

BAG INDEX



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA



Leibniz Institute for Economic Research
at the University of Munich



Research

II QUARTER 2024

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**

**II 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, and exchange rate expectations. 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 Q2 of 2024 in the period 20 May – 9 June.

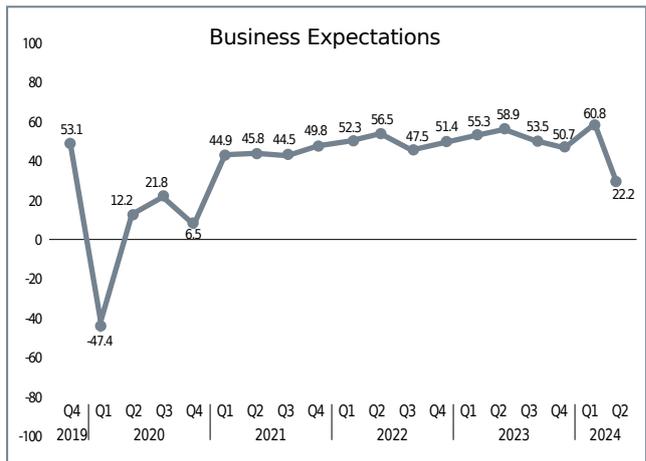
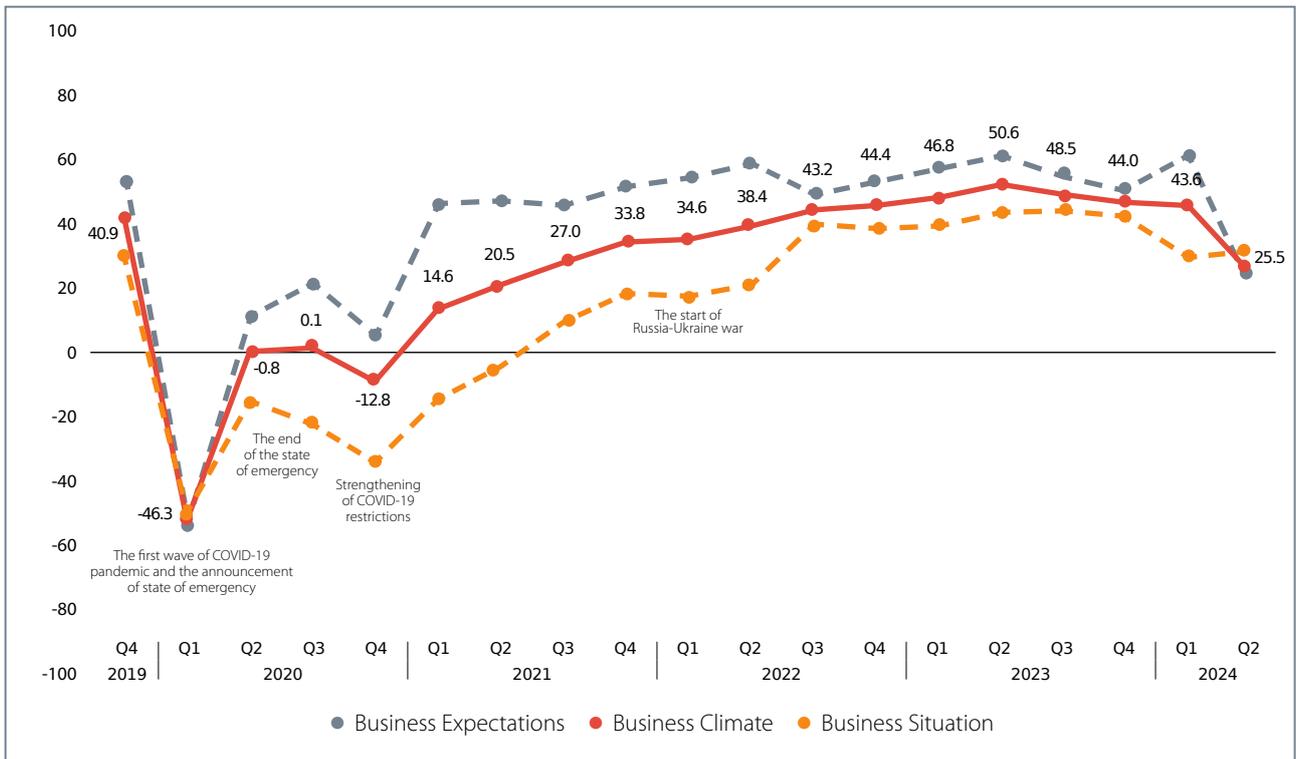
IN Q2 OF 2024, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 25.5 POINTS IN Q2 OF 2024, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 28.9 AND THE BUSINESS EXPECTATIONS INDICATOR AT 22.2.

In Q2 of 2024, compared to Q1 of 2024, the BAG Business Climate declined by 18.0 points. Moreover, in this period, the assessment of the present business situation worsened by 1.4 points, and business expectations declined by 38.6 points.

The figures for Q2 of 2024 demonstrate a significant deterioration compared to Q2 of 2023. In Q2 of 2023, the BAG Business Climate indicator was 50.6. The present business situation (42.6) and the business expectations indicators also decreased (58.9) (see graph 1).

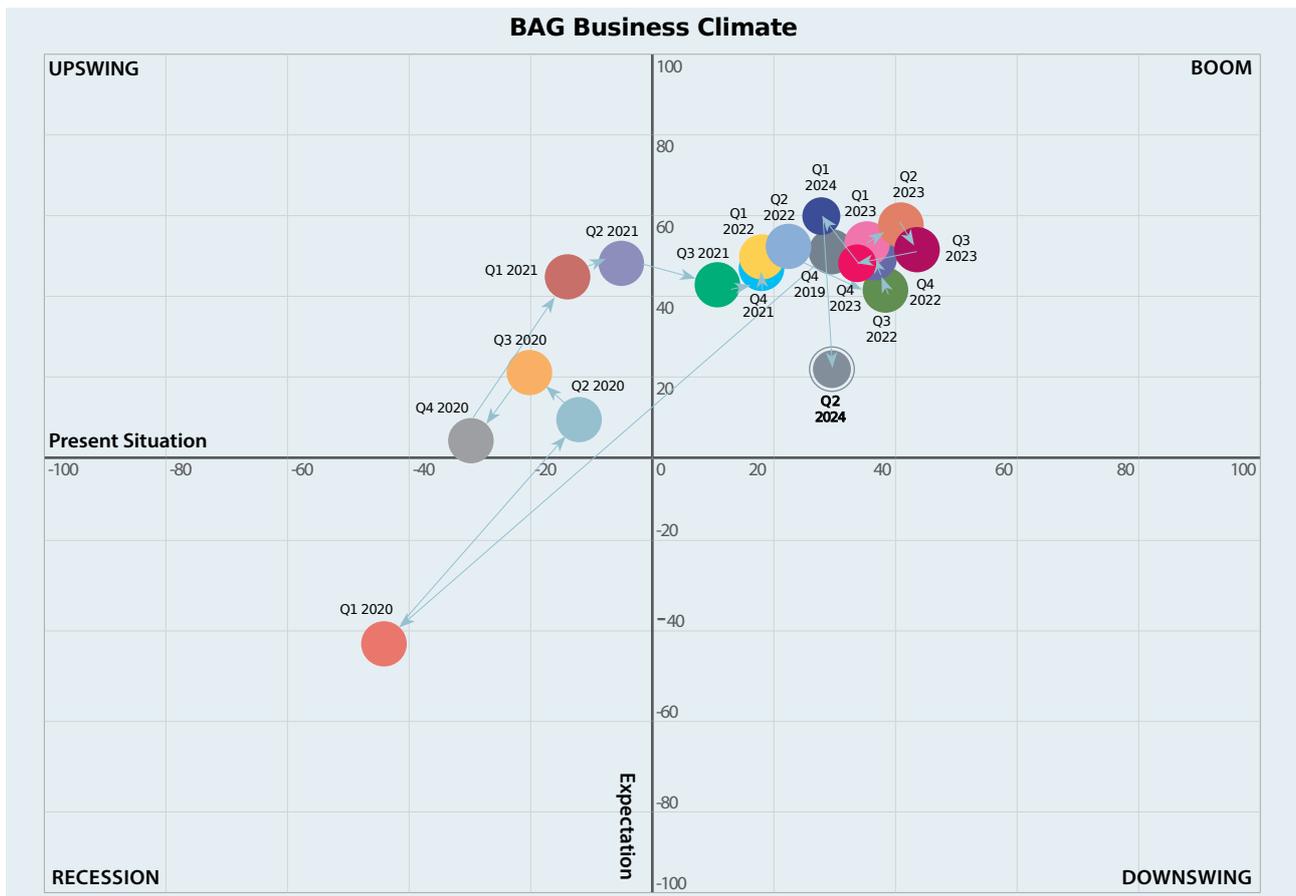
¹ In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

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 Q2 of 2024, as in Q1 of 2024, the BAG Business Climate Indicator is in **the boom phase**.



Graph 2: BAG Business Climate³

BAG BUSINESS CLIMATE BY SECTOR

In Q2 of 2024, the **business climate indicator** was positive for all sectors. Compared to Q1 of 2024, in Q2 of 2024, the indicator improved in the manufacturing sector but worsened in the trade, construction and service sectors (see Graph 3).

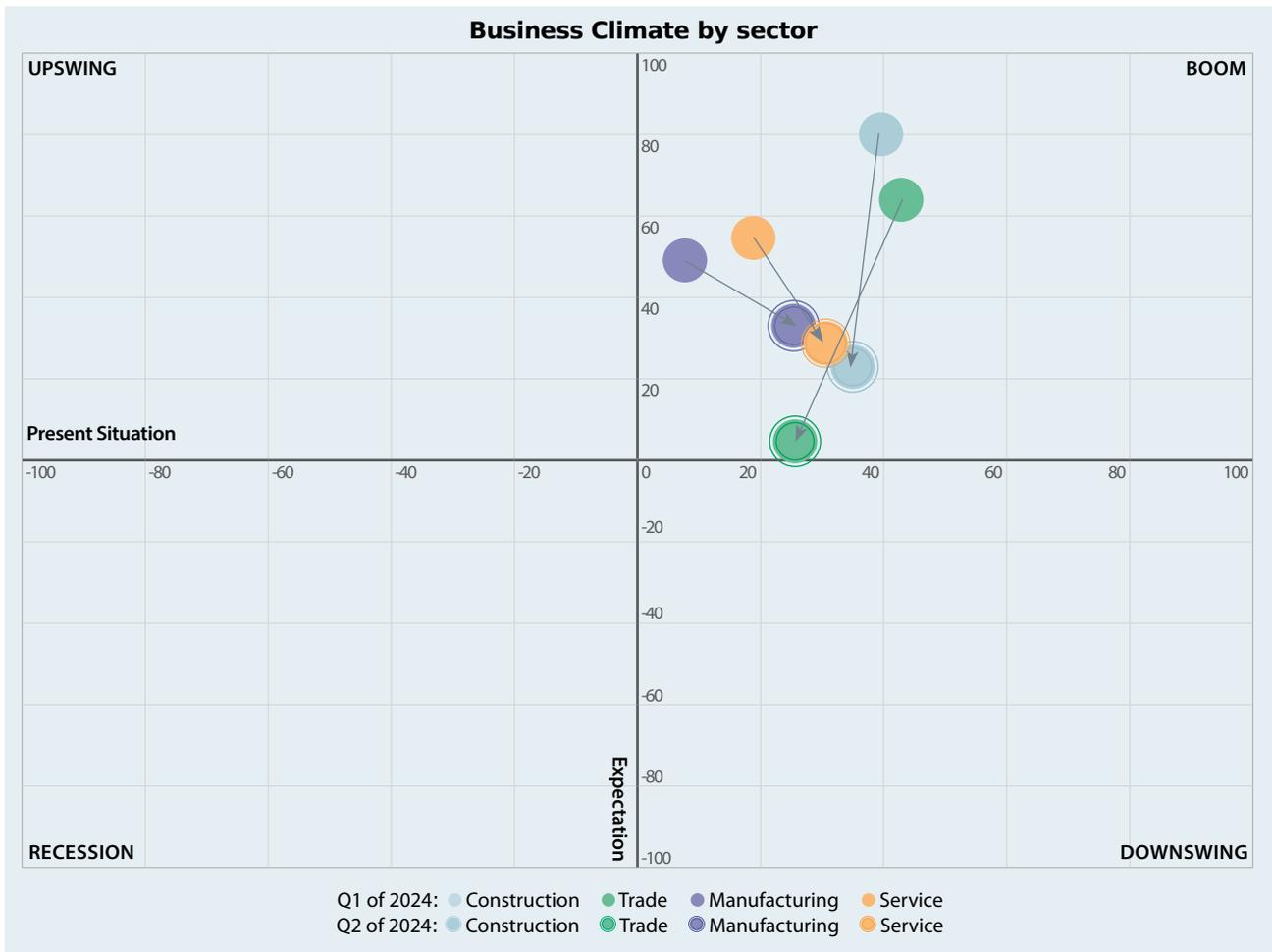
In Q2 of 2024, compared to Q1 of 2024, the **present business situation indicator** worsened in the trade (by -17.4 points) and construction (by -4.7 points), but improved in the manufacturing (by 17.9 points) and service (by 11.7 points) sectors. In Q2 of 2024, the **business expectations indicator** worsened in all four – trade (by -60.5 points), construction (by -56.5), service (by -26.0), and manufacturing (by -12.5) sectors.

