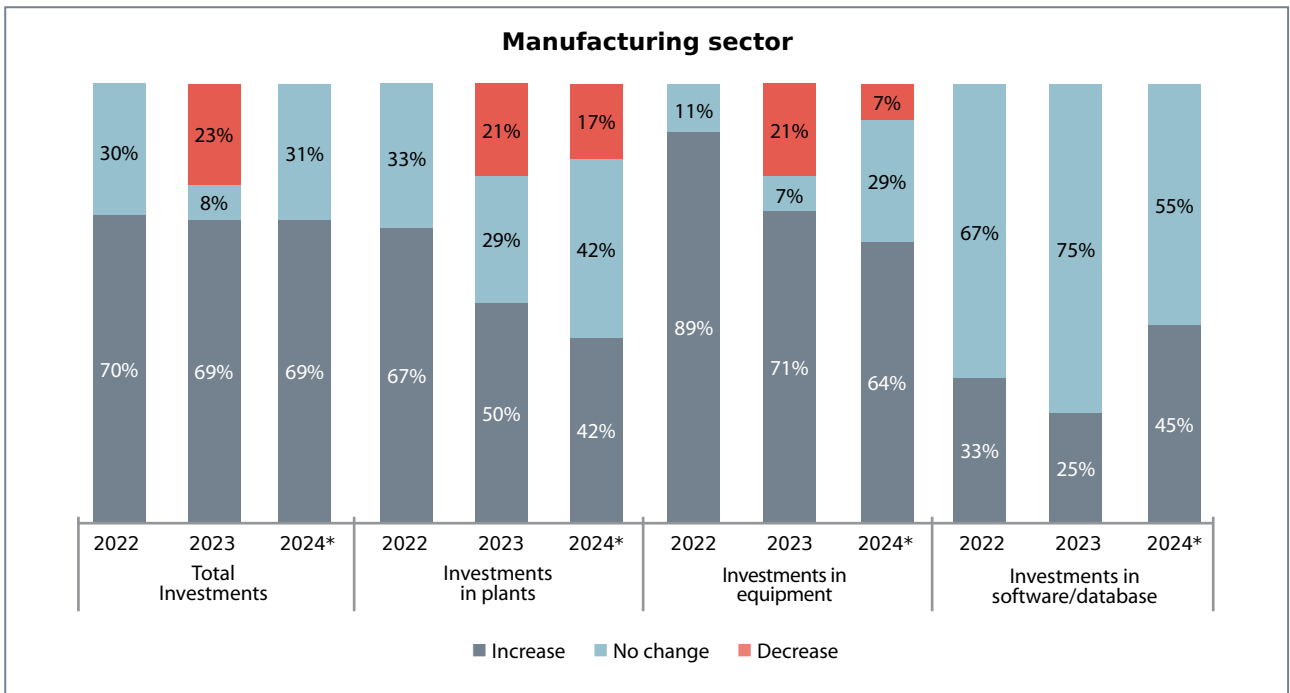
Graph 28: Investment environment in 2022 and 2023 and investment plans for 2024 in the trade sector (change compared to the previous year)¹⁰



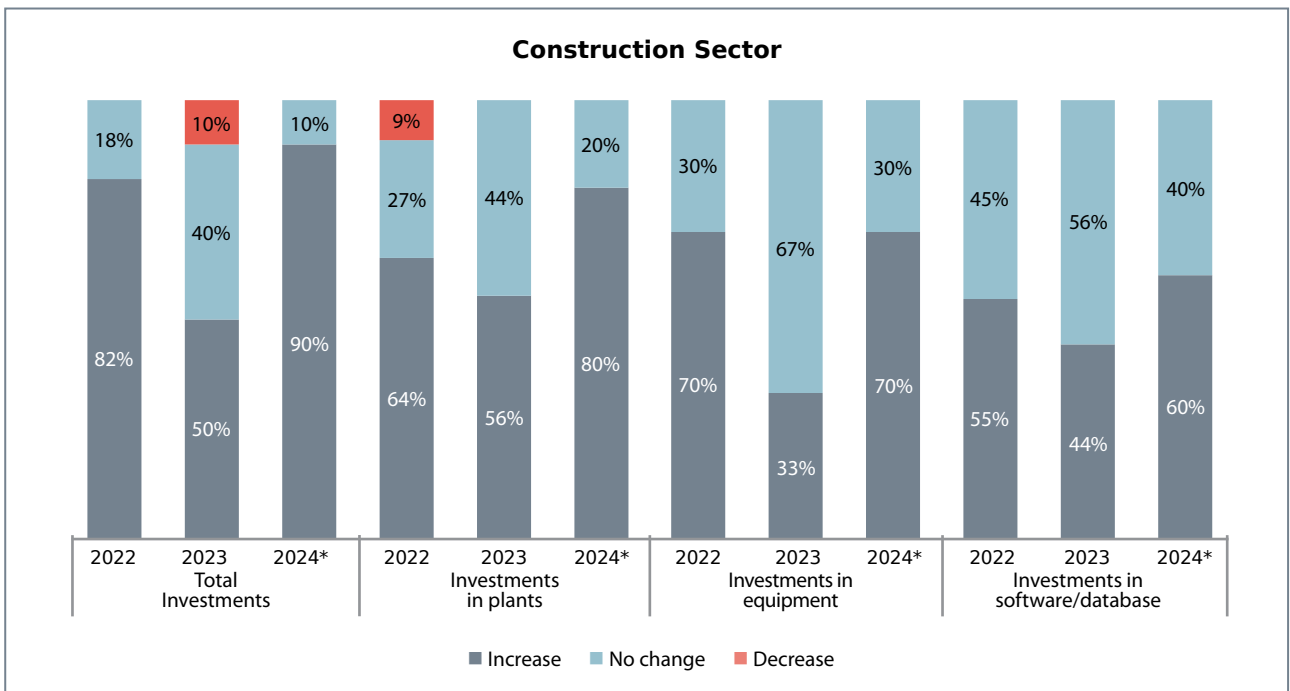
Graph 29: Investment environment in 2022 and 2023 and investment plans for 2024 in the service sector (change compared to the previous year)

