



BAG

INDEX



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA



Leibniz Institute for Economic Research
at the University of Munich



Research

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**



**INVESTMENT
SURVEY**

**I QUARTER
2021**

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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 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 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: construction, manufacturing, service and trade.

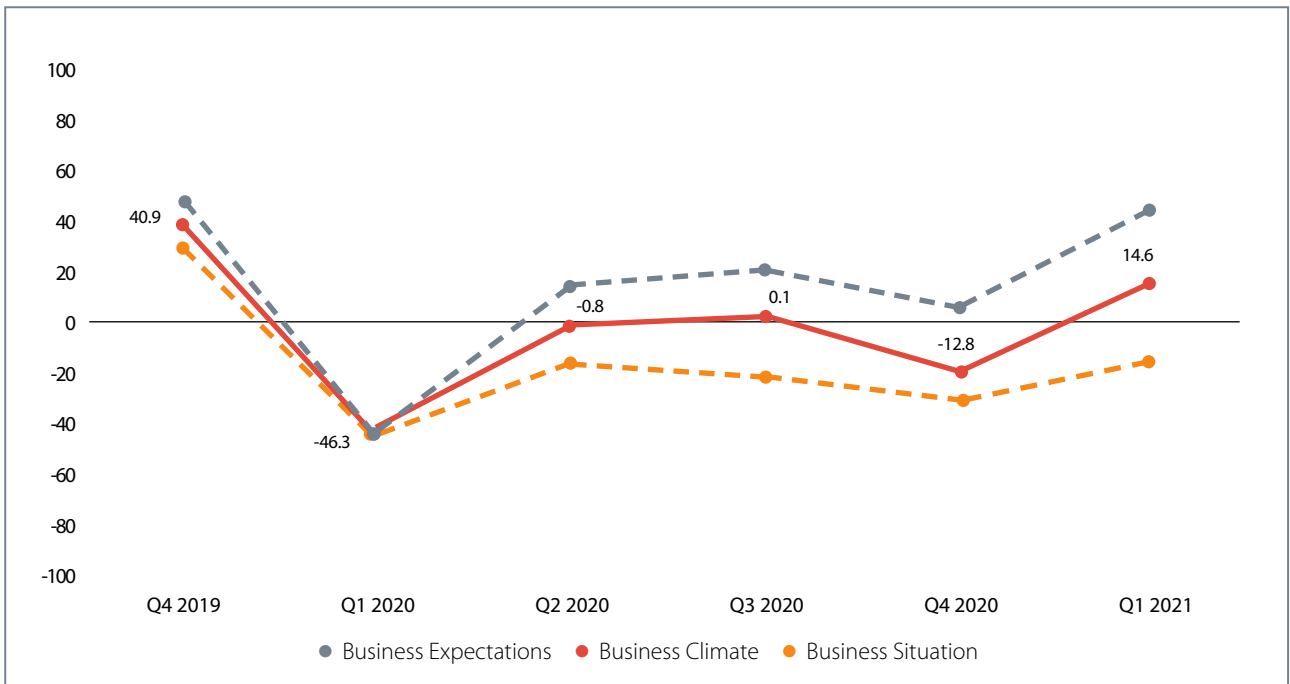
IN Q1 OF 2021, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION NEGATIVELY, WHILE THEIR EXPECTATIONS FOR THE NEXT SIX MONTHS ARE POSITIVE. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 14.6 POINTS IN Q1 OF 2021, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT -11.8 AND THE BUSINESS EXPECTATIONS INDICATOR AT 44.9.

Encouragingly, in Q1 of 2021, compared to Q4 of 2020, the BAG Business Climate improved (by 27.3 points). Moreover, in this period, the assessment of the present business situation and business expectations for the next six months improved significantly, by 18.2 and 38.4 points, respectively.

The figures for Q1 of 2021 demonstrate a significant improvement compared to Q1 of 2020. In Q1 of 2020, the BAG Business Climate indicator amounted to -46.3 points, while the business situation indicator amounted to -44.5 and the business expectations indicator was -47.4 (See the Graph 1).

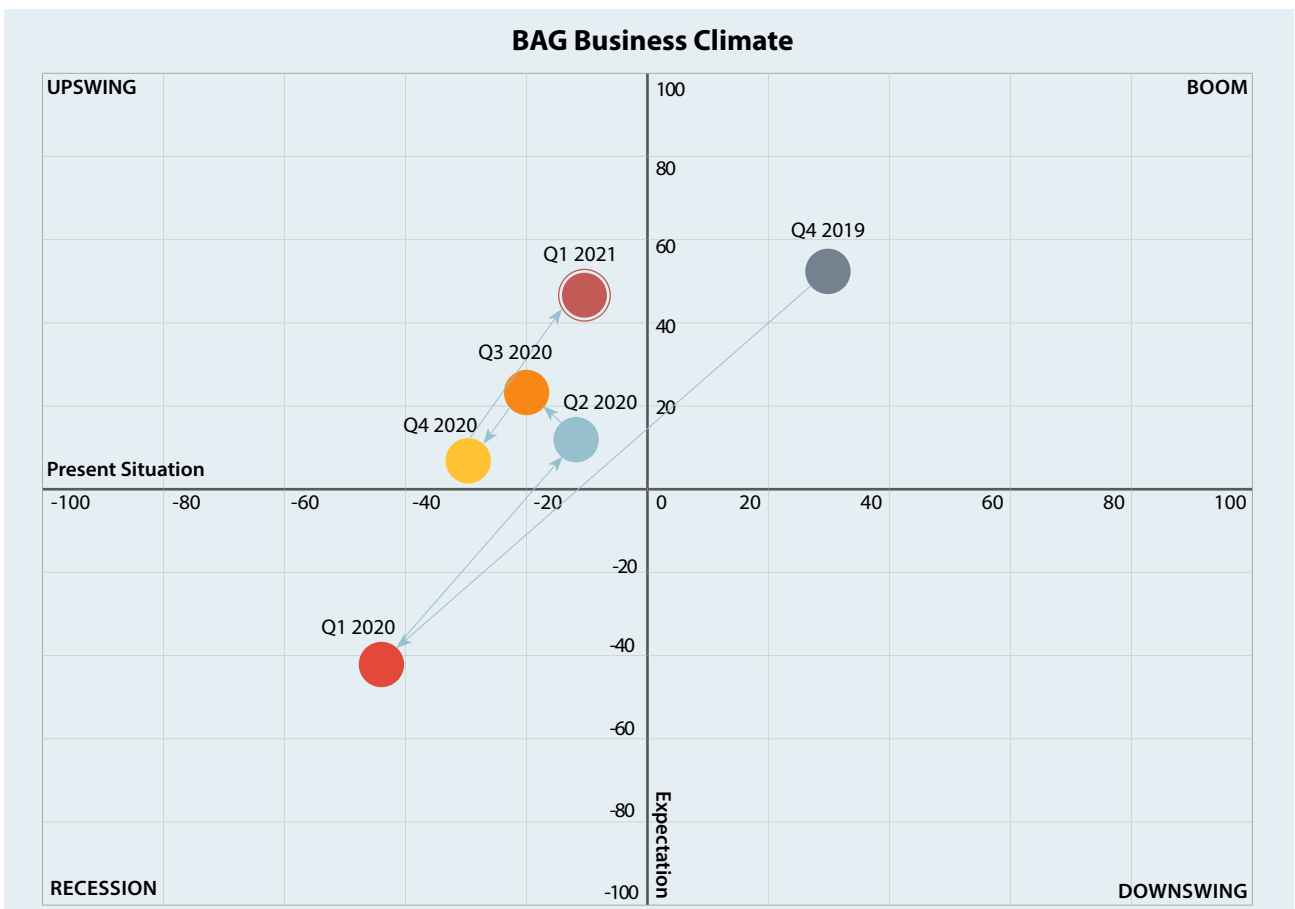
¹ In the first quarter of 2021, a change was made in the methodology of the BAG index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