It is worth noting that in Q2 of 2024, the present business situation indicator was highest in the construction sector and lowest in the trade and manufacturing sectors. Among the sectors, the most positive business expectations were recorded in the manufacturing sector, while the most negative expectations were observed in the trade 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 Q2 of 2024

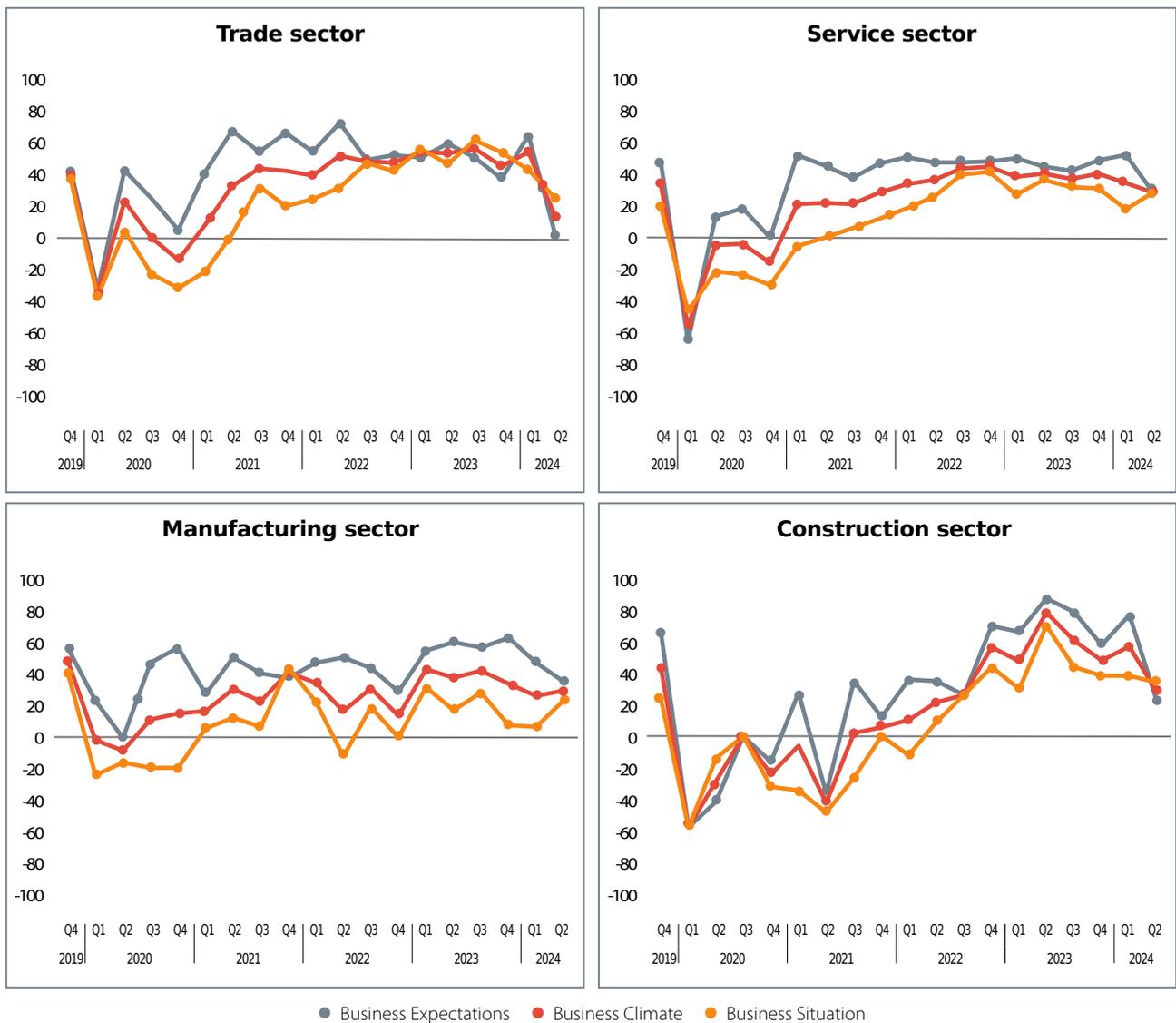
Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	13.8	25.0	3.1
Service Sector	31.1	31.1	31.1
Manufacturing Sector	31.2	25.0	37.5
Construction Sector	29.3	35.3	23.5
All Sectors	25.5	28.9	22.2



Graph 3: Business climate by sector in Q1 and Q2 of 2024

In Q2 of 2024, compared to Q2 of 2023, the business climate indicator declined in all four sectors, especially in the construction (by -52.3 points) and trade (by -38.7 points) sectors. In both sectors, a decrease in business climate indicators is associated with deteriorated business expectations.

It should be noted that from Q1 of 2023 until Q2 of 2024, compared to the corresponding periods of previous years, the business climate indicator in the construction and trade sectors showed an increasing tendency. As for the manufacturing and service sectors, a negative dynamic has been recorded since Q1 of 2024 in the manufacturing sector and since Q3 of 2023 in the service sector (see Graph 4).

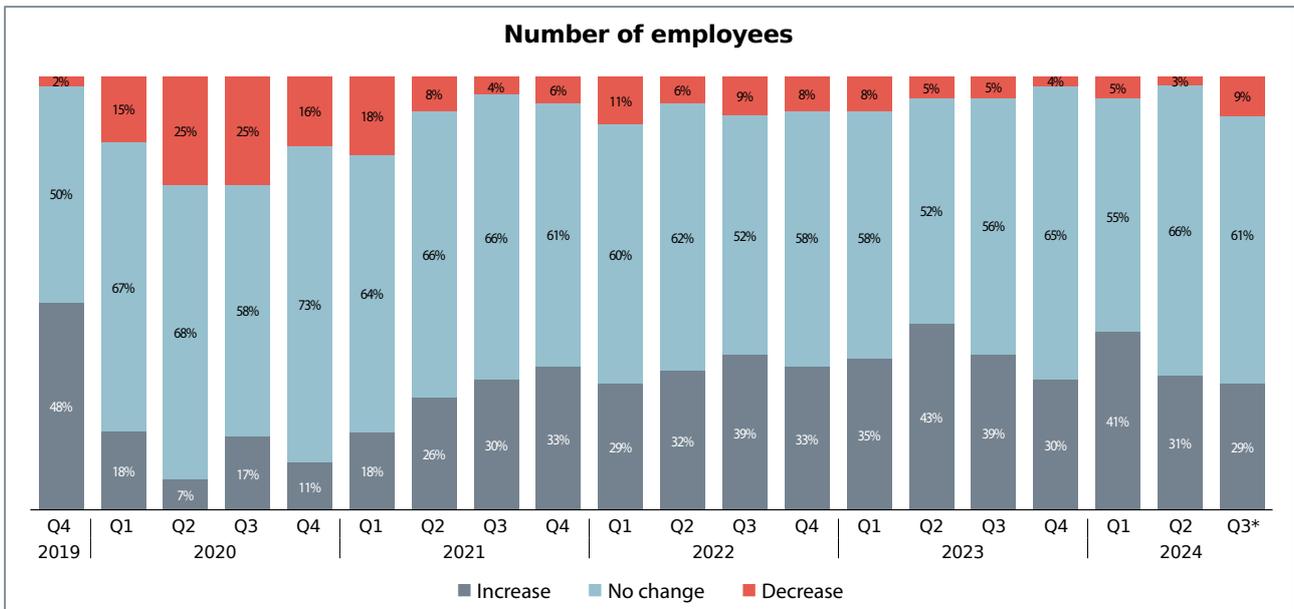


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

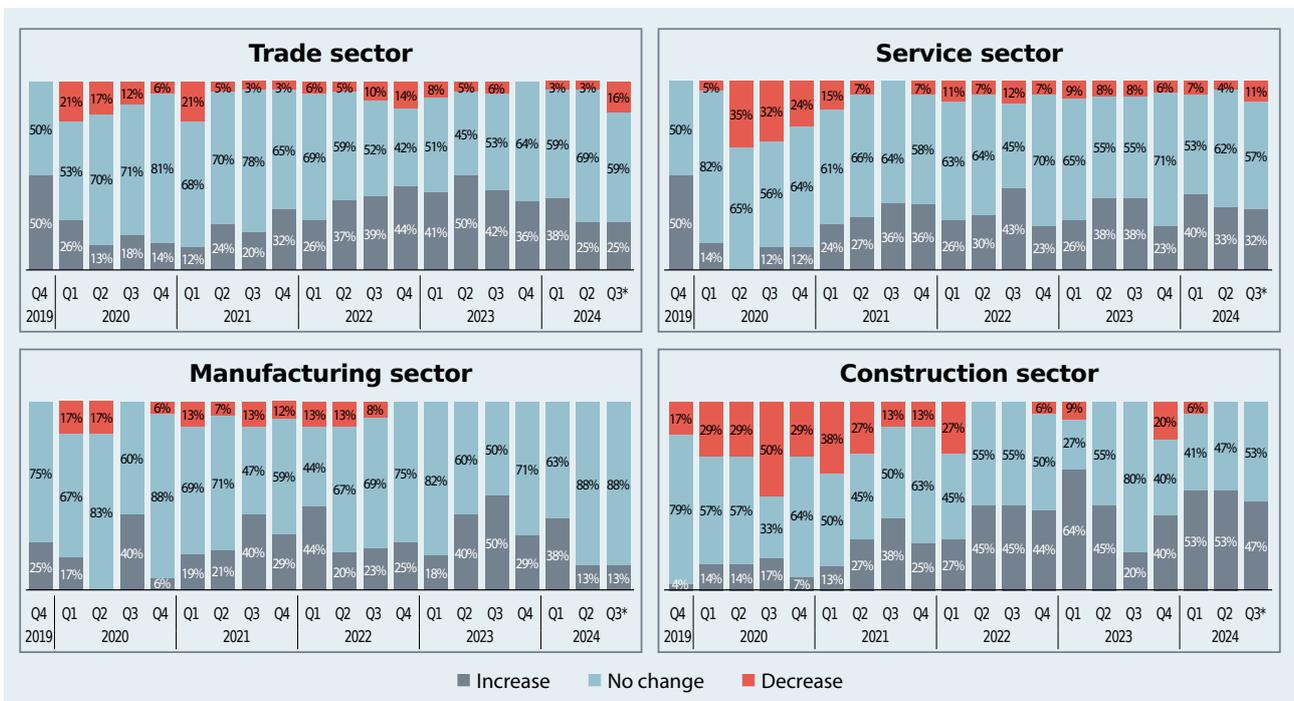
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- ✘ 31% of surveyed companies stated that the number of employees increased in Q2 of 2024. As for the expectations for Q3 of 2024, 29% expect the number of employees to increase (see Graph 5).
- ✘ Across the sectors covered, the situation regarding employment in Q2 of 2024 is most positively assessed in the construction sector. Additionally, the expectations for Q3 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

