

BAG INDEX

BUSINESS
CLIMATE



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA

ifo INSTITUTE

Leibniz Institute for Economic Research
at the University of Munich



Research

IV QUARTER 2022

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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 group¹. 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 months². 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. In Q4 of 2022 additional questions regarding the need for labor resources were integrated into the survey. 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 Q4 of 2022 in the period 14 – 27 November.

IN Q4 OF 2022, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 44.4 POINTS IN Q4 OF 2022, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 37.6 AND THE BUSINESS EXPECTATIONS INDICATOR AT 51.4.

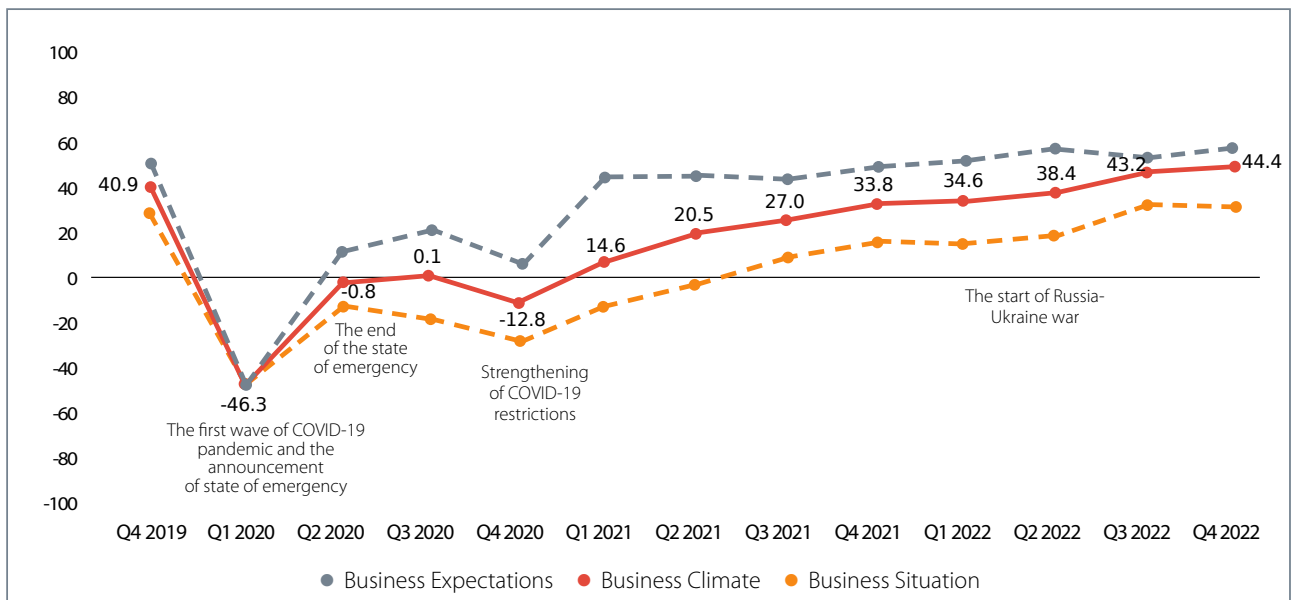
In Q4 of 2022, compared to Q3 of 2022, the BAG Business Climate improved by 1.2 points. Moreover, in this period, the assessment of the present business situation worsened (by 1.4 points) and business expectations improved (by 3.9 points).

The figures for Q4 of 2022 demonstrate an improvement compared to Q4 of 2021. In Q4 of 2021, the BAG Business Climate indicator was 33.8, the present business situation indicator equaled 18.8, and the business expectations indicator sat at 49.8.

It is worth noting that starting from Q1 of 2021, the BAG Business Climate indicator has been positive and gradually improving. In Q1 and Q2 of 2021, this was mostly caused by optimistic business expectations, while from Q3 of 2021 onwards the positive assessment of the present business situation by the majority of businesses played a part too (see graph 1).

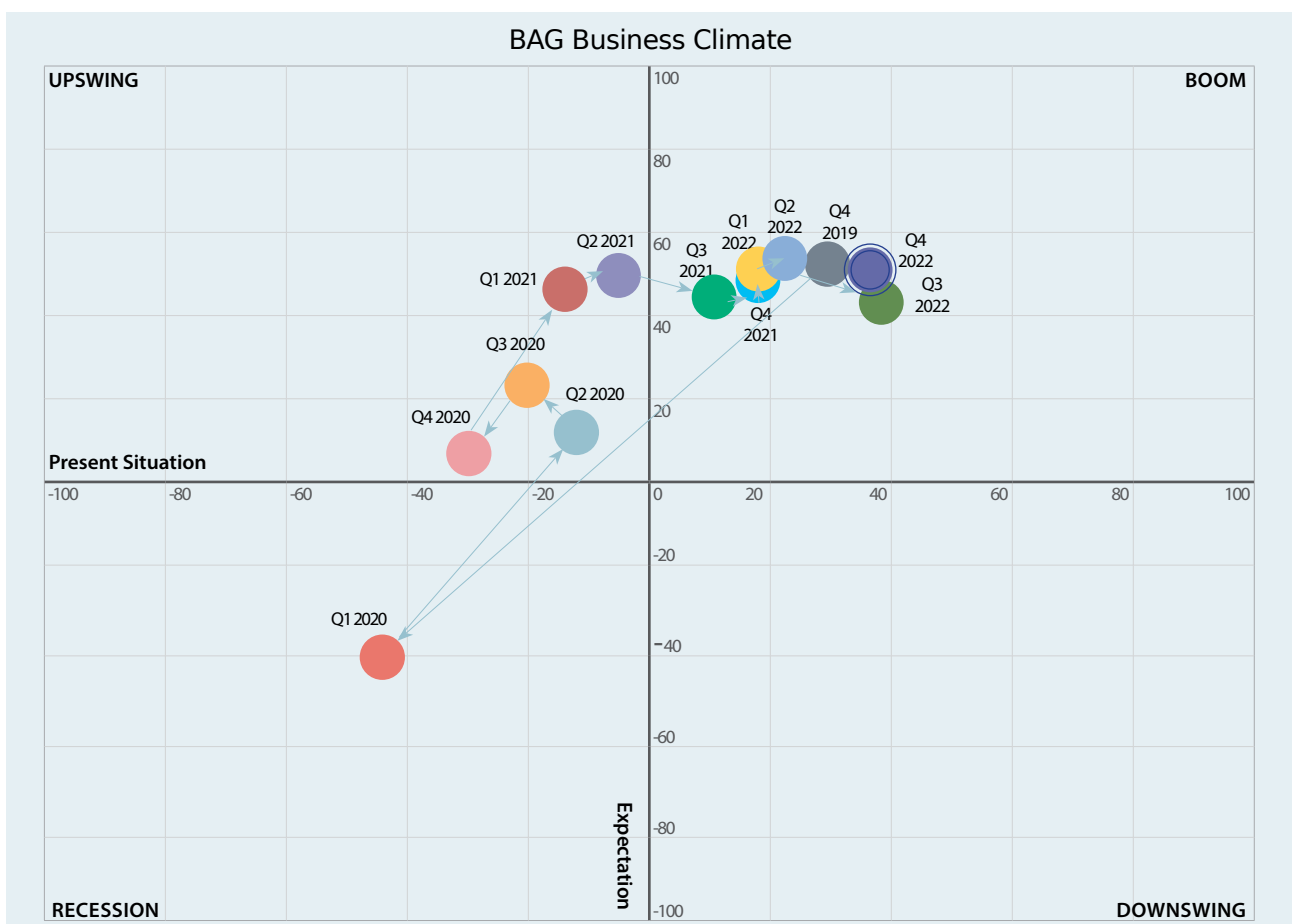
¹ In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

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 Q4 of 2022, as in Q3 of 2022, 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