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 the first quarter of 2021, the BAG business climate index is in the **upswing 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 are 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

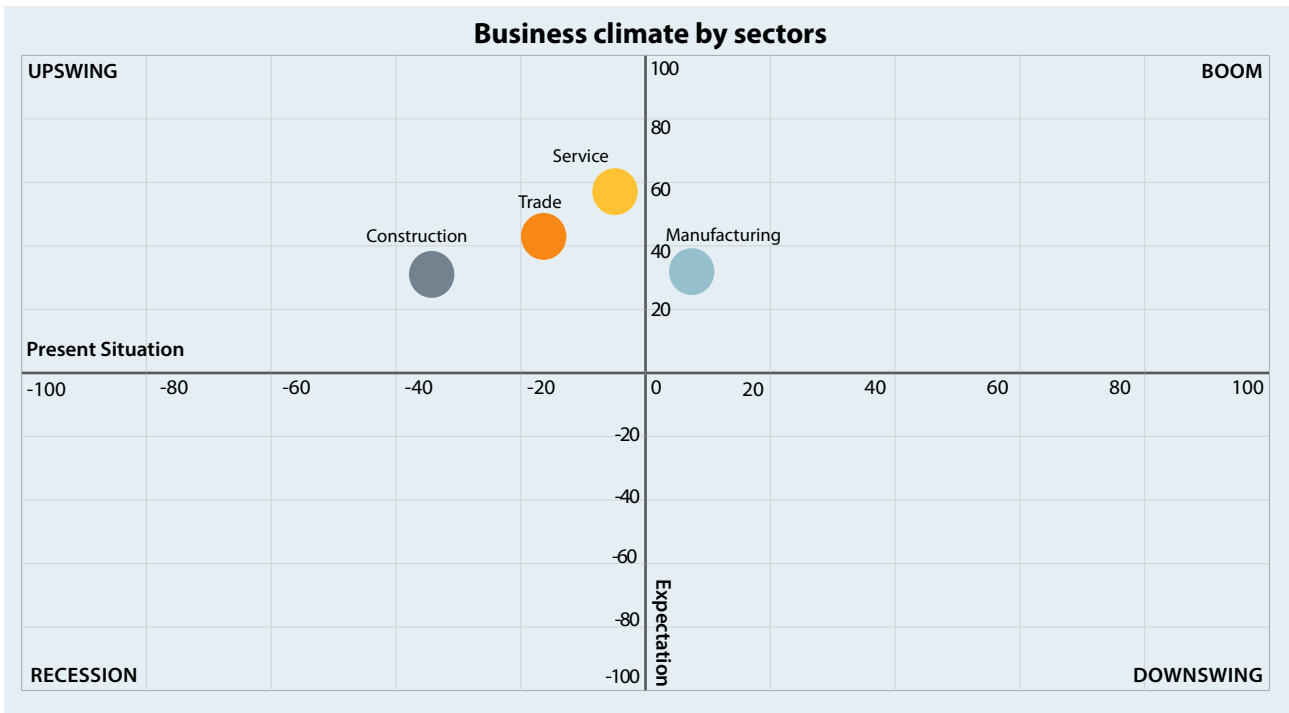
In Q1 of 2021, the BAG Business Climate indicator was positive for all sectors, except construction (See Table 1). It is worth noting that in Q1 of 2021, compared to Q4 of 2020, the BAG Business Climate indicator improved for all sectors, with the biggest improvement recorded in the service sector (by 40 points).

In Q1 of 2021, compared to Q4 of 2020, the present business situation indicator improved in all sectors, except the construction sector (which worsened by 2.4 points). Despite this improvement, the overall assessment is still negative in all sectors, except the manufacturing.

In Q1 of 2021, the business expectations indicator was positive for all sectors. The most optimistic predictions were recorded in the service sector. In Q1 of 2021, compared to Q4 of 2020, expectations improved in all sectors, except manufacturing (which worsened by 30.6 points).

Table 1: Balance values by sector in the I quarter of 2021

	Business Climate	Present Business Situation	Business Expectation
Trade Sector	8.9	-19.4	41.7
Manufacturing Sector	17.5	6.3	29.4
Construction Sector	-6.2	-35.7	28.6
Service Sector	23.3	-5.9	56.9
All Sectors	14.6	-11.8	44.9



Graph 3: Business climate by sectors in Q1 of 2021

During the Q1 2020 – Q1 2021 period, the assessments of the business climate by respondents in the manufacturing sector were often more optimistic compared to other sectors. The BAG Business Climate indicator in manufacturing has been improving since Q3 of 2020 but has yet to return to its pre-pandemic figure by Q1 of 2021.



Graph 4: BAG Business Climate, Business Expectation, and Present Business Situation in Trade, Manufacturing, Construction, and Service Sectors