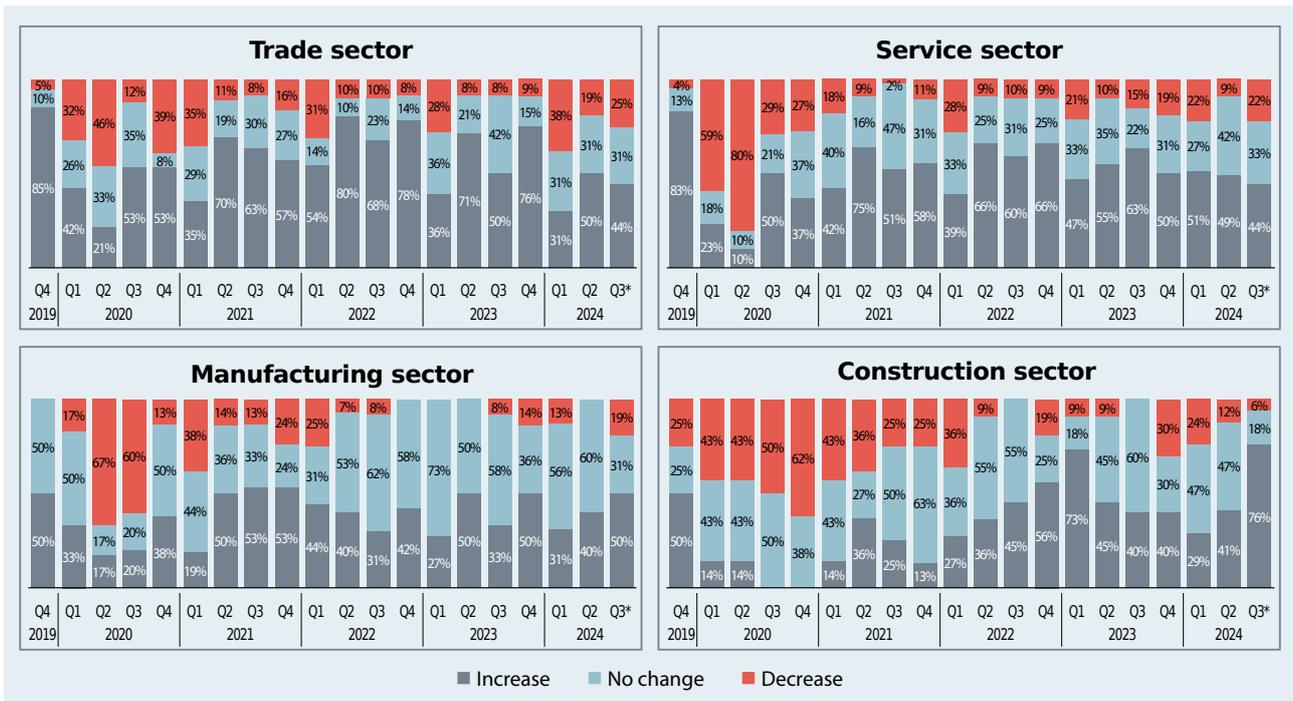


Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- ✘ The situation in Q2 of 2024 regarding sales was assessed most positively in the trade sector. As for the expectations in Q3 of 2024, the situation was most positively assessed in the construction sector (see Graph 7).

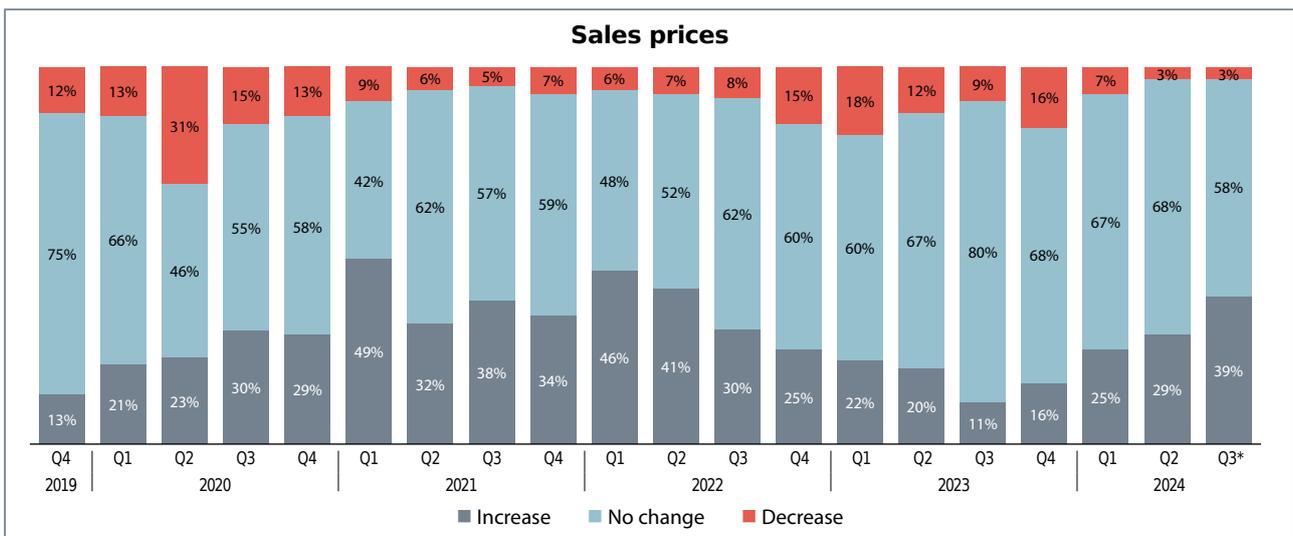
⁴ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.
*Expectation.



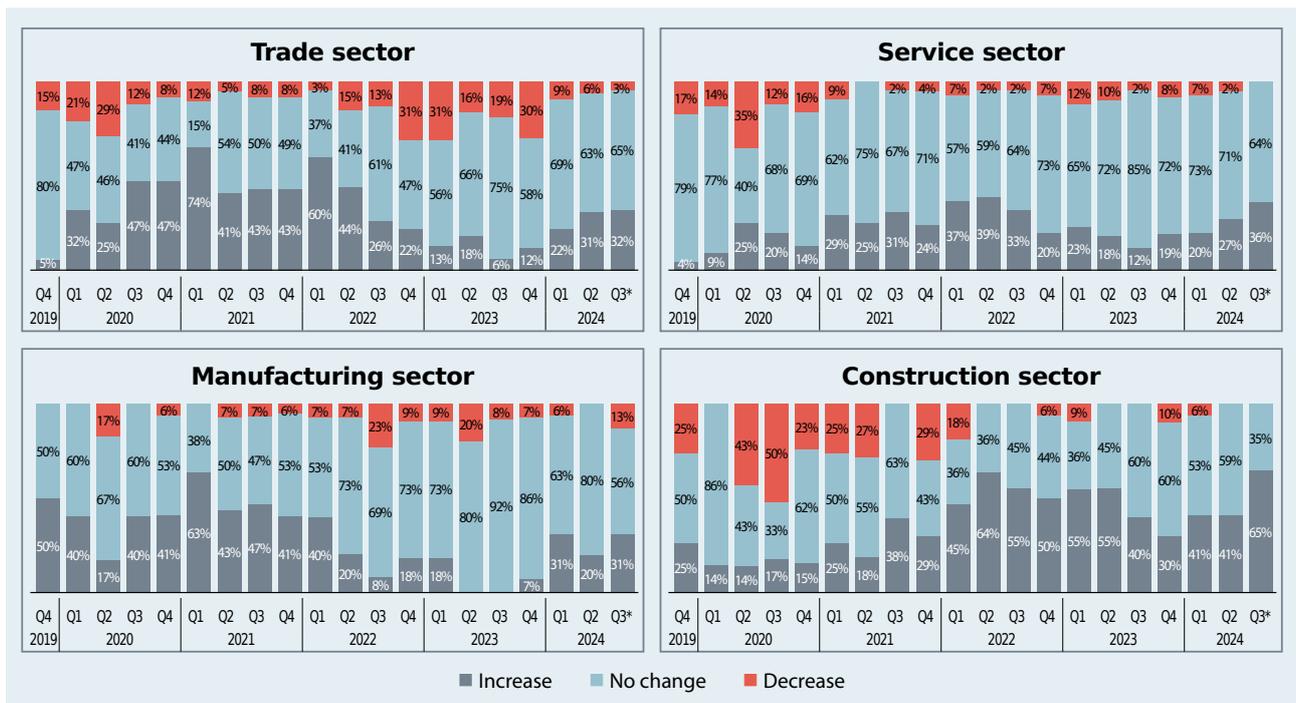
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✘ In Q2 of 2024, 29% of surveyed companies increased sales prices, and 39% of the companies expect the prices to rise in Q3 of 2024 (see Graph 8).
- ✘ Among sectors, in Q2 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 Q3 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 manufacturing sector, in which only 20% of the companies stated that they increased prices in Q2 of 2024.