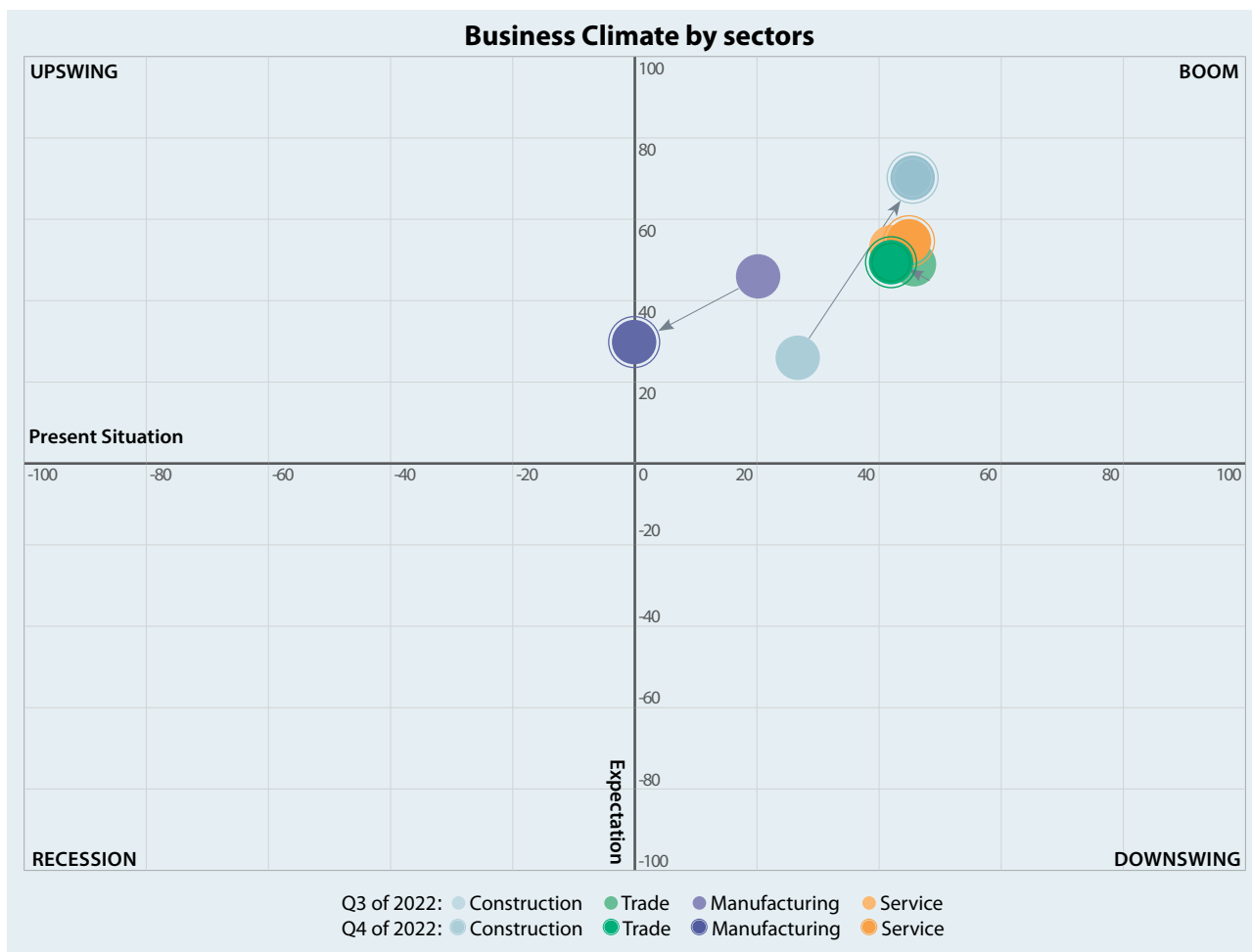
In Q4 of 2022, the **business climate indicator** was positive for all sectors. Compared to Q3 of 2022, in Q4 of 2022, the indicator improved in the construction and service sectors but worsened in the manufacturing and trade sectors (see Graph 3).

In Q4 of 2022, compared to Q3 of 2022, the **present business situation indicator** improved in the construction and service sectors and worsened in the manufacturing and trade sectors. Among the sectors, the most positive assessment with respect to the present business situation was recorded in the construction sector, which could be attributed to increased sales and sales prices (in the construction sector, 36% of the companies indicated an increase in sales and 54.5% recorded the price increase in Q4 of 2022).

In Q4 of 2022, the **business expectations indicator** was positive for all sectors. The most positive expectations were recorded in the construction sector. It is worth noting that expectations significantly improved (by 45.4 points) for the construction sector compared to Q3 of 2022. Meanwhile, the expectations worsened significantly for the manufacturing sector (by 15.9 points). A slight improvement in expectations is visible in the trade and service sectors.

Table 1: Balance values by sector in Q4 of 2022

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	46.7	41.9	51.6
Service Sector	48.8	45.2	52.4
Manufacturing Sector	14.8	0.0	30.8
Construction Sector	58.7	45.5	72.7
All Sectors	44.4	37.6	51.4

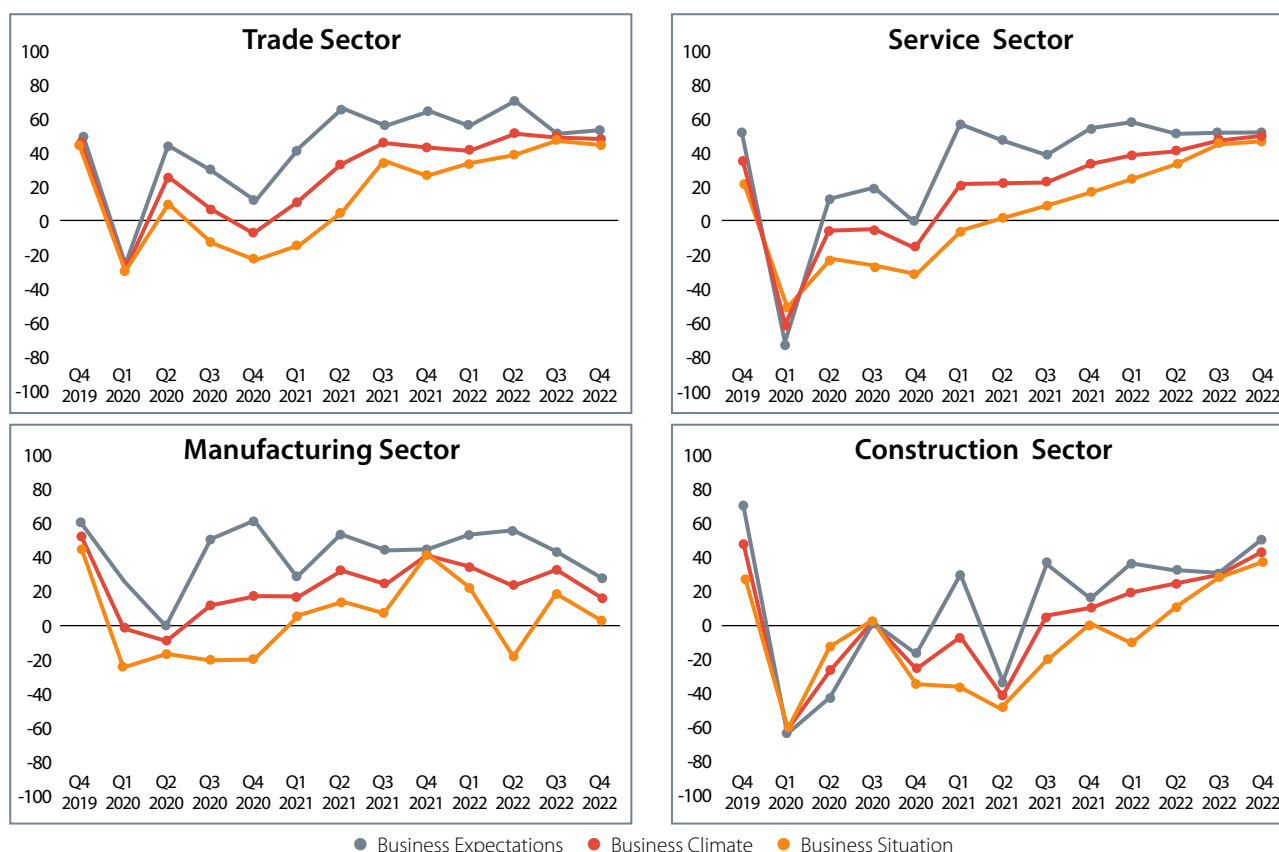


Graph 3: Business climate by sector in Q3 2022 and Q4 2022

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 has been improving in trade, service, and manufacturing sectors since Q1 of 2021, compared to the corresponding periods of the previous year. The trade and service sectors sustained a tendency of improvement in Q4 of 2022. Meanwhile, in Q4 of 2022, the business climate indicator in the manufacturing sector worsened compared to Q4 of 2021.

In the construction sector, the business climate indicator was negative in Q1 and Q2 of 2021, however, it has been positive since Q3 of 2021 and gradually improving, compared to the corresponding periods of the previous year. 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. It must also be noted that in Q4 of 2022, the present business situation and business expectations both showed a significant improvement (see Graph 4).