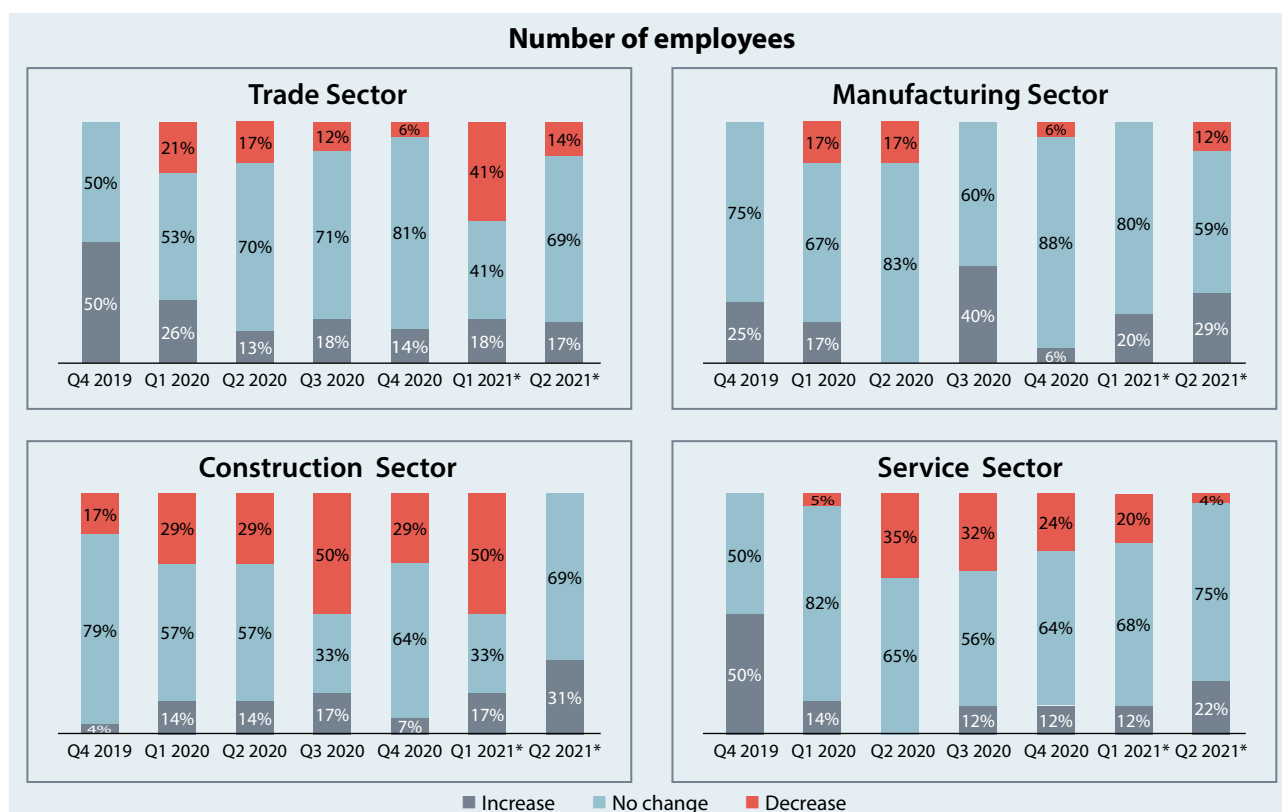
During the Q1 2020 – Q1 2021 period, the worst assessments of the business climate was mainly recorded in the construction sector.

During the Q1 2020 – Q1 2021 period, the most negative assessments of the business situation were mainly recorded in the service and construction sectors. In the given period, the assessments of the business situation were the least negative in the manufacturing sector (See Graph 4).

EMPLOYMENT, SALES AND SALES PRICES BY SECTOR

Employment: assessment of Q4 2020 and expectations for Q2 2021

- ✘ Only 11.1% of surveyed companies stated that number of their employees increased in Q4 of 2020, compared to Q3 of 2020, while 16.2% stated that this figure had decreased. For the majority of respondents (72.7%), number of their employees was unchanged.
- ✘ 28.6% of surveyed companies in the construction sector stated that number of their employees decreased in Q4 of 2020, compared to Q3 of 2020. A decrease in the number of employees was recorded in 24% of companies in the service sector, 5.9% of companies in the manufacturing sector, and 5.6% of companies in the trade sector.
- ✘ 28.9% of the surveyed companies expect an increase in number of their employees in Q2 of 2021, compared to Q1 of 2021, while 9.6% predict a decrease. The majority of the surveyed companies (61.5%) do not expect any change in this regard.
- ✘ Small proportions of respondents in the service sector (3.9%), manufacturing sector (11.8%), and trade sector (13.9%) expect a decrease in the number of their employees in Q2 of 2021, compared to Q1 of 2021, while in the construction sector none of the companies expect a decrease in this respect.



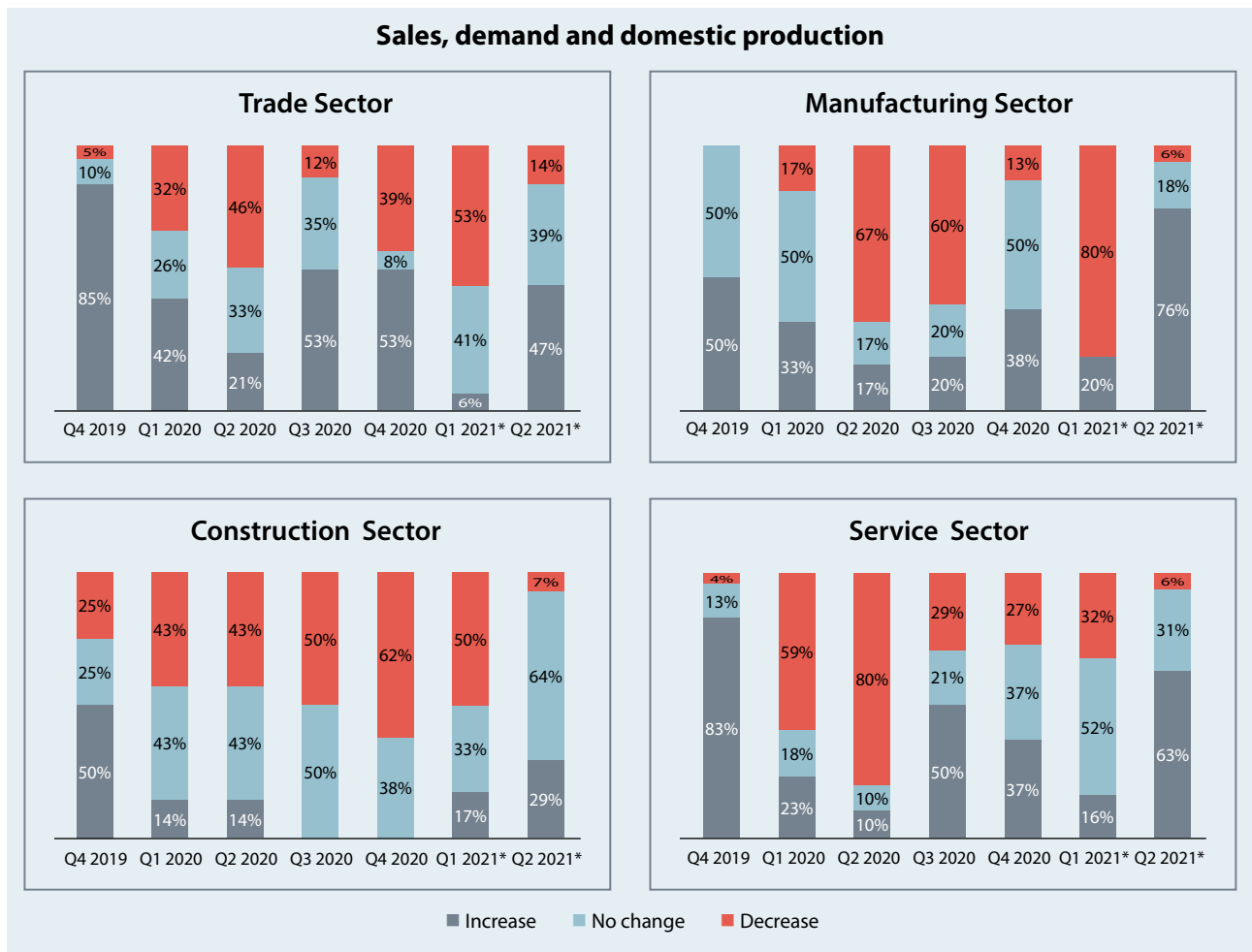
Graph 5: The number of employees in trade, manufacturing, construction, and service sectors³

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

* Expectation.