¹⁰ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.

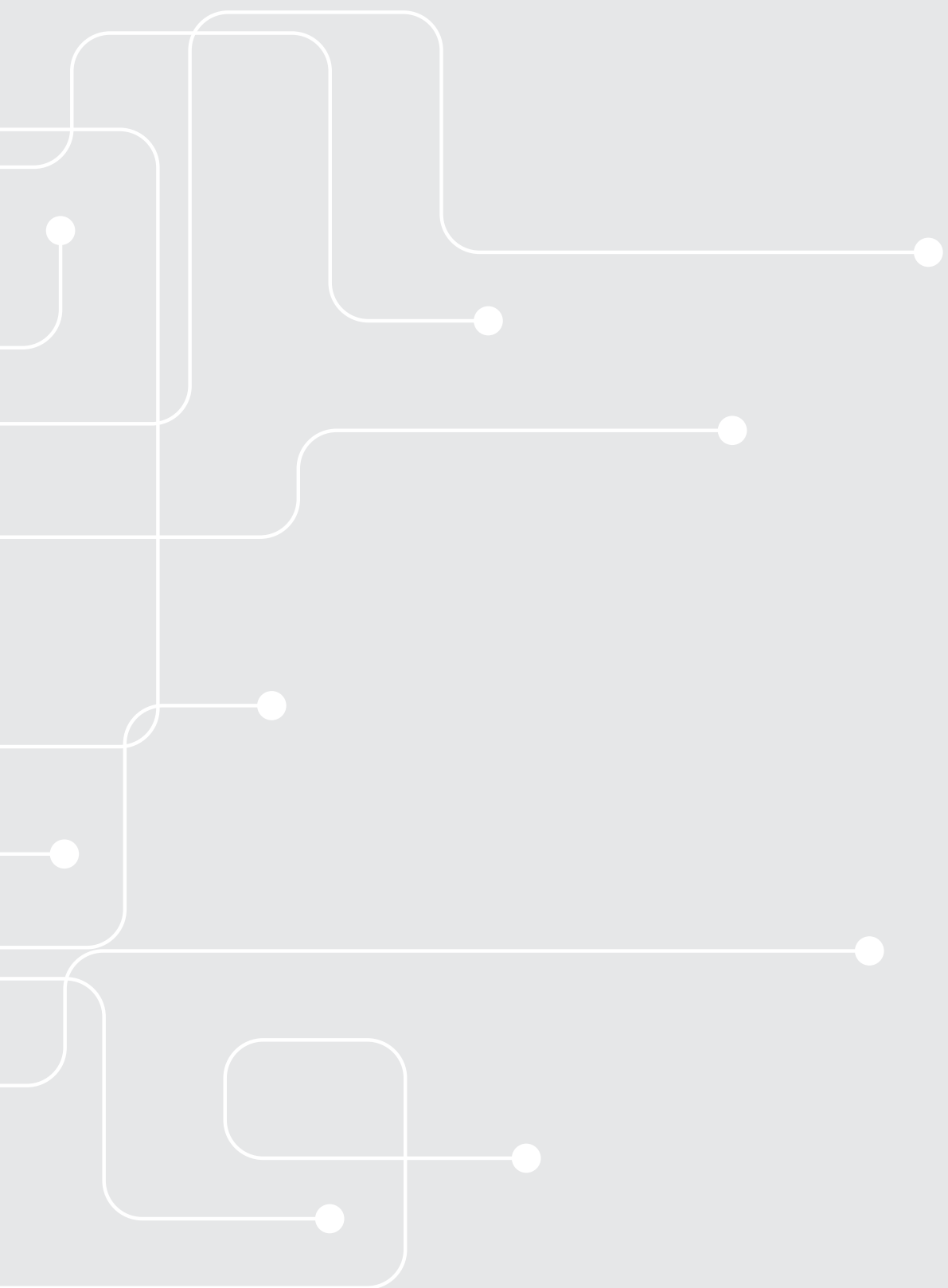
* Expectation.



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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