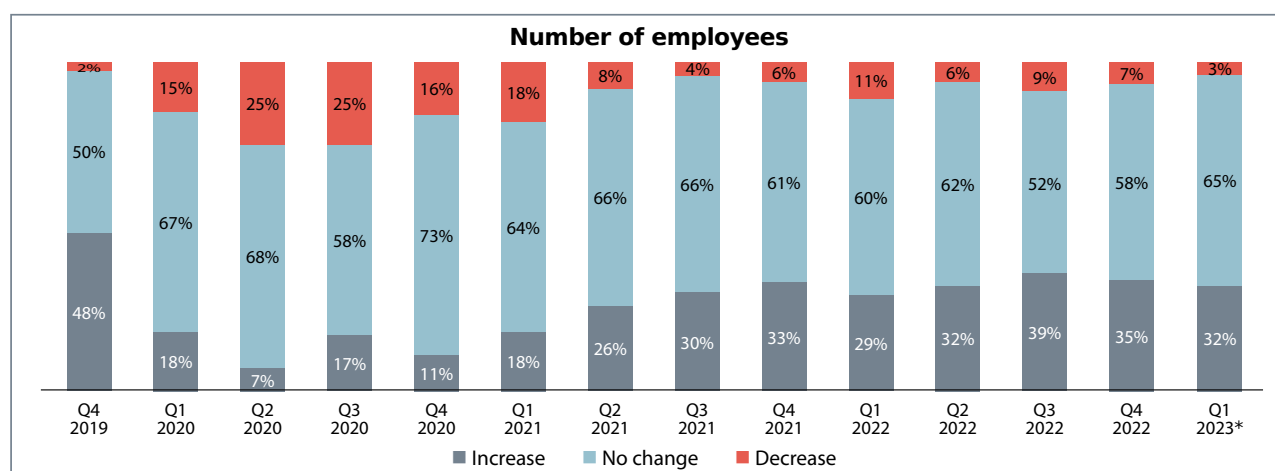


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

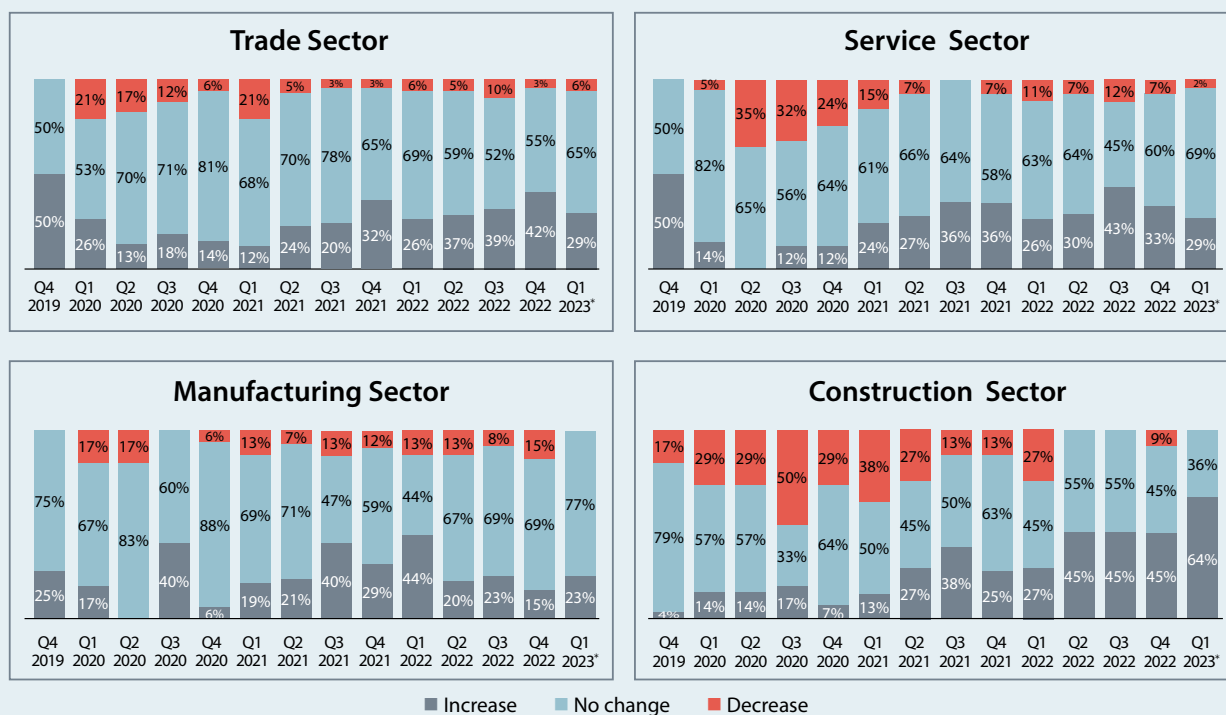
- ✕ 35% of surveyed companies stated that the number of employees increased in Q4 of 2022. At the same time, 32% expect the number of employees to increase in Q1 of 2023 (see Graph 5).
- ✕ Across the sectors covered, the situation regarding employment in Q4 of 2022 and the expectation for Q1 of 2023 is most positively assessed in the construction sector (see Graph 6).
- ✕ Meanwhile, the situation in Q4 of 2022 is most negatively assessed in the manufacturing sector, as 15.4% of surveyed companies stated that the number of employees decreased in Q4 2022.



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

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

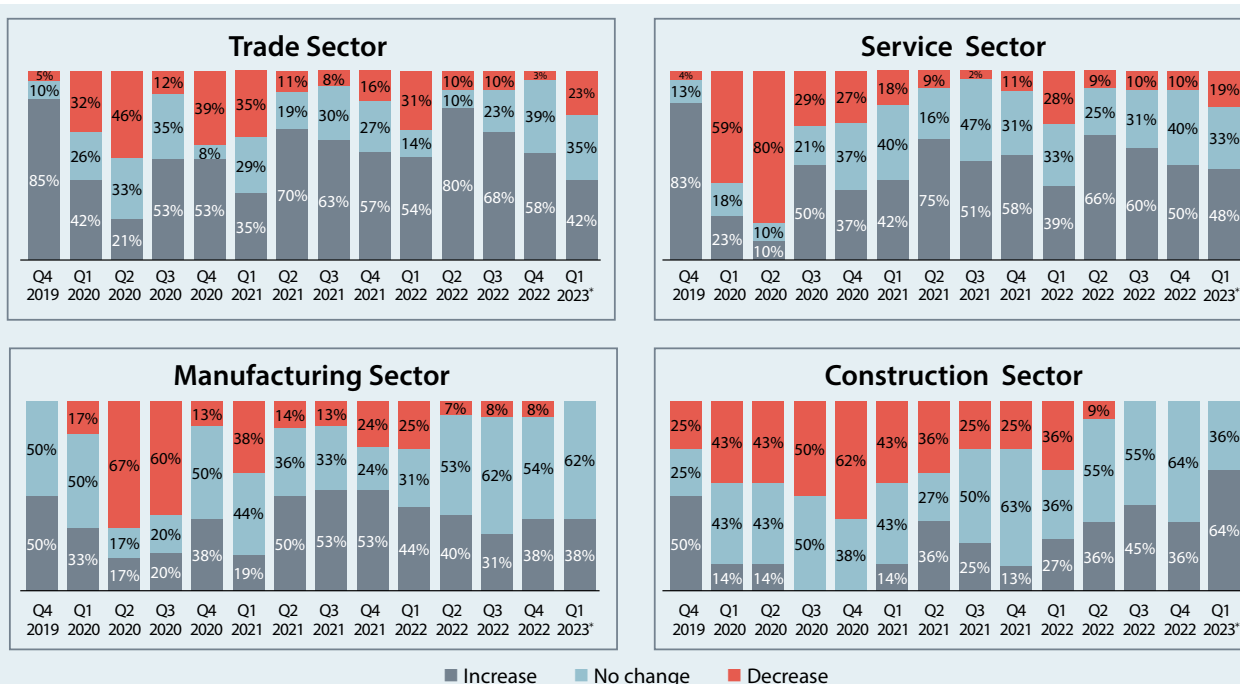
* Expectation.



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

Sales/demand/domestic production

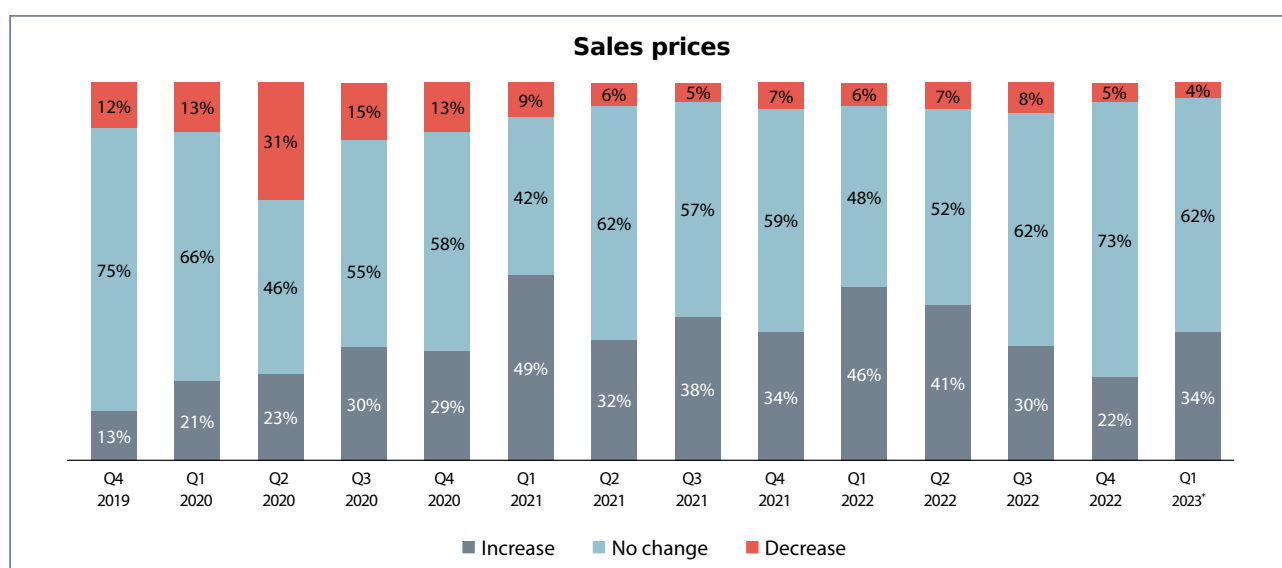
- ✗ The situation in Q4 of 2022 regarding sales was assessed most positively in the trade sector. As for the expectation for Q1 of 2023, the highest share of companies predicting sales to increase in Q1 of 2023 was recorded in the construction (see Graph 7).
- ✗ In Q4 of 2022, the worst situation regarding sales were recorded in the service sector. According to 10% of surveyed companies, their sales decreased compared to the previous quarter. The highest share of companies predicting sales to decrease in Q1 of 2023 was recorded in the trade sector (23%).