Sales/demand/domestic production: assessment of Q4 2020 and expectations for Q2 2021

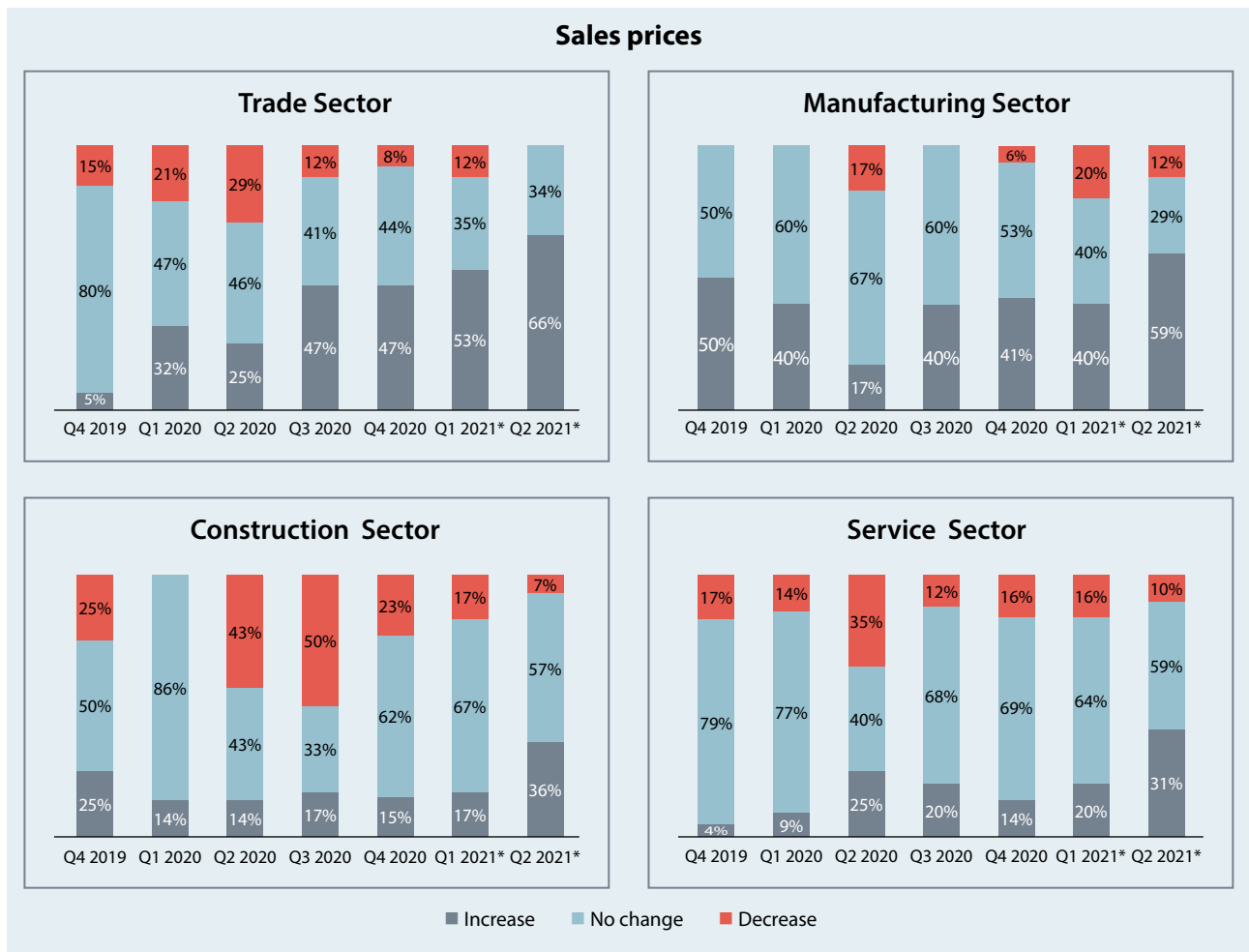
- ✘ 52.8% of surveyed companies in the trade sector stated that sales increased in Q4 of 2020, compared to Q3 of 2020. It is worth noting that none of the companies in the construction sector recorded an increase in sales during this period.
- ✘ 37.5% of respondents in the manufacturing sector reported that demand for their production increased in Q4 of 2020, compared to Q3 of 2020.
- ✘ 36.7% of the respondents in the service sector stated that their turnover increased in Q4 of 2020, compared to Q3 of 2020.
- ✘ 64.3% of the surveyed companies in the construction sector did not expect their sales/orders to change in Q2 of 2021, compared to Q1 of 2021.
- ✘ 76.5% of surveyed businesses in the manufacturing sector expect an increase in domestic production in Q2 of 2021, compared to Q1 of 2021.
- ✘ A large proportion of respondents in the service sector (62.7%) expect sales to increase, while in the trade sector 47.2% of the surveyed companies expect orders to increase in Q2 of 2021, compared to Q1 of 2021.



Graph 6: Sales, demand and domestic production in trade, manufacturing, construction, and service sectors