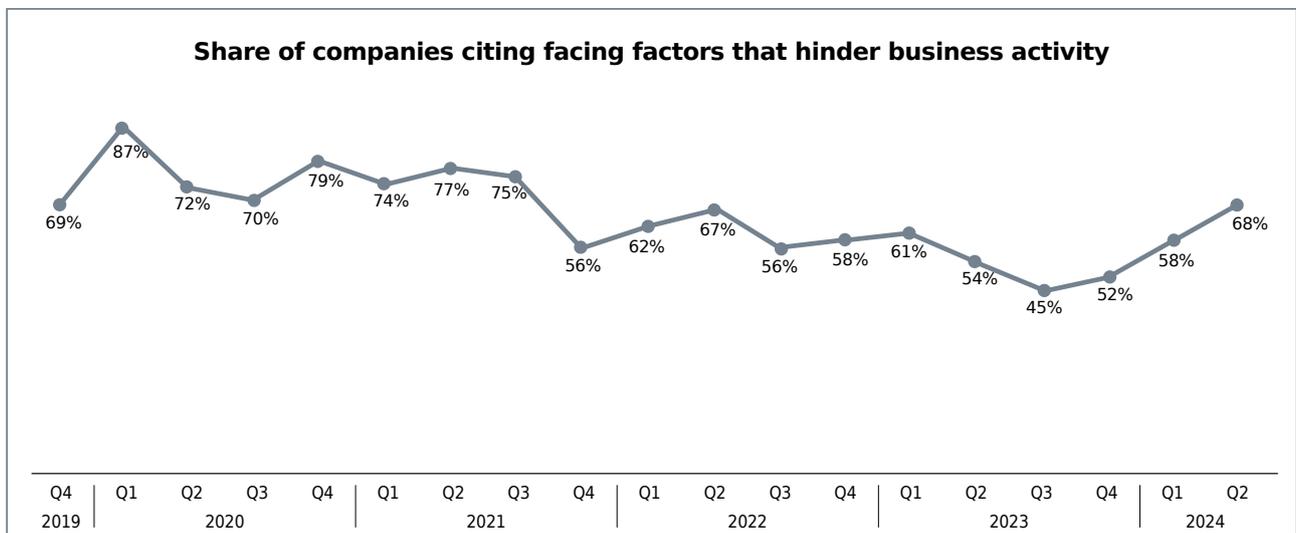
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

FACTORS HINDERING BUSINESS ACTIVITY

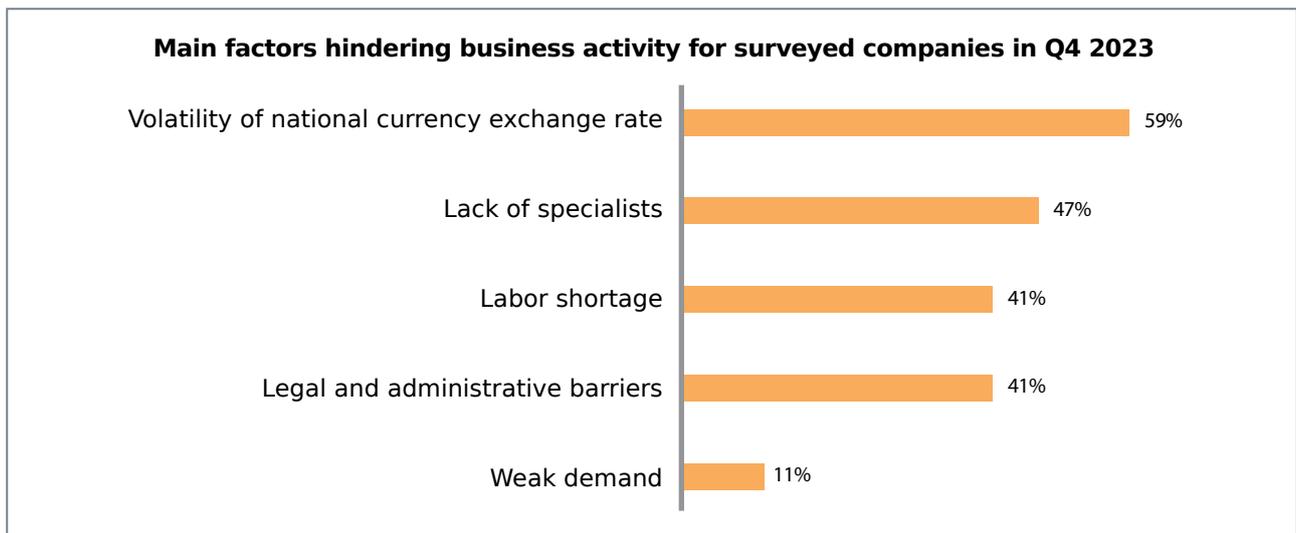
In Q2 of 2024, compared to Q1 of 2024, the share of surveyed companies claiming that there are factors hindering their business activity increased by 10 percentage points.



Graph 10: Existence of factors hindering business activity

In Q2 of 2024, the following five factors were emphasized as the most hindering for business activity: volatility of national currency exchange rate⁵, lack of specialists, labor shortage, legal and administrative barriers and weak demand (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 Q2 2024

In Q2 of 2024, **volatility of the national currency exchange rate** was cited as the top factor hindering business activities (59% 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 trade sector (79%), while it was considered the least hindering for the service sector (42%) (see Graph 12). In terms of the size of the enterprise ⁶, a volatility of the national currency exchange rate was most cited by small enterprises as a factor hindering business activity (65%) (see Graph 13).

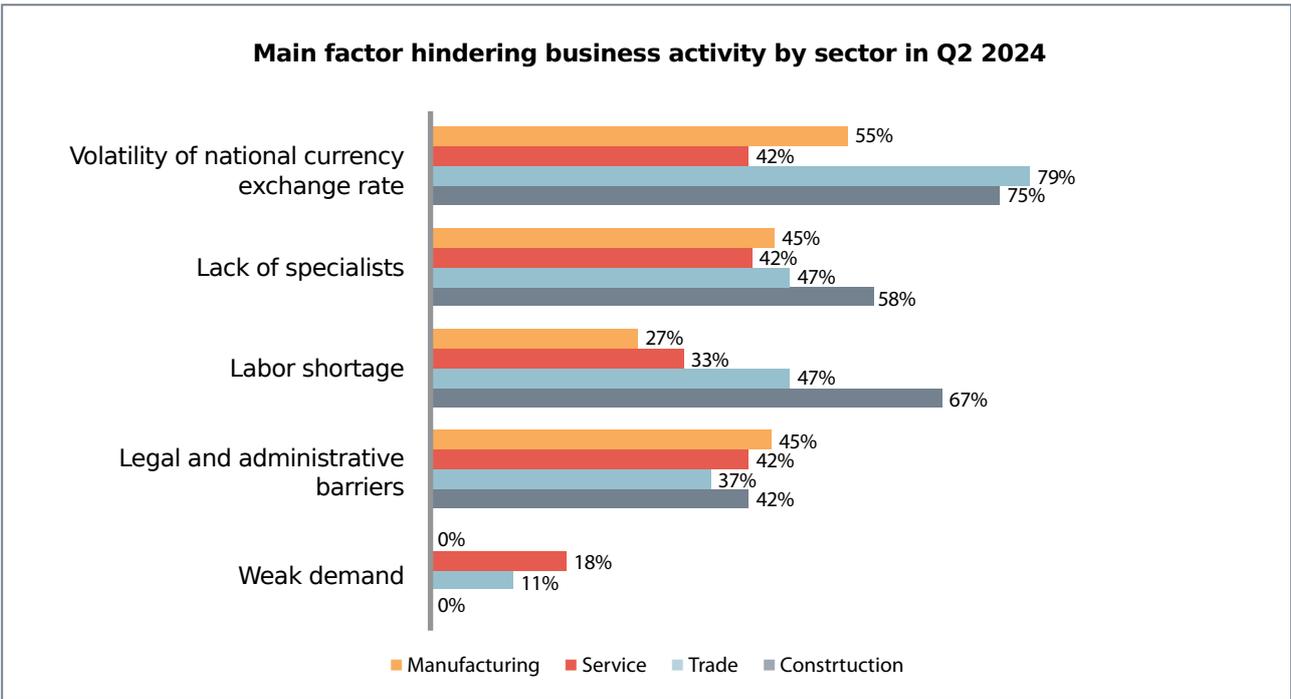
In Q2 of 2024, **lack of specialists** was cited as a hindering factor by 47% of surveyed companies. This issue was felt most acutely in the construction sector (58%), while it was less of a hindrance for the service sector (42%). In terms of the size of the enterprise, lack of specialists was considered the most problematic for medium enterprises (cited by 58% of them as a hindering factor).

In Q2 of 2024, **labor shortage** was cited as a hindering factor by 41% of surveyed companies. Across the covered sectors, this factor was deemed the most hindering for the construction sector (67%), while it was less of a hindrance for the manufacturing sector (27%). In Q2 of 2024, labor shortage was considered the most problematic for large enterprises (cited by 45% of them as a hindering factor).

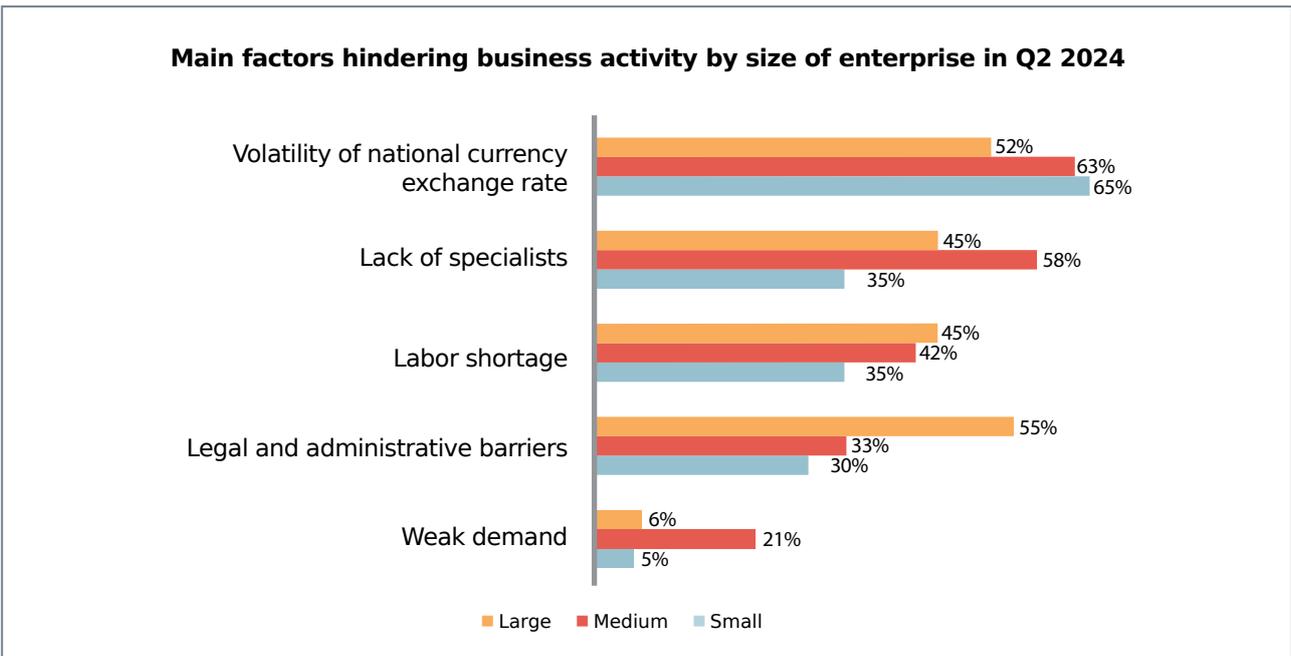
In Q2 of 2024, **legal and administrative barriers** were cited as a hindering factor by 41% of surveyed companies. This issue was felt most acutely in the manufacturing sector (45%), while it was less of a hindrance for the trade sector (37%). The legal and administrative barriers were considered the most problematic for large enterprises (cited by 55% of them as a hindering factor).

In Q2 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 medium enterprises (21%).