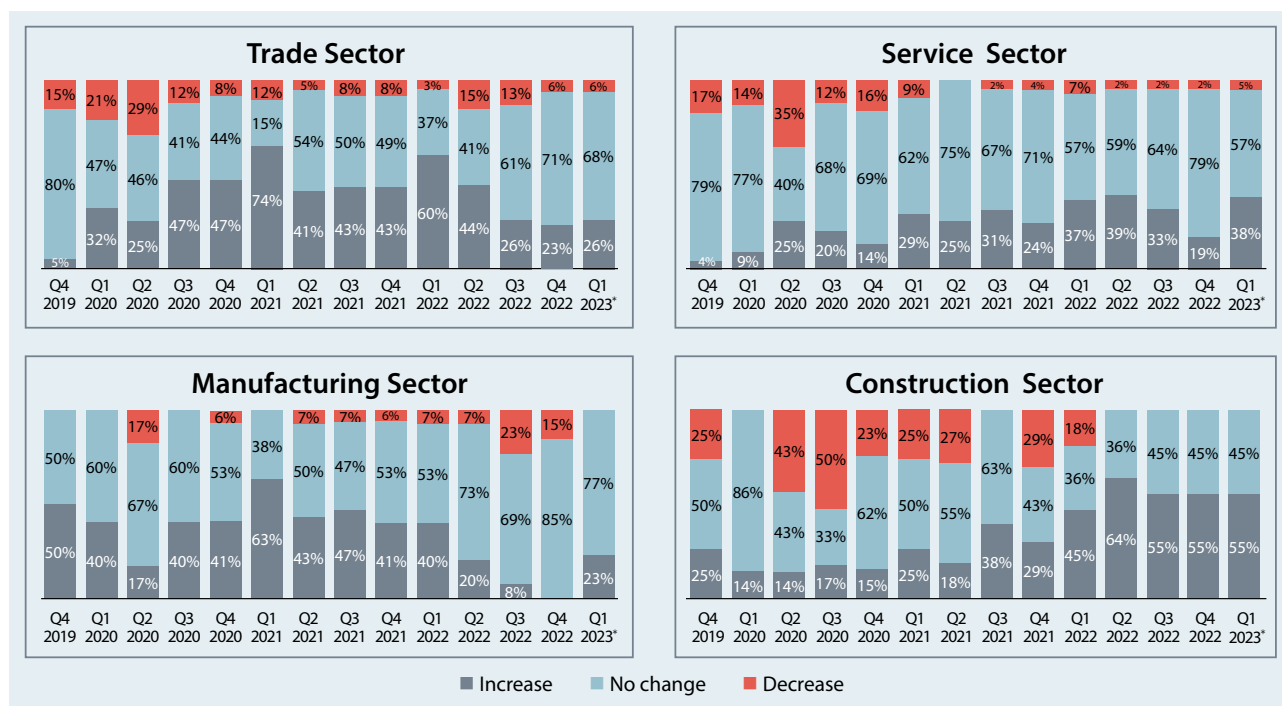
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✖ In Q4 of 2022, 22% of surveyed companies increased sales prices, and 34% of the companies expect the prices to rise in Q1 of 2023 (see Graph 8).
- ✖ Among sectors, in Q4 of 2022, the share of the companies that are increasing sales prices is the highest for the construction sector, which could be attributed to increased construction materials prices and/or demand for real estate due to the Russia-Ukraine war. Also, the highest share of companies predicting sales prices to increase in Q1 of 2023 was recorded in the construction sector (see Graph 9).
- ✖ The price increase dynamics are least present in the manufacturing sector, in which none of the companies stated that they increased prices on their products in Q4 of 2022.



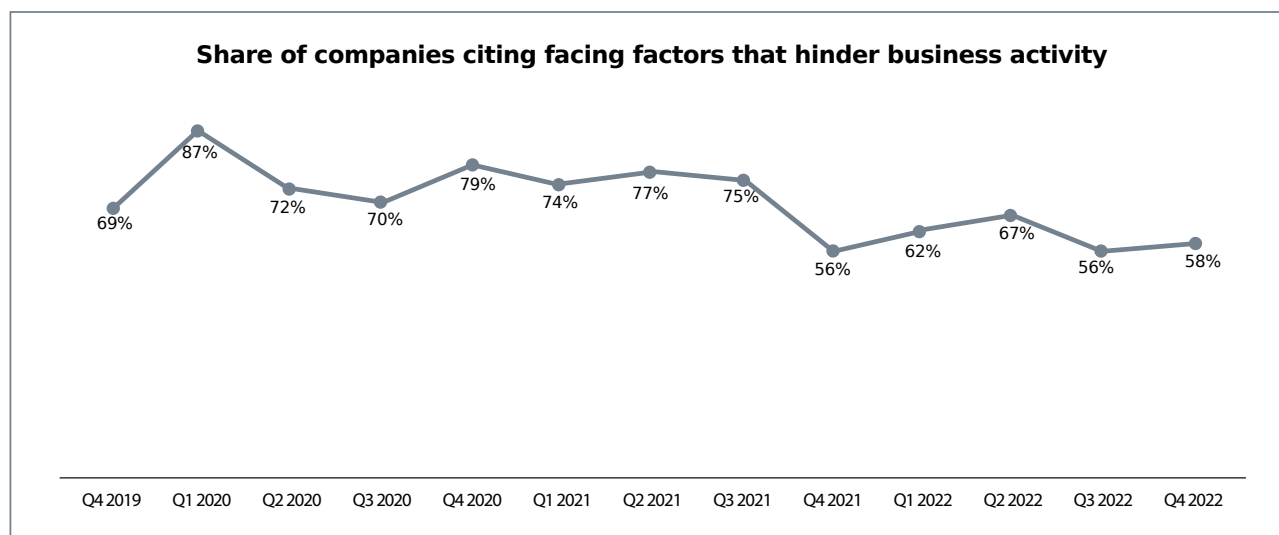
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

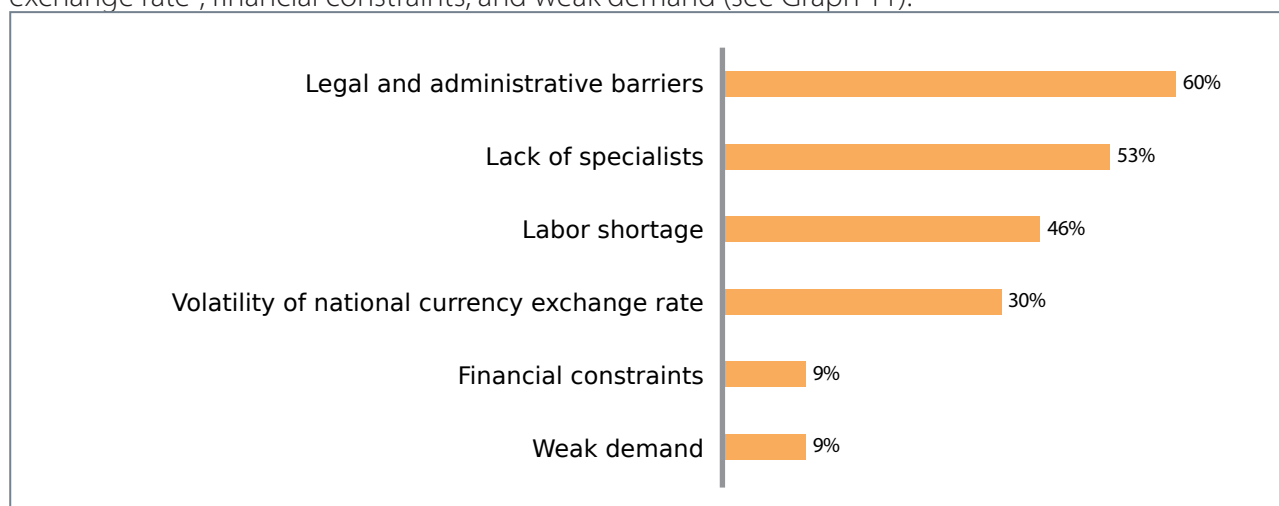
FACTORS HINDERING BUSINESS ACTIVITY

In Q4 of 2022, compared to Q3 of 2022, the share of surveyed companies to claim there are factors hindering their business activity increased slightly (by 2 percentage points). It must be noted that, in Q4 of 2022, compared to Q4 of 2021, the share of companies claiming that there are factors hindering their business activity increased by the same amount (by 2 percentage points).