Sales prices: assessment of Q4 2020 and expectations for Q2 2021

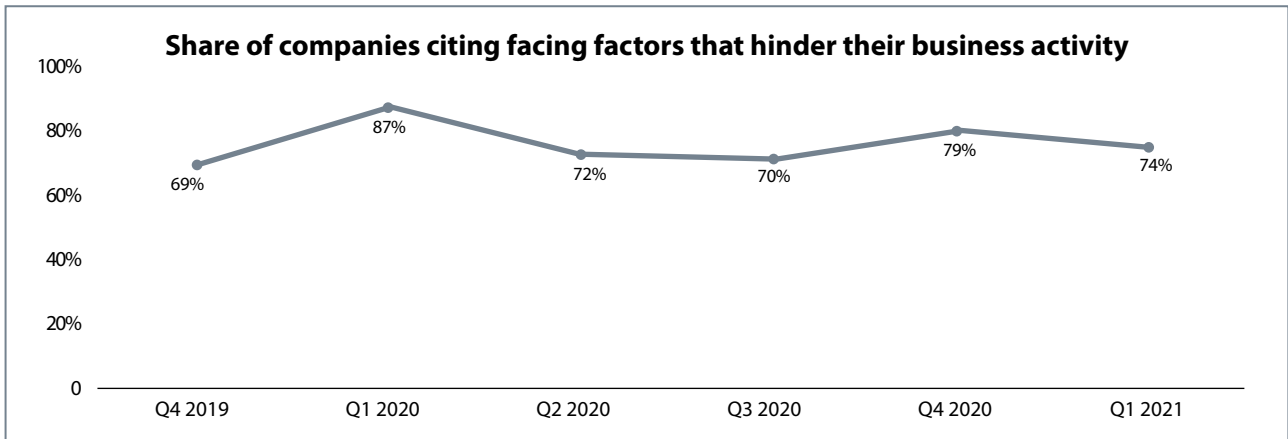
- ✘ Almost one-third of respondents (28.7%) stated that in Q4 of 2020, compared to Q3 of 2020, sales prices increased, while 58.3% stated that prices were unchanged. According to 13% of the surveyed companies, sales prices decreased in this period.
- ✘ 47.2% of surveyed businesses in the trade sector stated that sales prices increased in Q4 of 2020, compared to Q3 of 2020. The figures in the manufacturing sector, the construction sector, and service sector were 41.2%, 15.4% and 14.3%, respectively over the same period.
- ✘ 45.3% of the surveyed companies expect an increase in sales prices in Q2 of 2021, compared to Q1 of 2021, while 50.9% do not expect any change, and 3.8% expect a decrease.
- ✘ Small proportions of the surveyed businesses in manufacturing (11.8%), service (9.8%) and construction (7.1%) expect sales prices to decrease in Q2 of 2021, compared to Q1 of 2021.
- ✘ The majority of respondents in the service sector (58.8%) and construction (57.1%) do not expect sales prices to change in Q2 of 2021, compared to Q1 of 2021. Similar expectations were recorded in the trade and manufacturing sectors, 34.3% and 29.4% of respondents, respectively.



Graph 7: Sales prices in trade, manufacturing, construction and service sectors

FACTORS HINDERING BUSINESS ACTIVITY

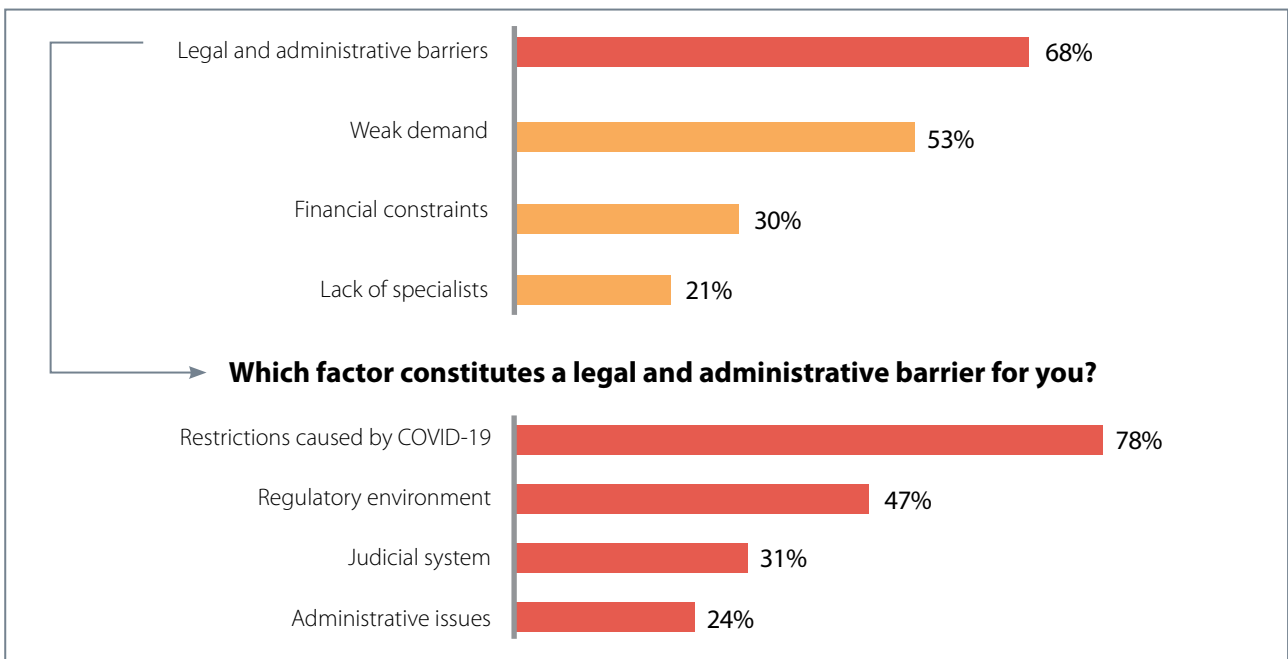
In Q1 of 2021, compared to Q4 of 2020, the share of surveyed companies to claim there are factors hindering their business activity decreased by 5 percentage points, and reached 74%. Despite this decrease, the indicator has still not dropped to its pre-pandemic level (Q4 2019), when 69% of respondents stated that there were factors hindering their business activity. The increase recorded in Q1 of 2021, compared to Q4 of 2019, is clearly a result of the COVID-19 pandemic.



Graph 8: Existence of factors hindering business activity

In Q1 of 2021, as in previous periods, four factors were emphasized as the most hindering for business activity: legal and administrative barriers, weak demand for products and services, financial constraints, and lack of specialists (See Graph 9).

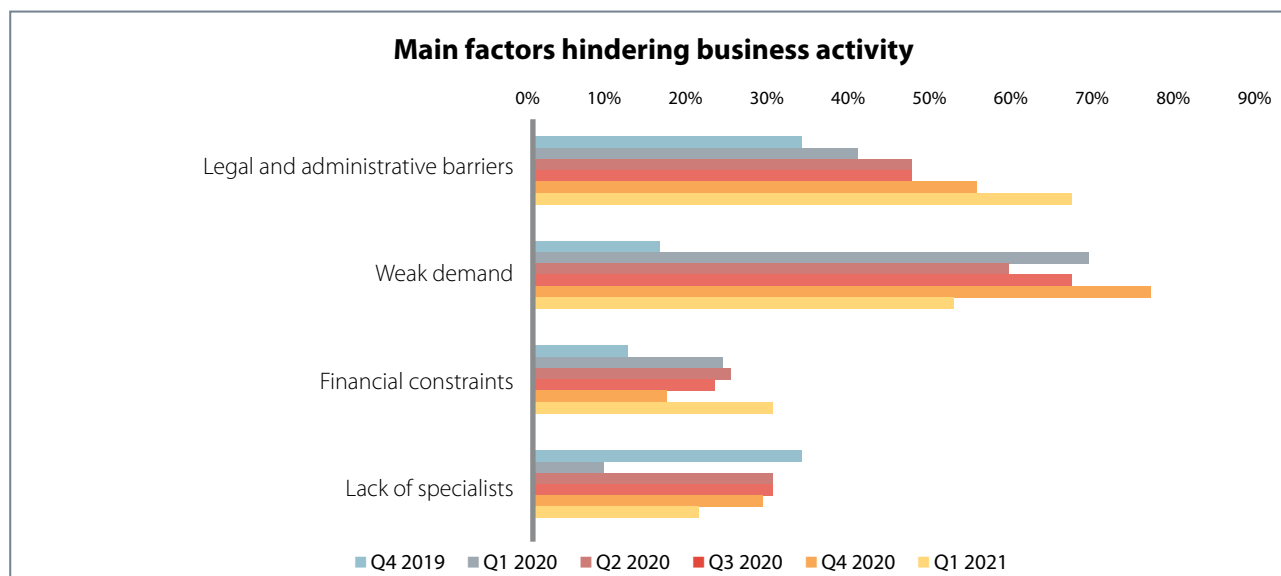
In Q1 of 2021, legal and administrative barriers were cited as the most hindering factor, named by 68% of the respondents. It is worth noting that in all four quarters of 2020, weak demand was named as the major hindering factor (See Graph 10).