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 Q2 2024

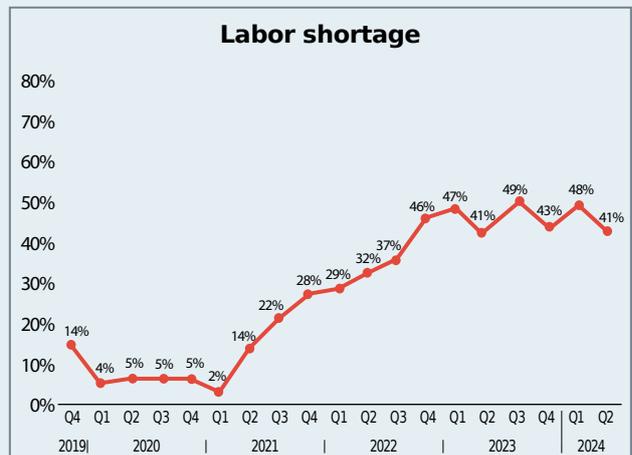
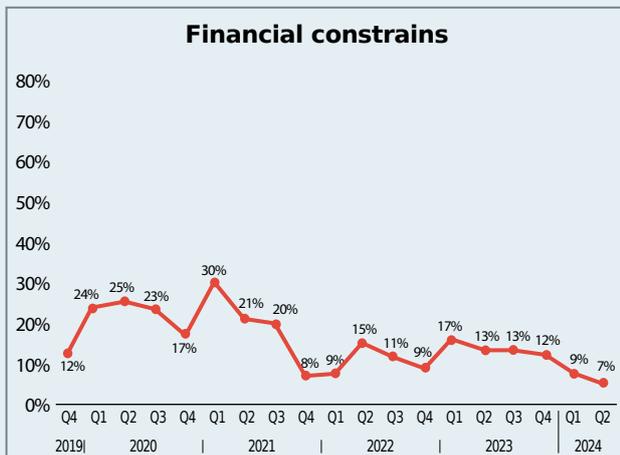
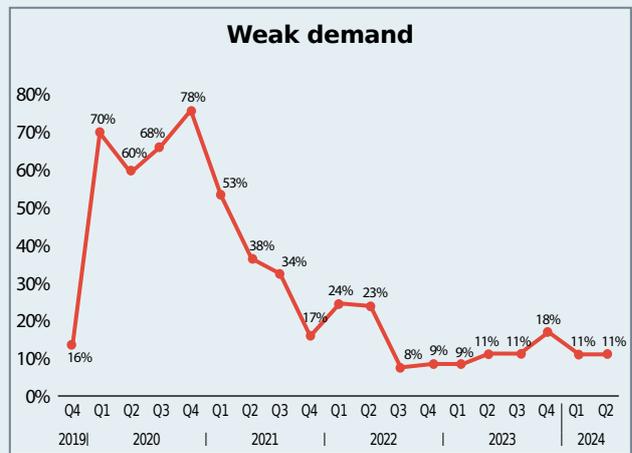
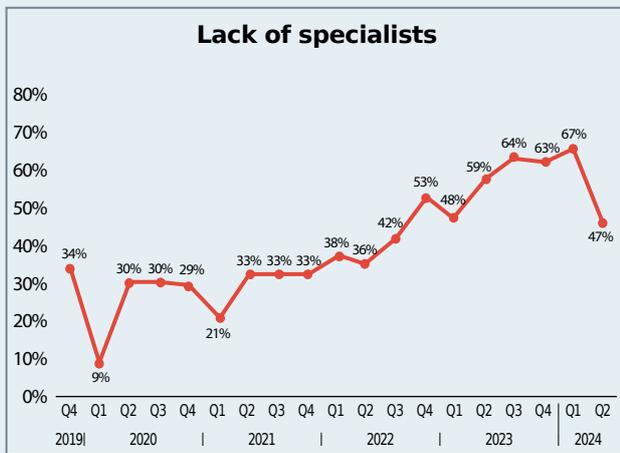
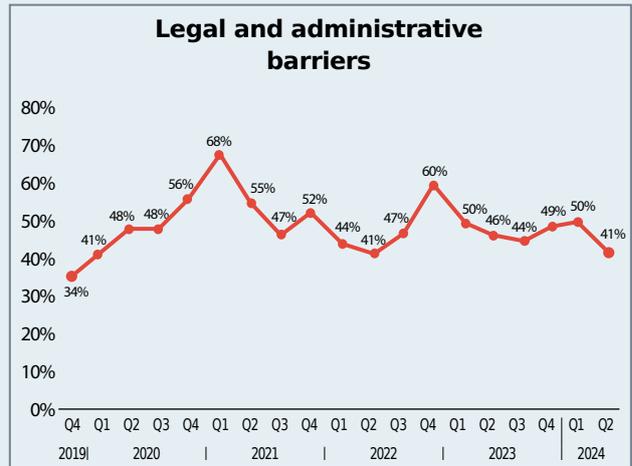
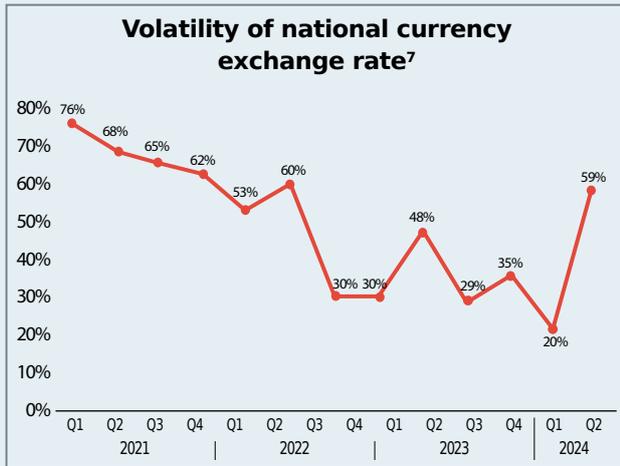


Graph 13: Main factors hindering business activity by the size of the enterprise in Q2 2024

In Q2 of 2024, compared to the previous quarter, among the factors hindering business activity, the share of companies citing the Volatility of National Currency Exchange Rate as a hindrance increased the most (by 39 percentage points). Meanwhile, the share of companies citing Lack of Specialists as a hindering factor decreased the most (by 20 percentage points) (See Graph 14).

In Q2 of 2024, 14% of surveyed companies cited the instability of the country as an additional factor hindering business activities. These companies cite market unpredictability, potential outflow of specialists, and growing investor concerns as issues associated with the instability.

Hindering factors for business activity Q4 2019-Q2 2024



Graph 14: Main hindering factors for surveyed companies

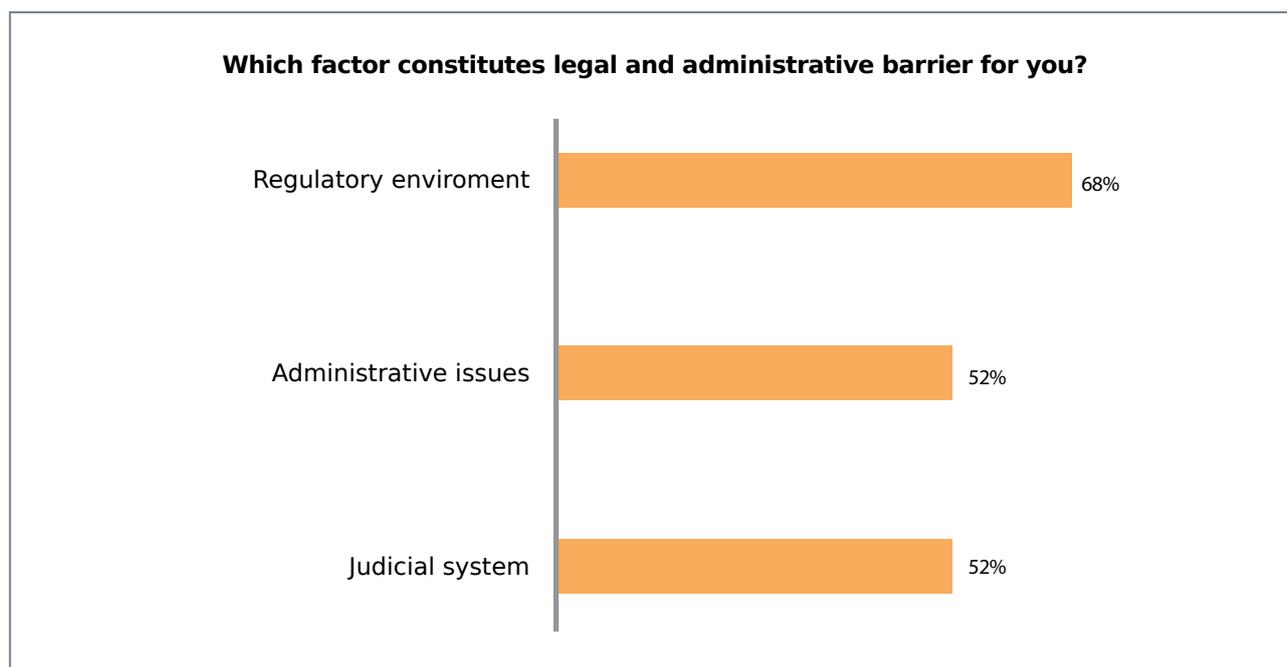
⁷ Volatility of national currency exchange rate as a factor hindering business was added to the survey questionnaire in Q4 of 2021.

The main factors determining legal and administrative barriers for business

In Q2 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 manufacturing sector (100%), and least cited in the construction sector (40%).

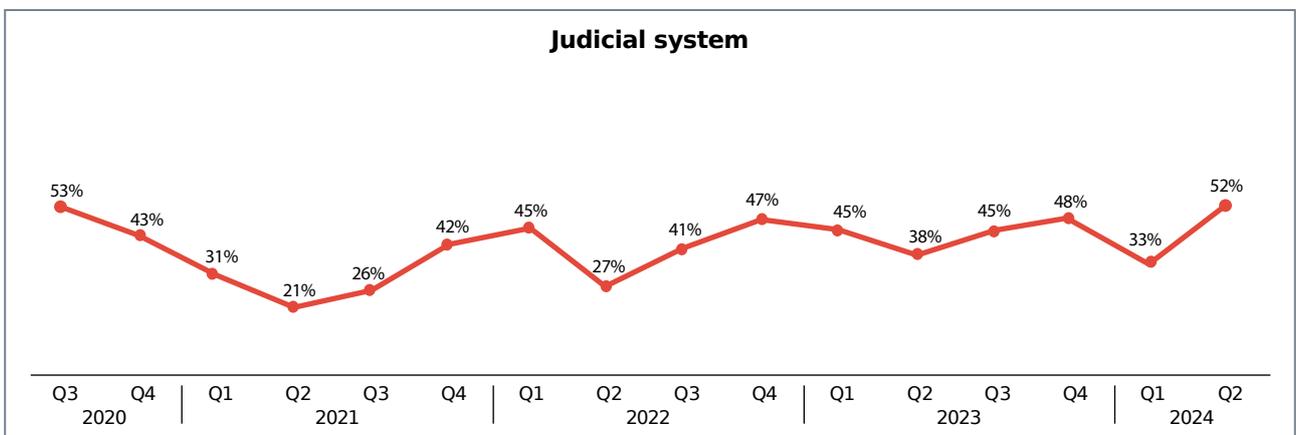
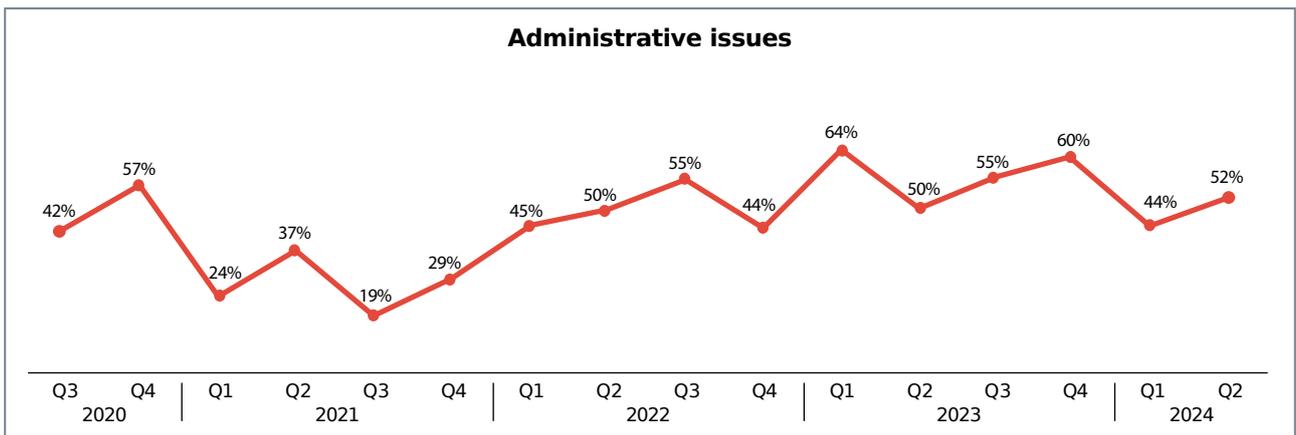
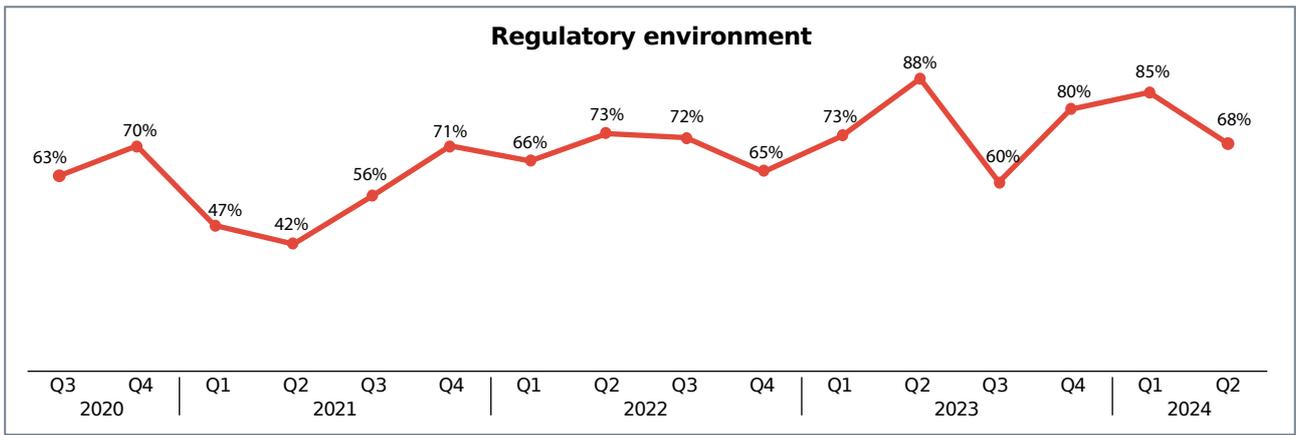
Among legal and administrative barriers, **administrative issues** were the second-most cited hindering factor. This was deemed the most hindering in the construction sector (60%), while it was least cited in the manufacturing sector (20%).