Graph 10: Existence of factors hindering business activity

In Q4 of 2022, the following six factors were emphasized as the most hindering for business activity: legal and administrative barriers, a lack of specialists, labor shortage, volatility of national currency exchange rate⁴, financial constraints, and weak demand (see Graph 11).



Graph 11: Main factors hindering business activity for surveyed companies in Q4 2022

In Q4 of 2022, **legal and administrative barriers** were cited as the top factor hindering business (60% 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 service sector (76%), while it was considered the least hindering for the trade and manufacturing sectors (38%) (see Graph 12).

In terms of the size of the enterprise⁵, the legal and administrative barriers were most cited by

⁴ Volatility of national currency exchange rate as a factor hindering business activity was added to the survey questionnaire in Q2 of 2021.

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

large enterprises as a factor hindering business activity (73% of surveyed small companies cited this factor as hindering) (see Graph 13).

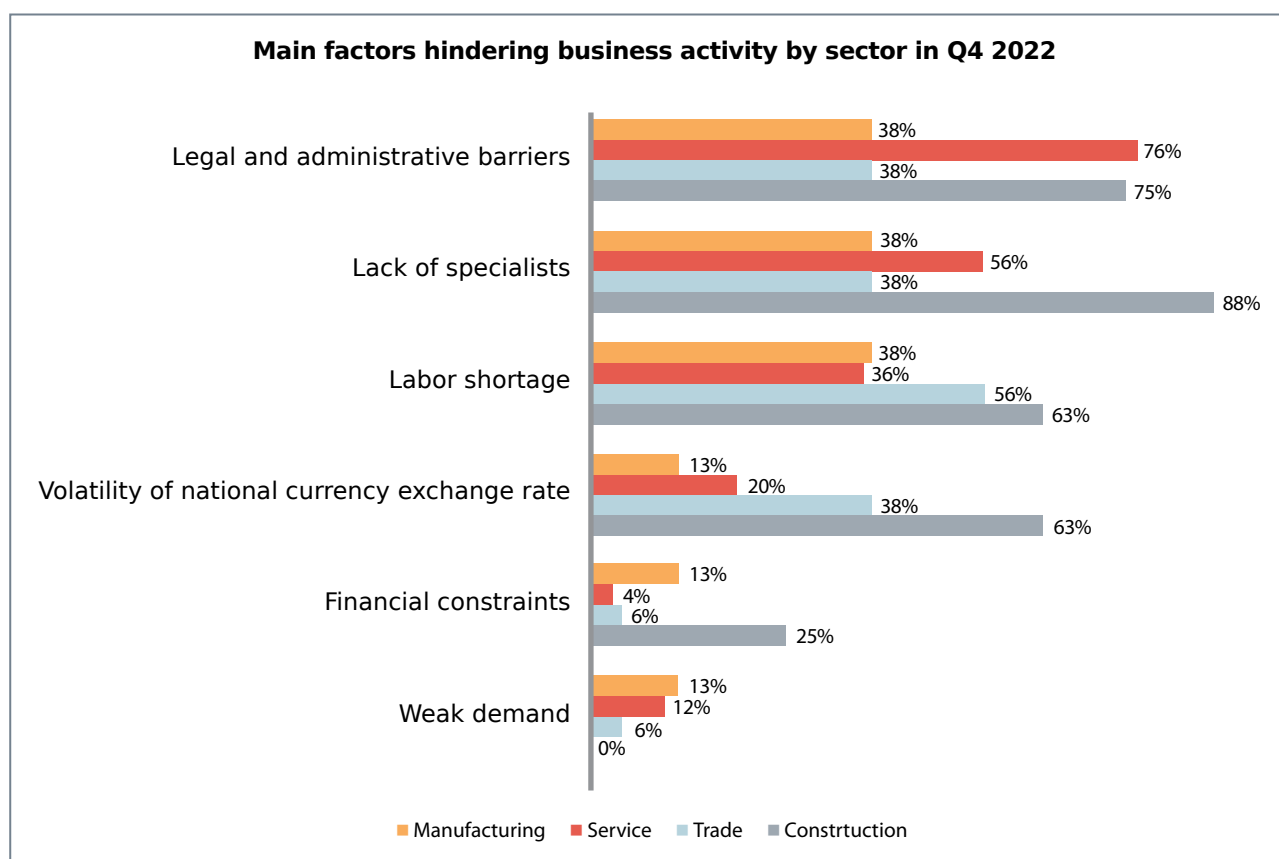
In Q4 of 2022, **a lack of specialists** was cited as a hindering factor by 53% of surveyed companies. This issue was felt most acutely in the construction (88%), while it was less of a hindrance for the trade and manufacturing sectors (38%). A lack of specialists was considered the most problematic for medium enterprises (cited by 56% of them as a hindering factor).

In Q4 of 2022, **labor shortage** was cited as a hindering factor by 46% of surveyed companies. Across the covered sectors, this factor was deemed the most hindering for the construction sector (63%). In Q3 of 2022, labor shortage was considered the most problematic for medium enterprises (cited by 56% of them as a hindering factor).

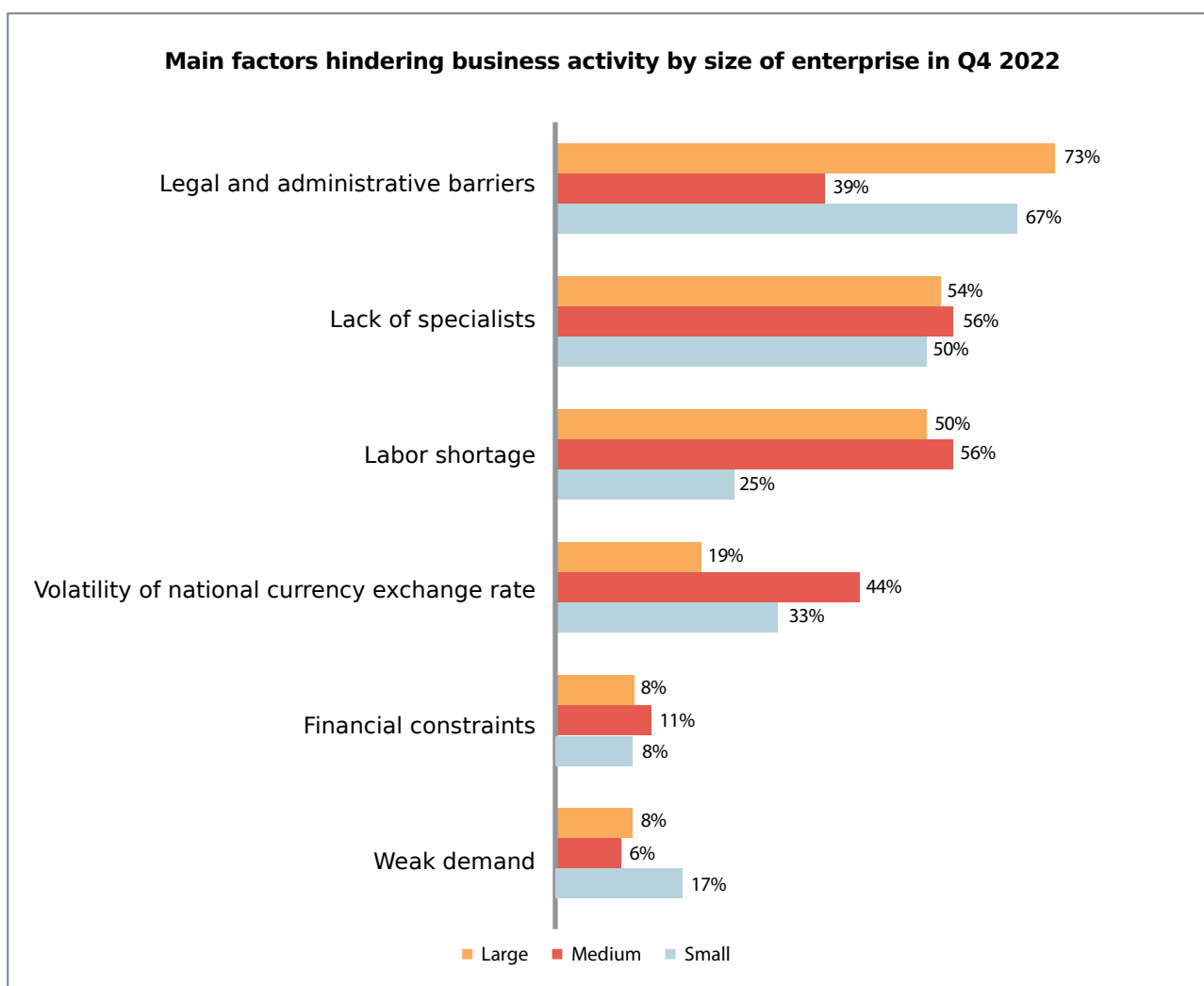
In Q4 of 2022, **volatility of the national currency exchange rate** was cited as a hindering factor by 30% of surveyed companies. This issue was felt most acutely in the construction sector (63%), while it was less of a hindrance for the manufacturing sector (13%). The volatility of the national currency exchange rate was considered the most problematic for medium enterprises (cited by 44% of them as a hindering factor).