Graph 9: The main challenges that BAG businesses face in Q1 2021

According to the survey conducted in Q1 2021, restrictions caused by the COVID-19 pandemic are the main reason why legal and administrative barriers are named amongst the factors hindering business activity. This is followed by the regulatory environment and judicial system.

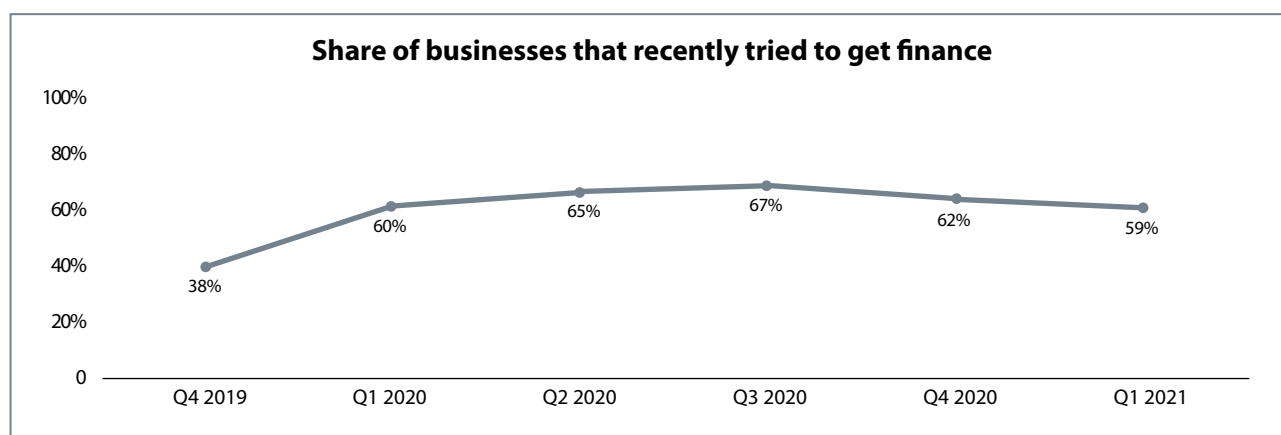
In the survey conducted before the pandemic, the share of companies citing legal and administrative barriers as a hindering factor amounted to 34%. In Q1 of 2021, compared to pre-pandemic level, this figure increased by 34 percentage points, while the share of companies to cite weak demand as a hindering factor increased by 37 percentage points. Meanwhile, in this period, the share of companies citing a lack of specialists as a main hindrance decreased by 13 percentage points.



Graph 10: Main factors hindering business activity

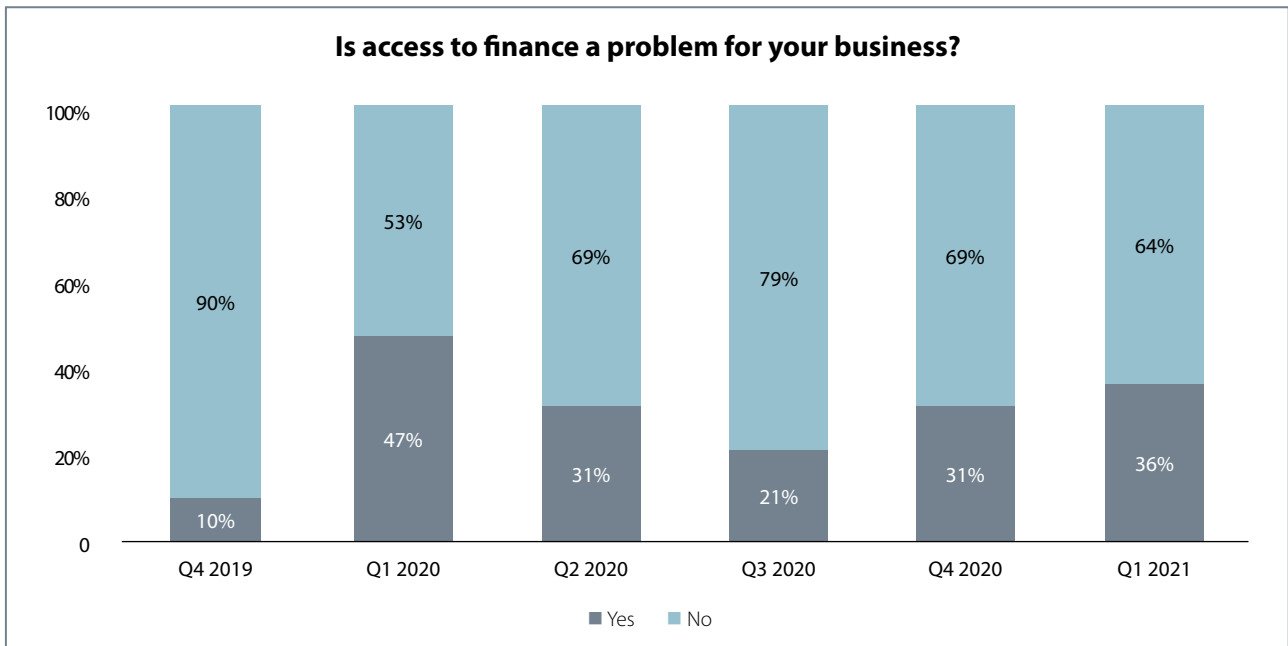
FINANCING

In Q1 of 2021, 59% of surveyed companies claimed to have recently tried to obtain finance. Overall, 36% of those companies stated that access to finance is a problem for them. With regard to sources of financing, 68% of surveyed companies stated that they obtained finance from local funds, while 3% stated that they are financed from foreign funds.⁴