Meanwhile, the **judicial system** was the most cited as a hindering factor under legal and administrative barriers in the manufacturing sector (80%), while it was least cited in the trade sector (14%).



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

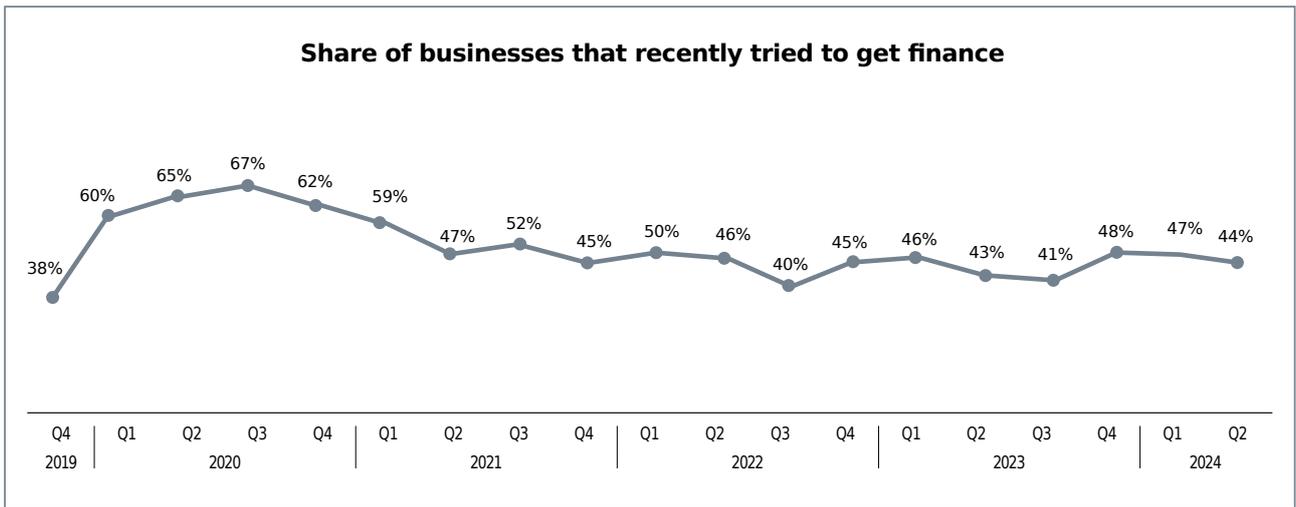
In summary, in Q2 of 2024, compared to the previous quarter, the share of companies to cite judicial system and administrative issues as hindering factors increased (by 19 and 8 percentage points respectively). Meanwhile, the share of companies to cite regulatory environment as hindering factor decreased (by 17 percentage points).



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

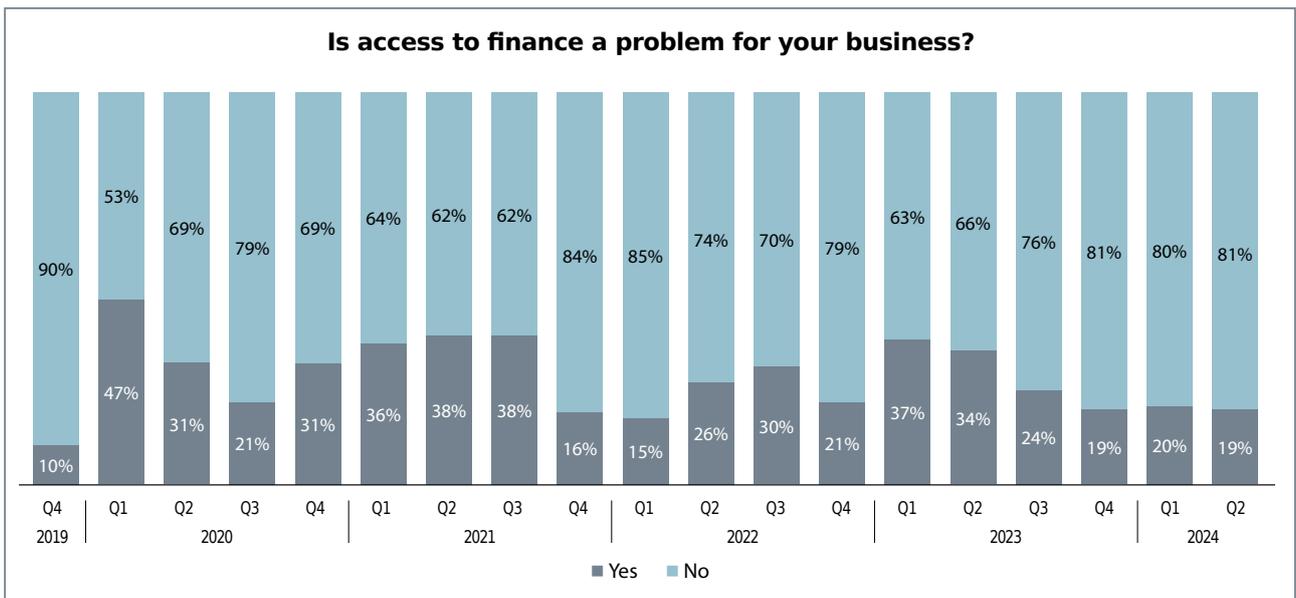
FINANCING

In Q2 of 2024, 44% of surveyed companies claimed to have recently tried to obtain finance, which is 3 percentage points lower than the figure recorded in the previous quarter (see Graph 17). By the size of the enterprise, large (49%) and small (42%) enterprises tried to get finance more, compared to medium-sized enterprises (36%).



Graph 17: Businesses that recently tried to get finance

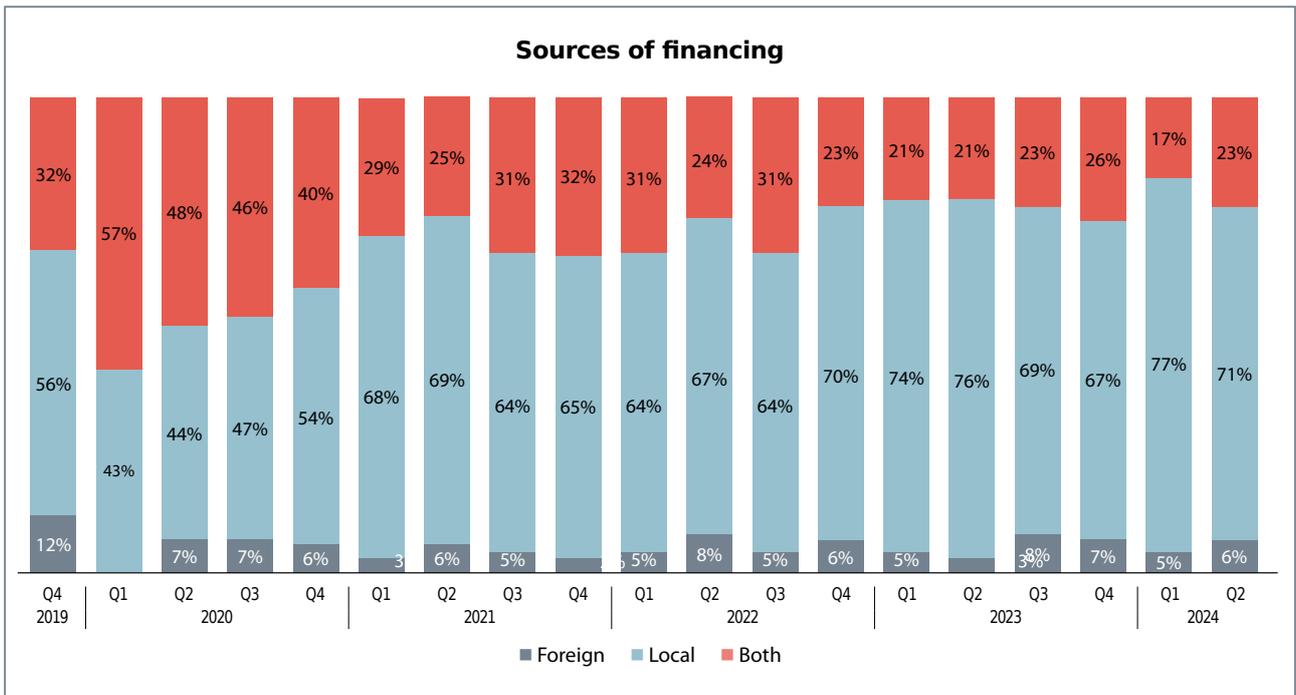
In Q2 of 2024, 19% of those companies that recently tried to access finance also noted that access to finance was a problem for their business. This figure is slightly lower (by 1 percentage point) than that of the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in small enterprises (22% of those that tried to obtain finance) and relatively less in large (19%) and medium (18%) enterprises.



Graph 18: Access to finance⁸

Regarding sources of financing, in Q2 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 increased by 1 percentage point in Q2 of 2024, compared to the previous quarter, and reached 6%. It's noteworthy that by the size of the enterprise, medium (9%) and large (6%) enterprises are more often financed by foreign sources, while small enterprises (4%) are financed by foreign sources relatively rarely.