Financial constraints were cited as a hindering factor by 9% of the surveyed companies in Q4 of 2022. This factor was most cited in the construction sector (25%). It was considered the most problematic for medium enterprises (11%).

In Q4 of 2022, **weak demand** was cited as a hindering factor by 9% of surveyed companies. This issue was felt most acutely in the manufacturing sector (13%). Weak demand was considered the most problematic for small enterprises (cited by 17% of them as a hindering factor).



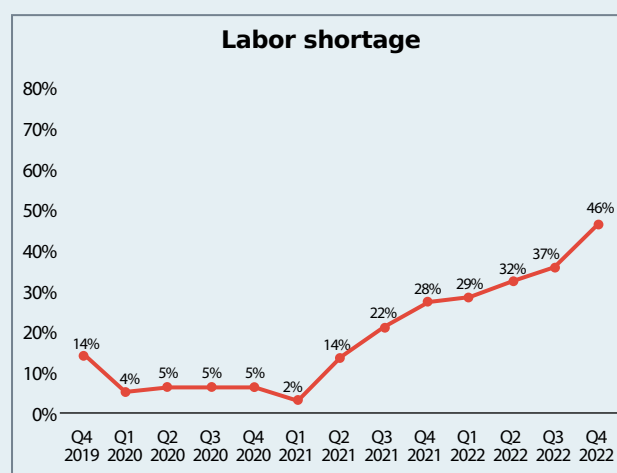
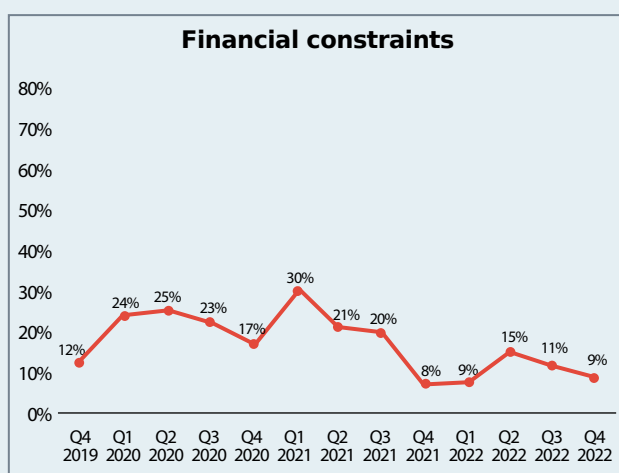
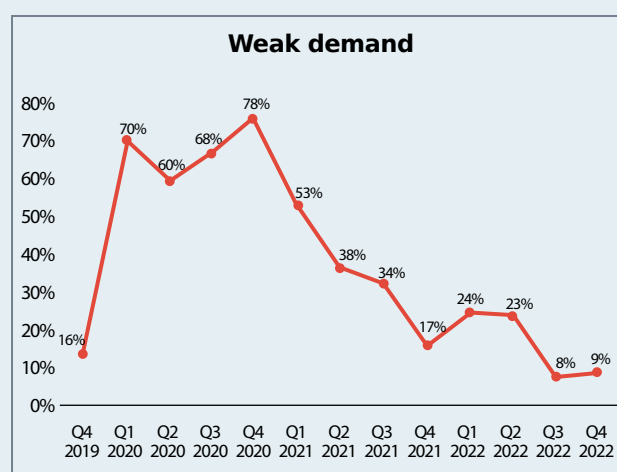
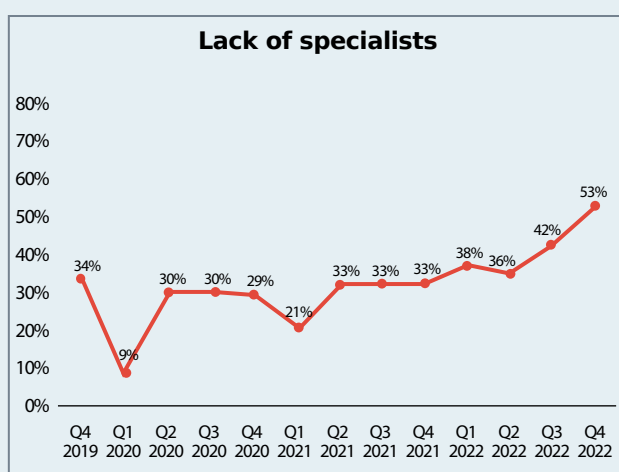
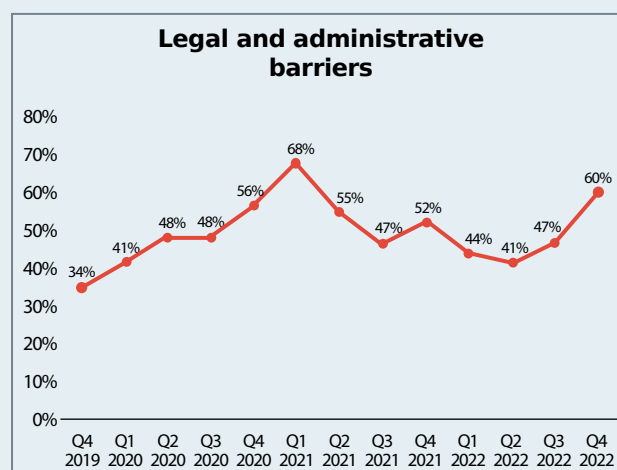
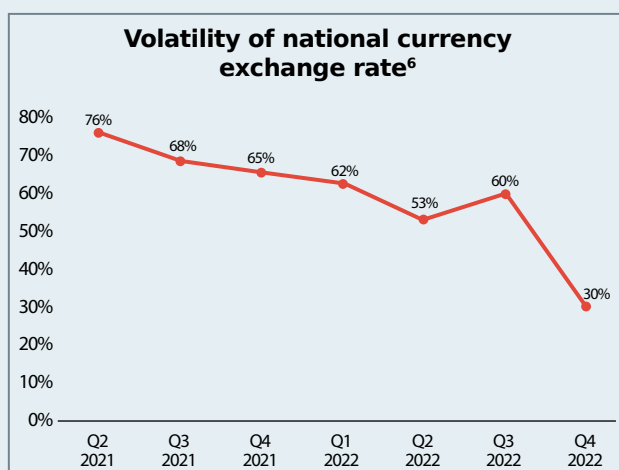
Graph 12: Main factors hindering business activity by sector in Q4 2022



Graph 13: Main factors hindering business activity by size of enterprise in Q4 2022

In Q4 of 2022, compared to Q3 of 2022, among the factors hindering business activity, the share of companies citing volatility of the national currency exchange rate decreased the most (by 30 percentage points). Elsewhere, the share of companies citing legal and administrative barriers and lack of specialists as hindering factors increased the most (by 13 and 11 percentage points accordingly) over the same period (See Graph 14).

Hindering factors for business activity Q4 2019-Q4 2022



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 Q2 of 2021.

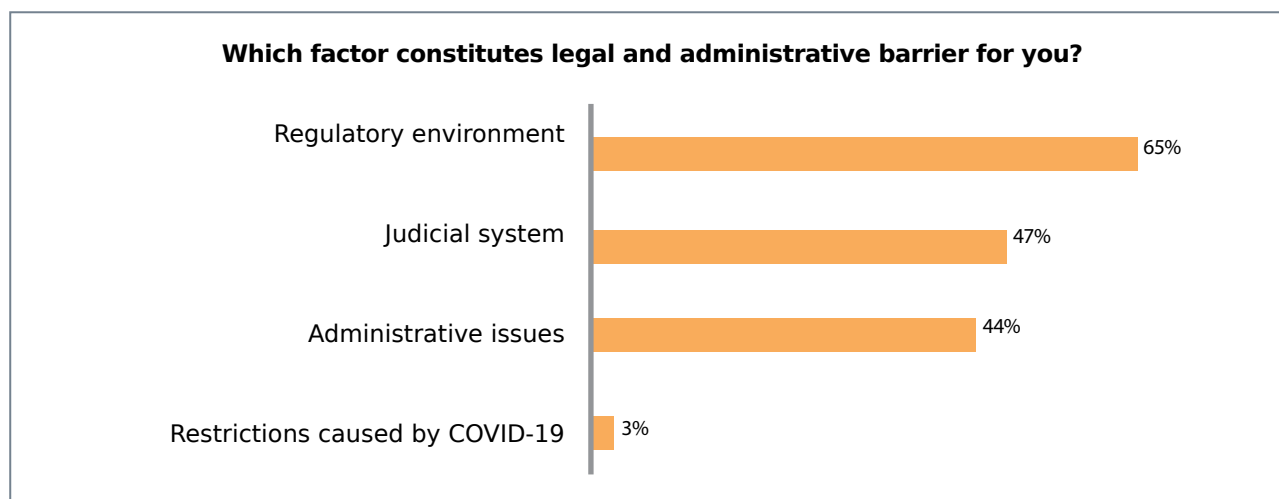
The main factors determining legal and administrative barriers for business

In Q4 of 2022, 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 (83% of companies surveyed in the construction sector for which there are legal and administrative barriers named the regulatory environment as a hindrance). The regulatory environment is deemed least hindering for the manufacturing sector (33%).