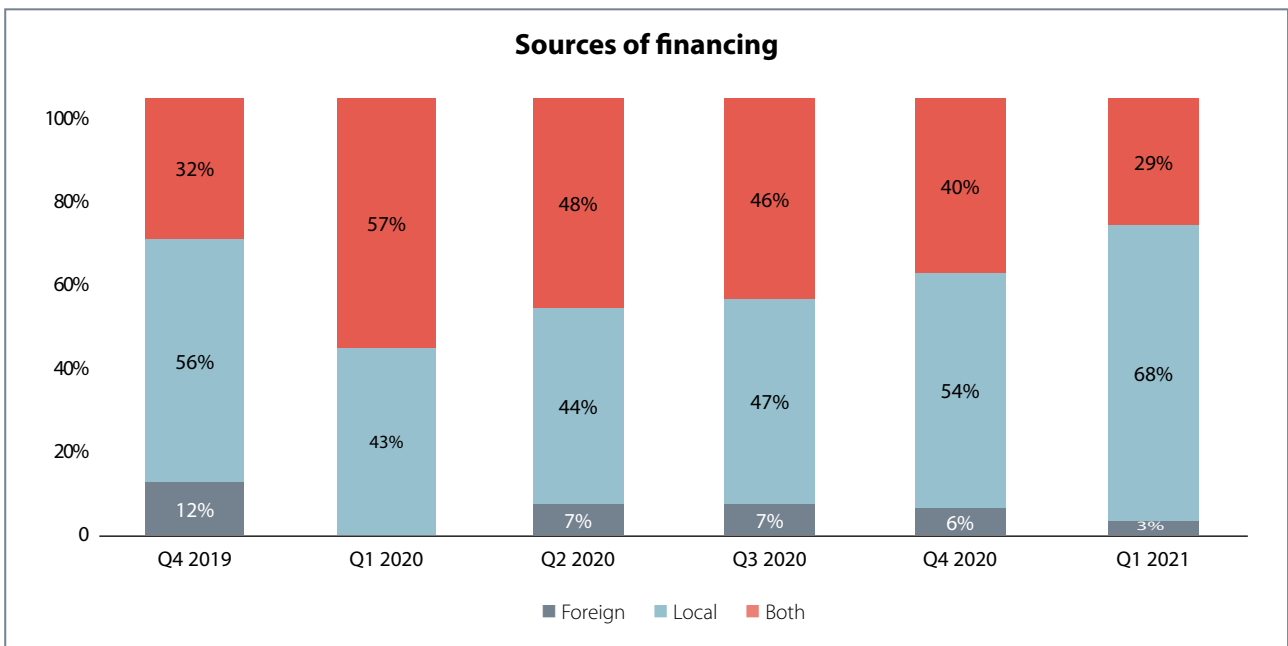


Graph 11: Businesses that recently tried to get finance

⁴ 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 12: Access to finance⁵



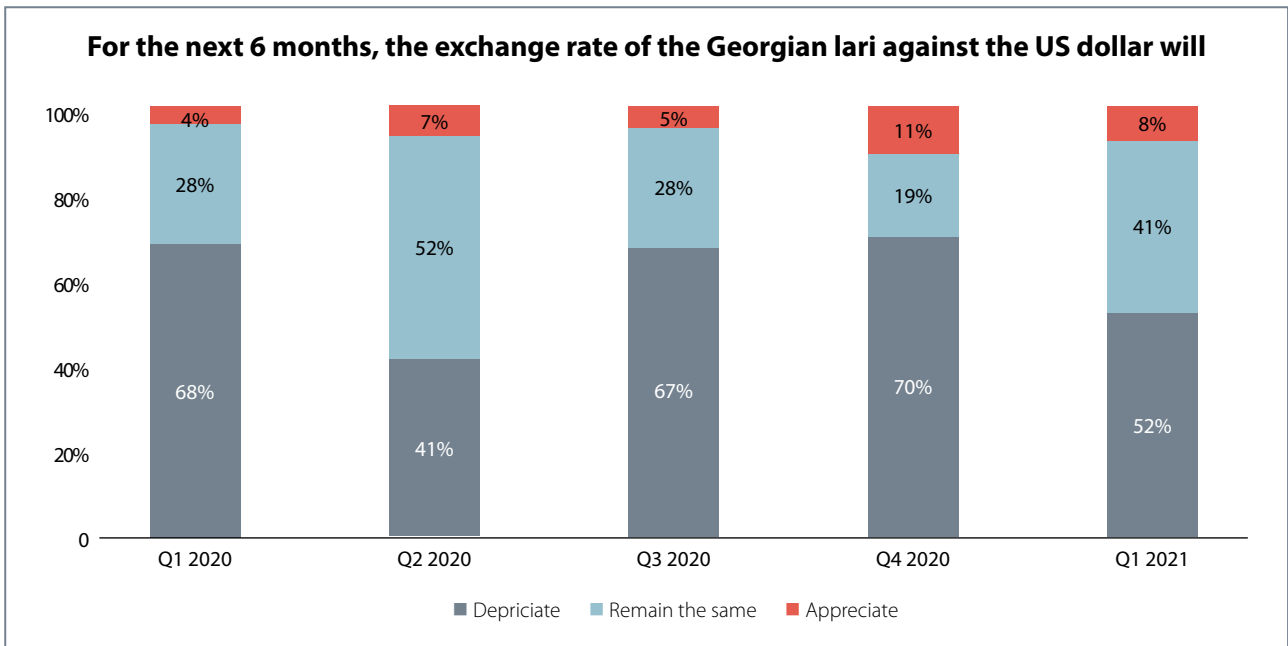
Graph 13: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q1 of 2021, compared to the previous quarter, the share of companies expecting that the national currency will depreciate against the US Dollar decreased significantly. However, a majority of companies (52%) still expect the national currency to depreciate.

Moreover, compared to the previous quarter, the share of companies not expecting the national currency to change against the US Dollar increased significantly.

⁵ The question was only answered by those companies that stated they had recently sought finance.



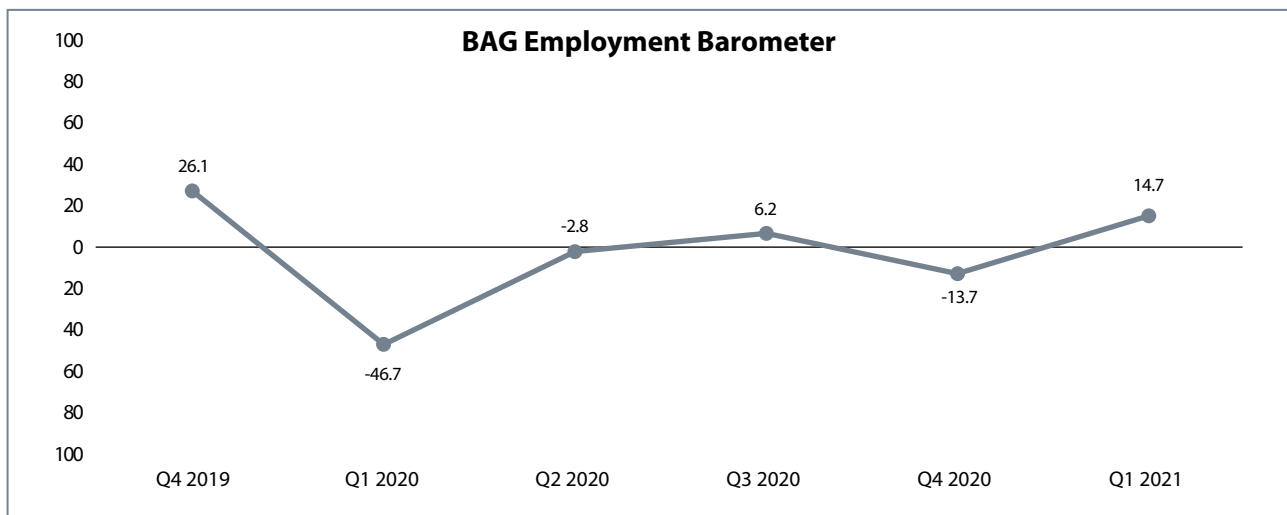
Graph 14: Exchange rate of the Georgian Lari against the US Dollar