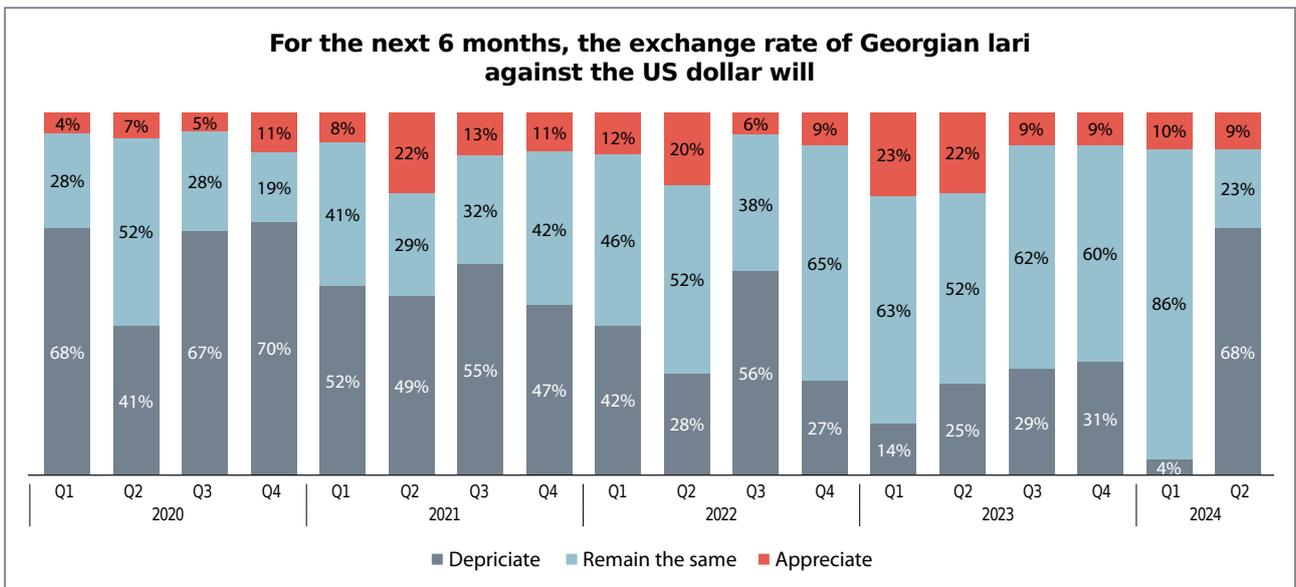
⁸ The question was only answered by those companies that stated they had recently sought finance.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q2 of 2024, compared to Q1 of 2024, the share of companies expecting that the national currency would depreciate against the US Dollar increased significantly (by 64 percentage points). Moreover, in Q2 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, decreased by 63 percentage points.

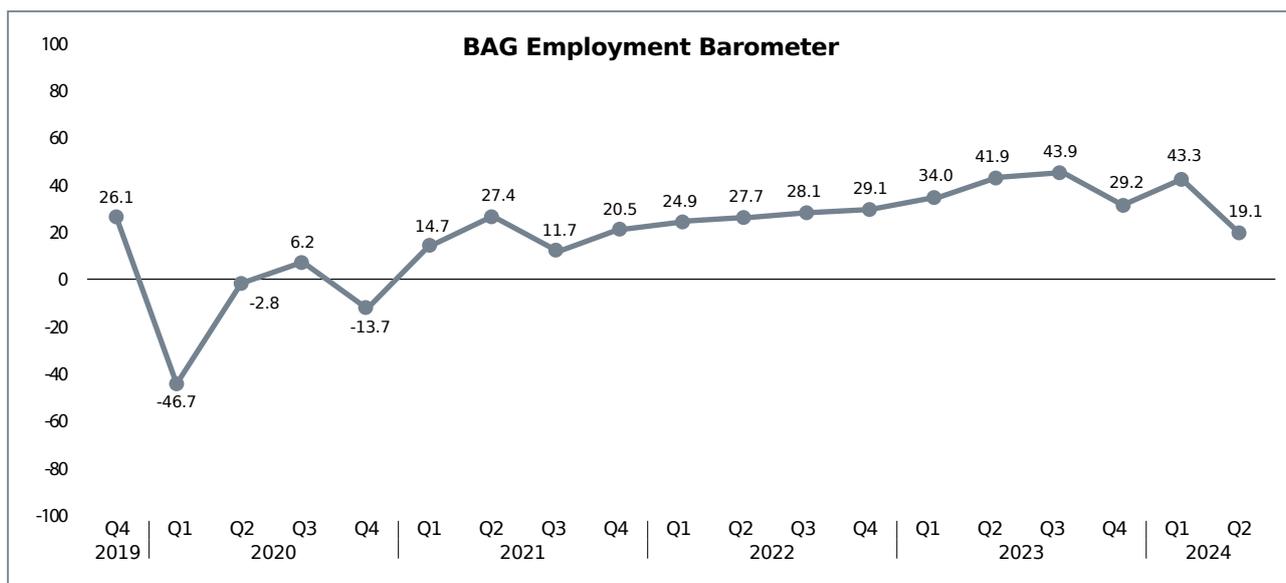


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

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

IN Q2 OF 2024, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 19.1 POINTS, MARKING A DECREASE, COMPARED TO THE Q1 OF 2024 (BY 24.2 POINTS) AND COMPARED TO Q2 OF 2023 (BY 22.8 POINTS).



Graph 21: BAG Employment Barometer

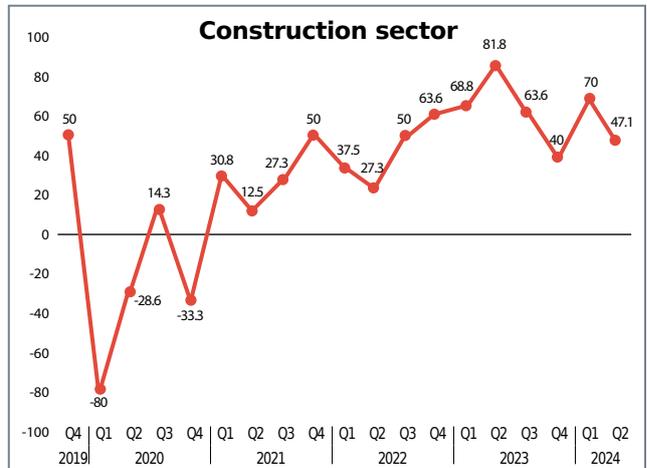
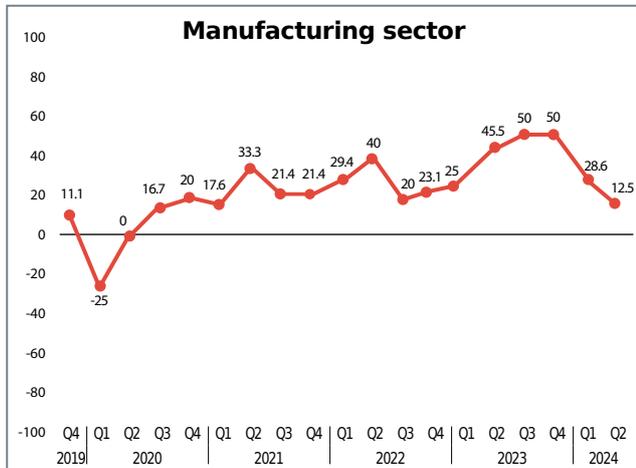
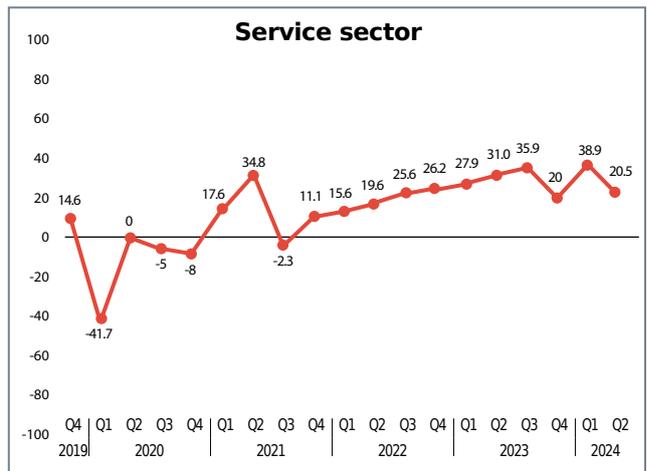
In Q2 of 2024, the BAG Employment Barometer was positive for all sectors. In Q2 of 2024, compared to Q1 of 2024, the employment barometer indicator decreased in all sectors - construction (by 22.9 points), service (by 18.4 points), trade (by 36.1 points) and manufacturing (by 16.1 points) (see graph 22).

In Q2 of 2024, compared to Q1 of 2024, the decrease of the employment barometer indicator in all sectors can be associated with decreased business expectations.

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.

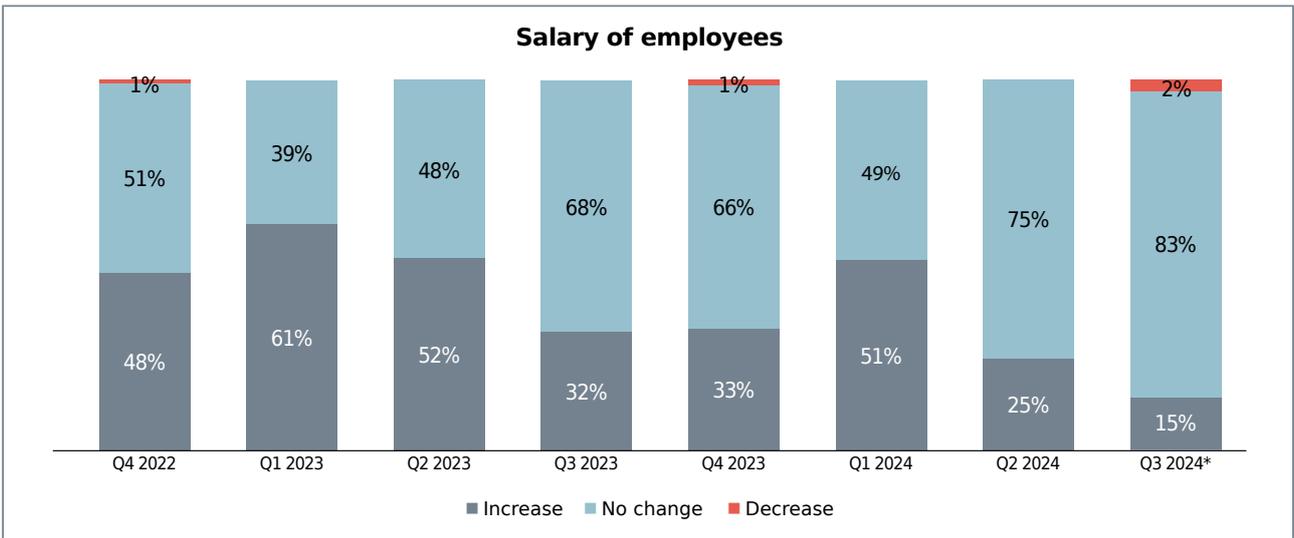
Table 2: Employment Barometer. Balance values by sector

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	Q2 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
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
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
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
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