Among legal and administrative barriers, the **judicial system** was the second-most cited hindering factor. This was deemed the most hindering in the service sector (53%), while it was least cited in the manufacturing and trade sectors (33%).

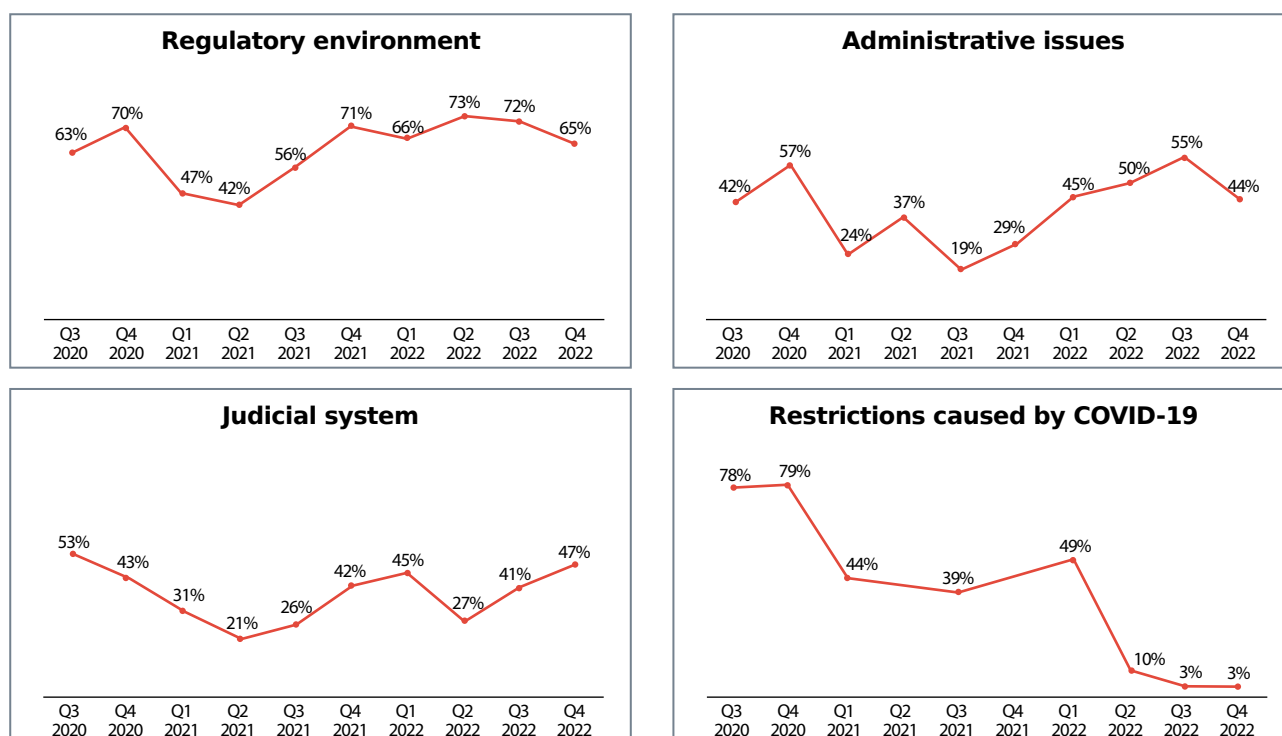
Meanwhile, **administrative issues** were the most cited as a hindering factor under legal and administrative barriers in the construction sector (cited by 67% of companies), while it was least cited in the manufacturing and trade sectors (33%).

Among legal and administrative barriers, **COVID-19-related** restrictions were cited by only 3% of companies. This was deemed as a hindering factor only in the construction sector.



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

In summary, in Q4 of 2022, compared to the previous quarter, the share of companies to cite administrative issues and the regulatory environment as a hindering factor decreased (by 11 and 7 percentage points accordingly), while the share of companies citing the judicial system as a hindering factor increased the most (by 6 percentage points).

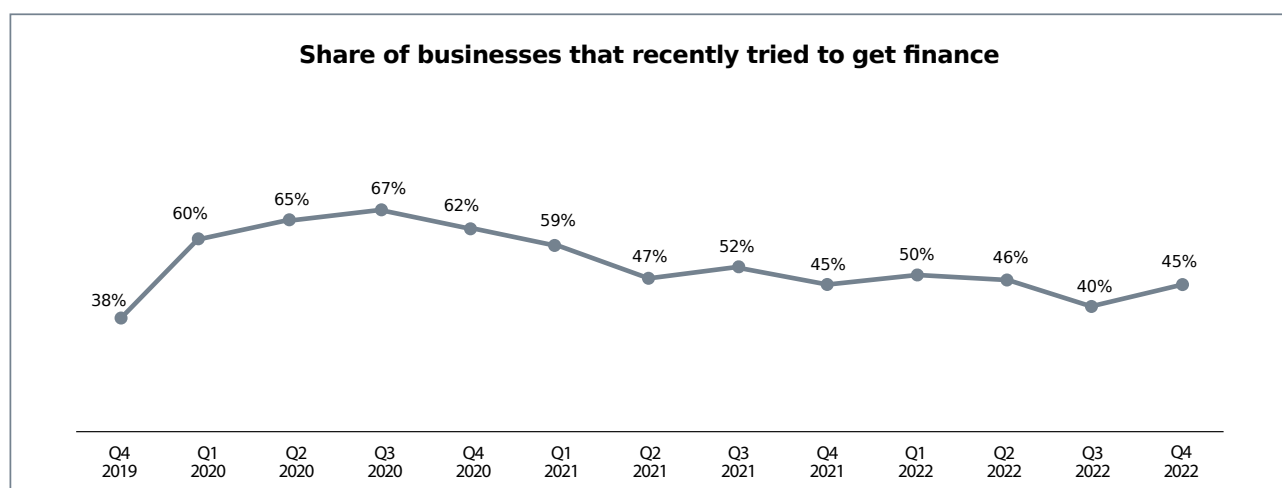


Graph 16: Main legal and administrative hindering factors for surveyed companies

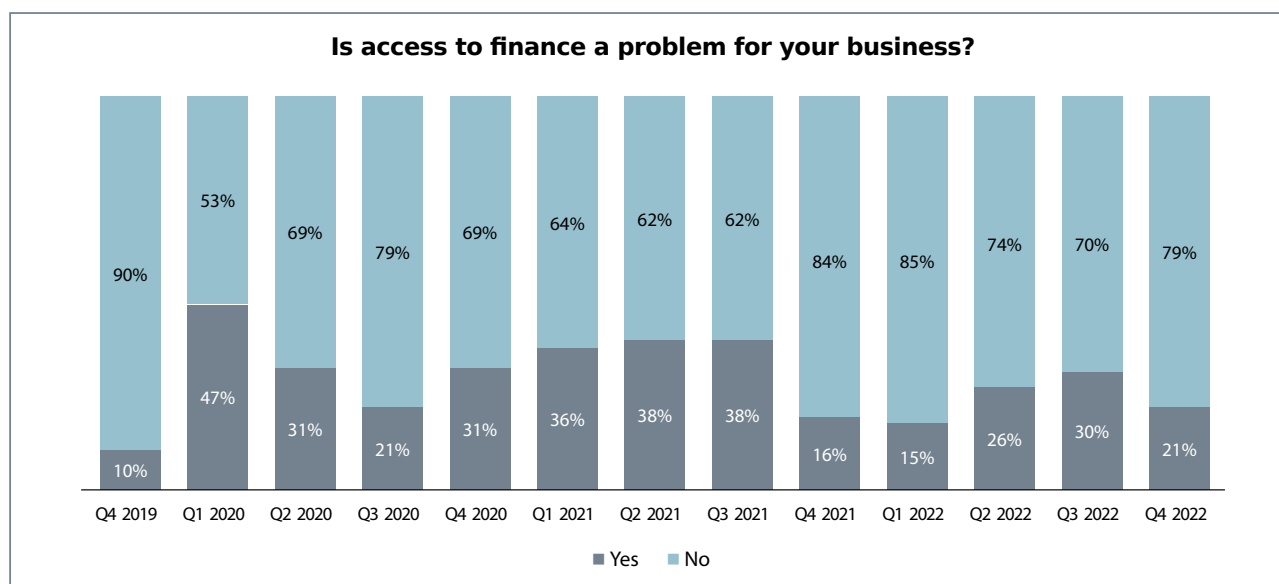
FINANCING

In Q4 of 2022, 45% of surveyed companies claimed to have recently tried to obtain finance, which is 5 percentage points higher than the figure recorded in the previous quarter (see Graph 17).

In Q4 of 2022, 21% of those companies that recently tried to access finance also noted that access to finance was a problem for their business. This figure is lower (by 9 percentage points) than that of the previous quarter (see Graph 18).