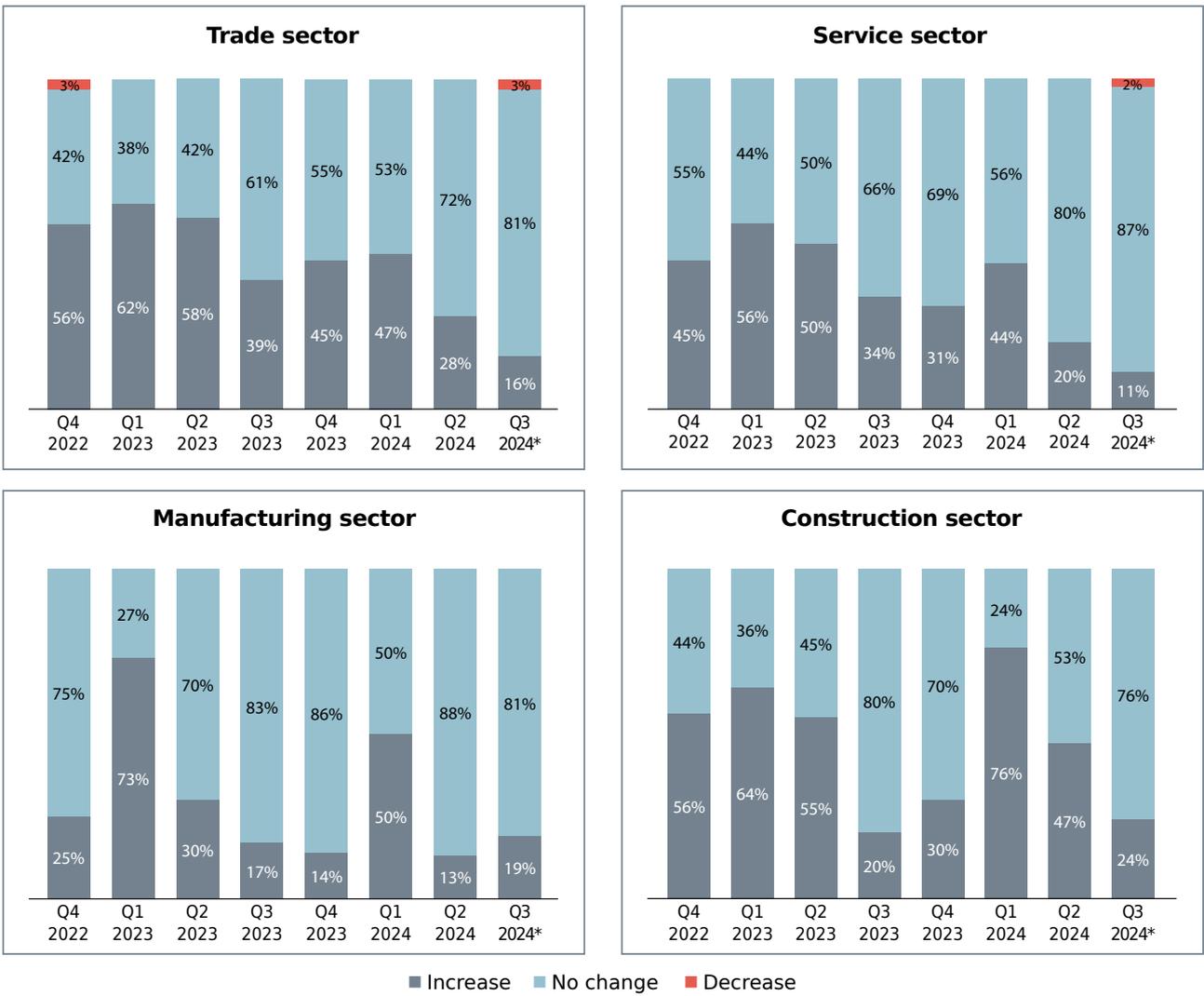
Graph 22: BAG Employment Barometer by sector

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 Q2 of 2024, which is significantly lower than the previous quarter and the corresponding quarter of the previous year (see graph 23).



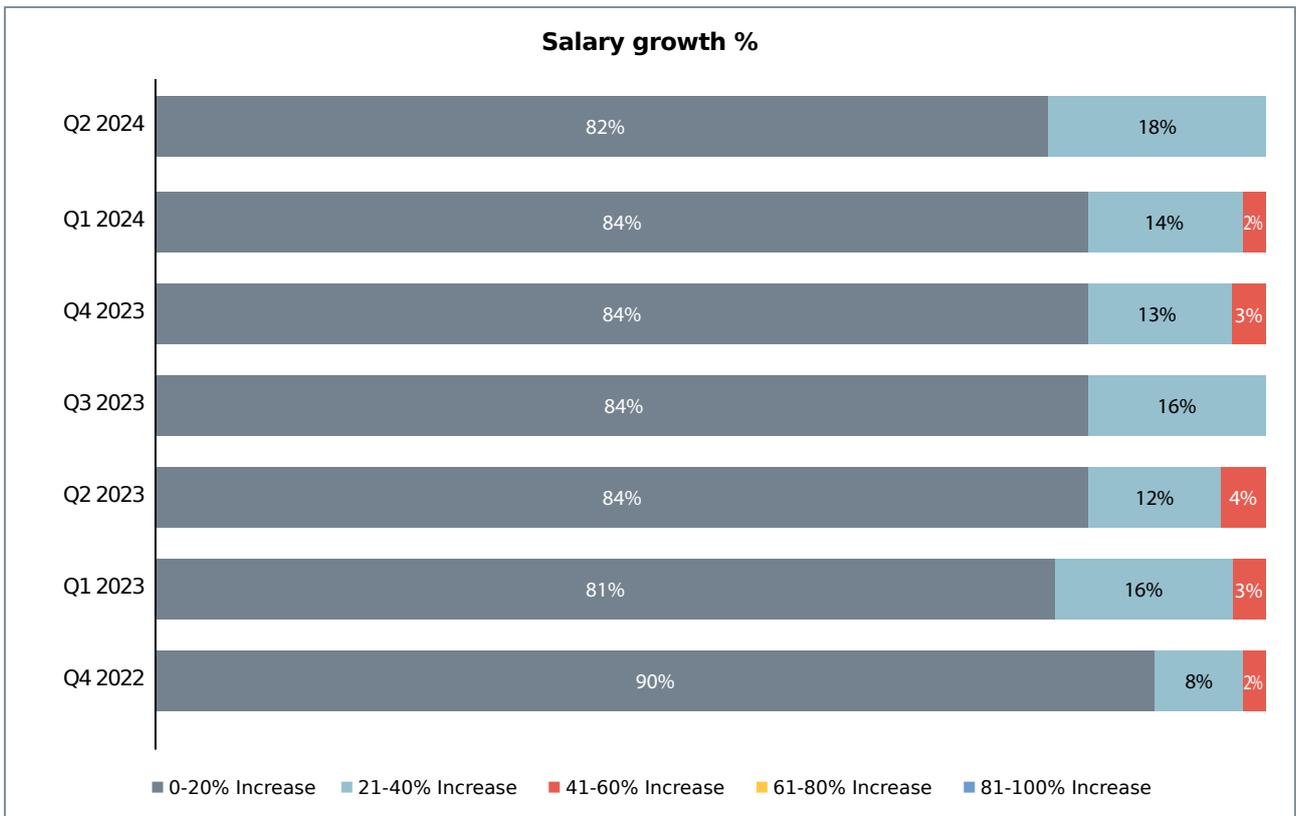
Graph 23: Salary of employees

By sector, in Q2 of 2024, the largest share of companies in the construction sector (47%) recorded an increase in the salaries of employees. In Q3 of 2024, the largest share of companies planning to increase the wages of employees was also recorded in the construction sector (24%) (see Graph 24).

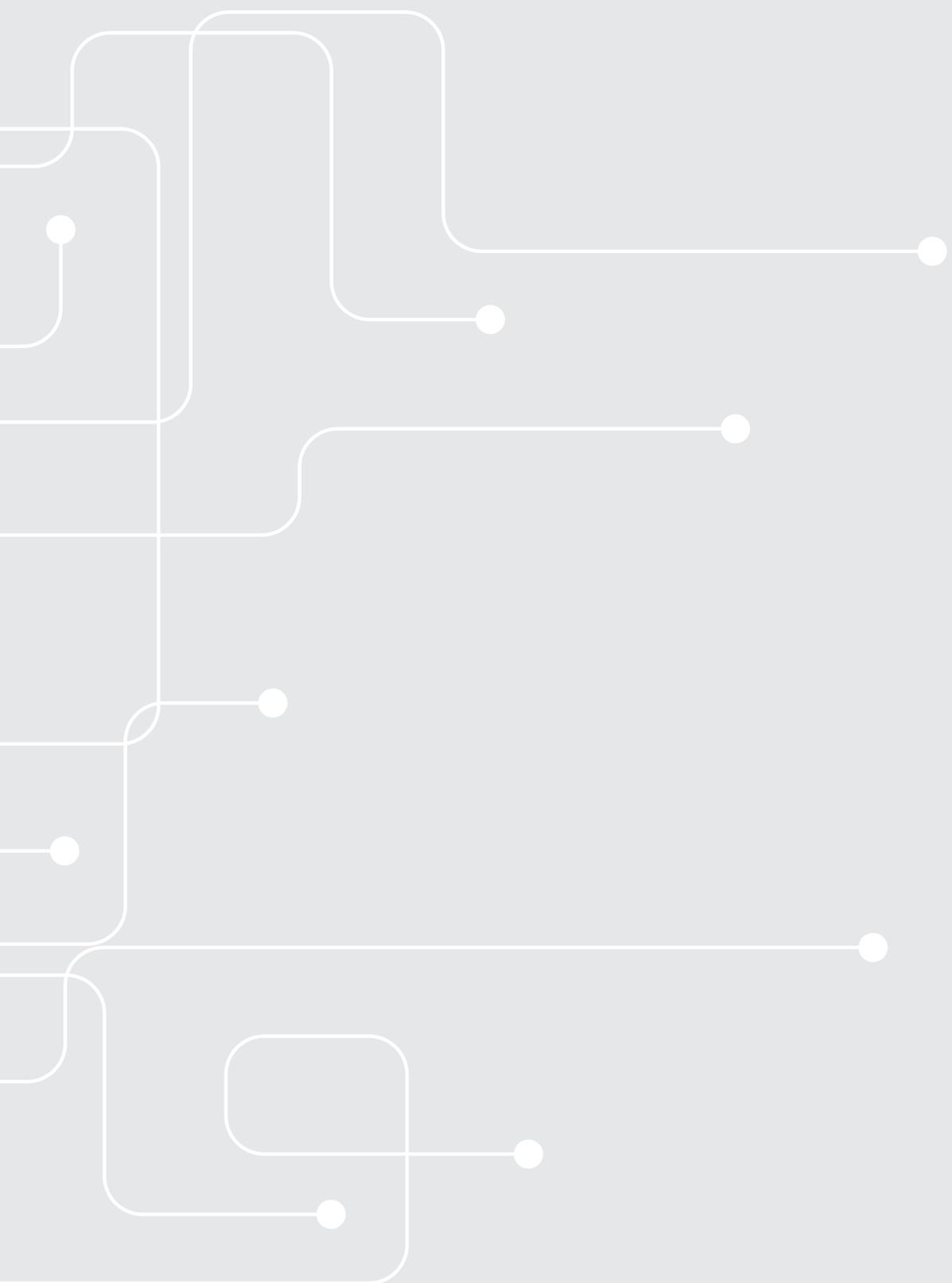


Graph 24: Salary of employees in trade, service, manufacturing, and construction sectors

In Q2 of 2024 most surveyed companies (82%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 18% of the surveyed companies increased the salaries of their employees by 20-40%.



Graph 25: Growth (%) of salary of employees



CONTACT:

2 Leonidze Street, Tbilisi, Georgia

☎ +995 32 2 202-215

✉ info@bag.ge

f Business Association of Georgia

www.bag.ge