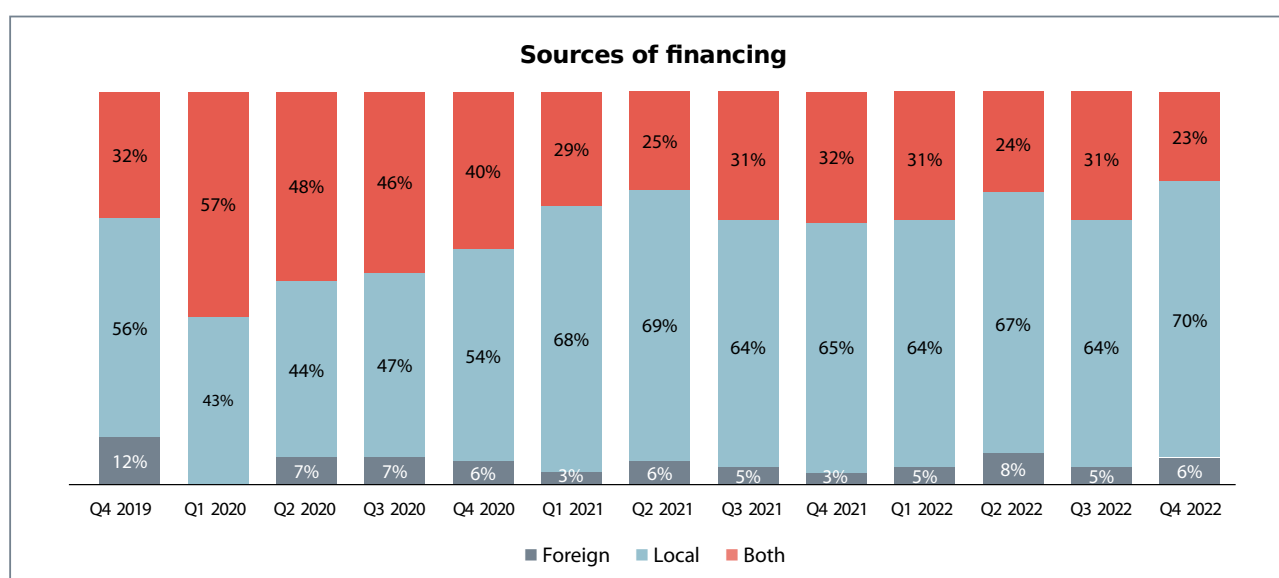


Graph 17: Businesses that recently tried to get finance



Graph 18: Access to finance⁷

Regarding sources of financing⁸, in Q4 of 2022, 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 Q4 of 2022, compared to the previous quarter.



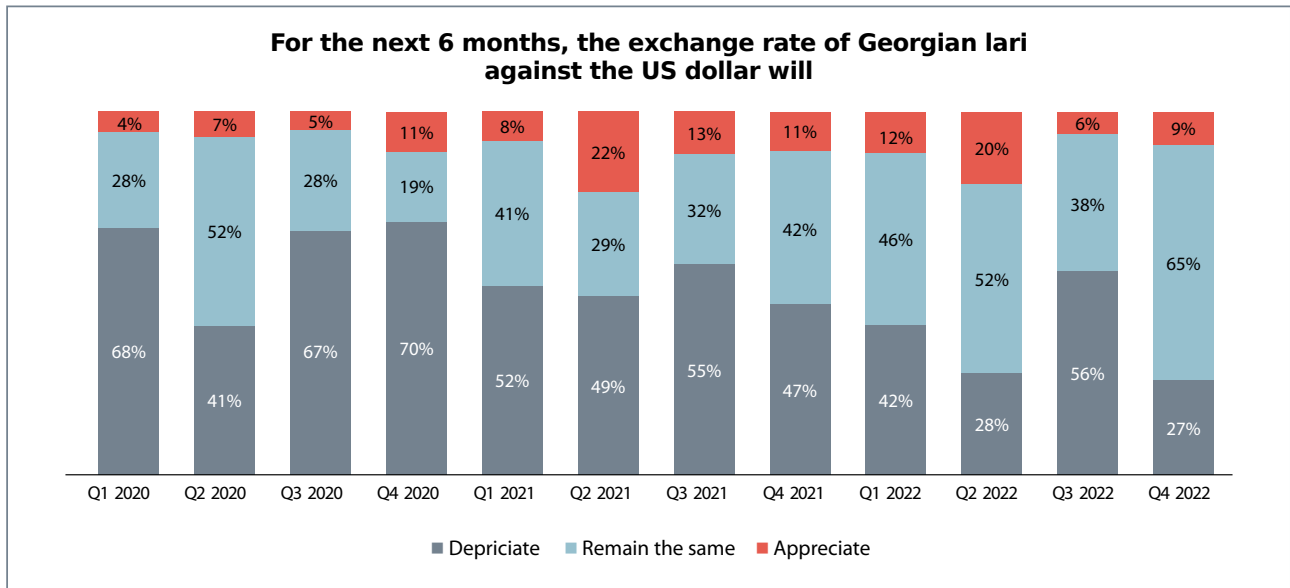
Graph 19: Sources of financing

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

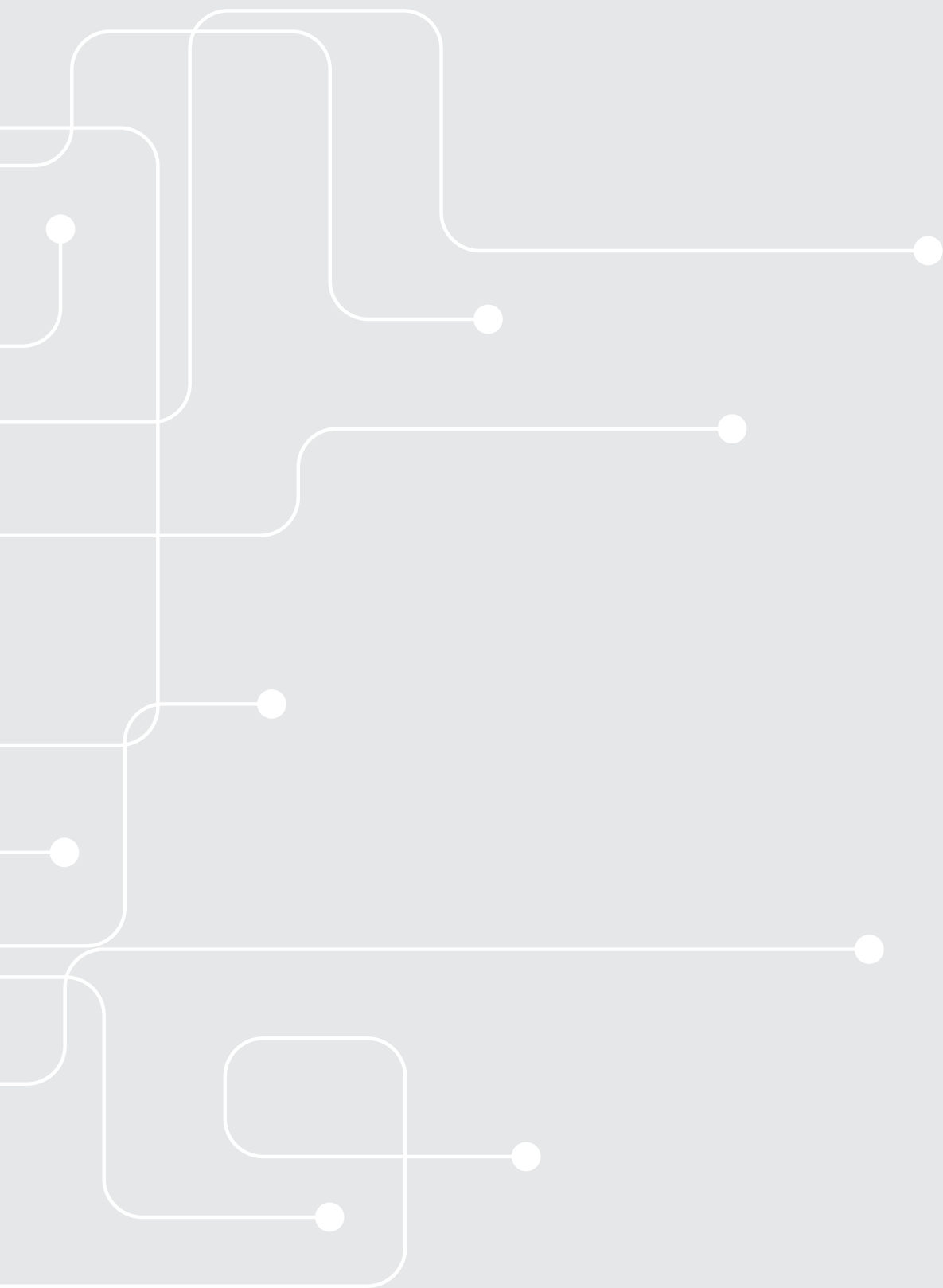
⁸ The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.

EXCHANGE RATE EXPECTATIONS

In Q4 of 2022, compared to Q3 of 2022, the share of companies expecting that the national currency would depreciate against the US Dollar decreased significantly (by 29 percentage points). Moreover, in Q4 of 2022, 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 27 percentage points.



Graph 20: Exchange rate of the Georgian Lari against the US Dollar



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