Improved expectations with regard to the GEL exchange rate against the USD could be connected with the majority of surveyed businesses expecting that their sales, domestic production, and orders will increase in the next three months.

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months.⁶

IN Q1 OF 2021, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 14.7 POINTS, MARKING A SIGNIFICANT IMPROVEMENT, COMPARED TO BOTH Q1 OF 2020 (BY 64.1 POINTS) AND Q4 OF 2020 (BY 28.4 POINTS).



Graph 15: BAG Employment Barometer

A positive outlook with regard to employment is recorded in all four sectors (trade, manufacturing, construction, and service).

In Q1 of 2021, compared to the previous quarter, the employment barometer improved the most in the construction sector, where 30.8% of surveyed businesses expect the number of employees to increase in the next three months.

Moreover, it has to be noted that in Q1 of 2021, compared to Q1 of 2020, the employment barometer also improved the most in the construction sector. In Q1 of 2020, 80% of respondents in the construction sector expected a decrease in the number of employees, while in Q1 of 2021 none of the respondents plan to decrease their number of employees.

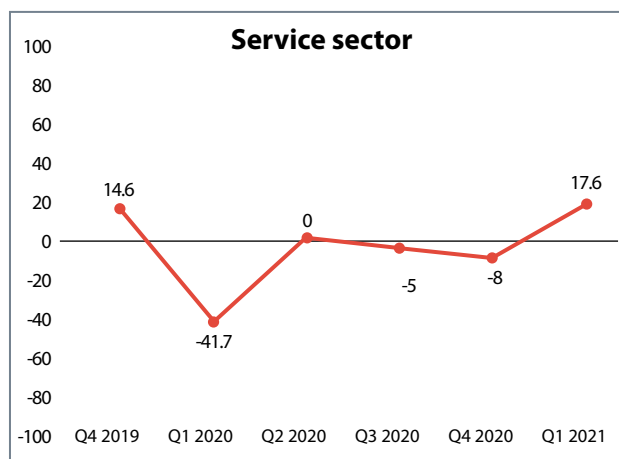
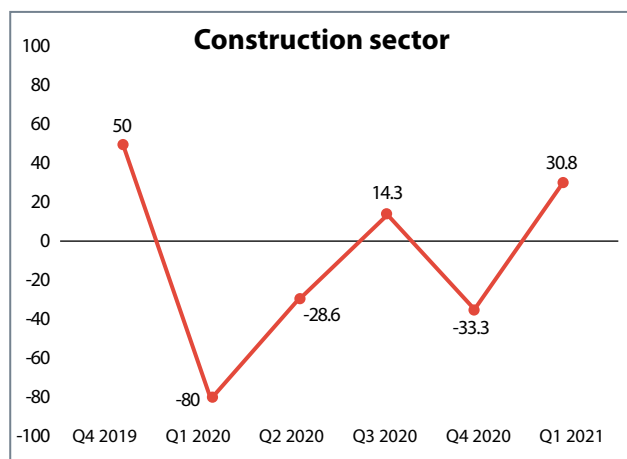
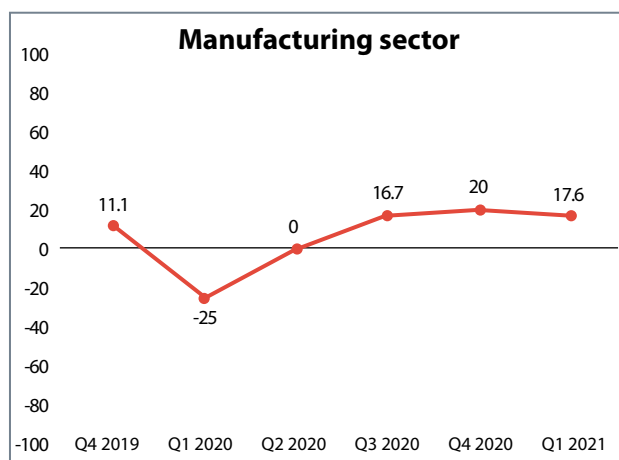
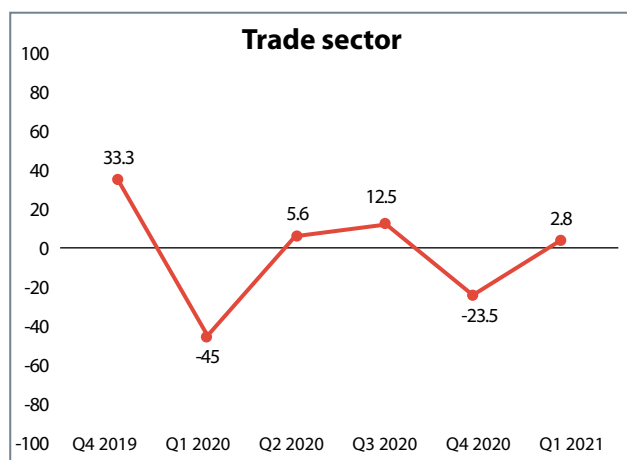
In Q1 of 2021, compared to the previous quarter, the employment barometer in the trade and service sectors, as is the case in the construction sector, has improved significantly. These improvements could be a result of the generally optimistic outlook in these sectors regarding sales and sales prices for the next three months.

⁶ 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.

In the manufacturing sector, unlike the other sectors, in Q1 of 2021, compared to Q4 of 2020, the employment barometer worsened.

Table 2: Employment Barometer. Balance values by sector

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Trade	33.3	-45.0	5.6	12.5	-23.5	2.8
Manufacturing	11.1	-25.0	0.0	16.7	20.0	17.6
Construction	50.0	-80.0	-28.6	14.3	-33.3	30.8
Service	14.6	-41.7	0.0	-5.0	-8.0	17.6
BAG Employment Barometer	26.1	-46.7	-2.8	6.2	-13.7	14.7



Graph 16: BAG Employment Barometer by sector

BAG INVESTMENT SURVEY

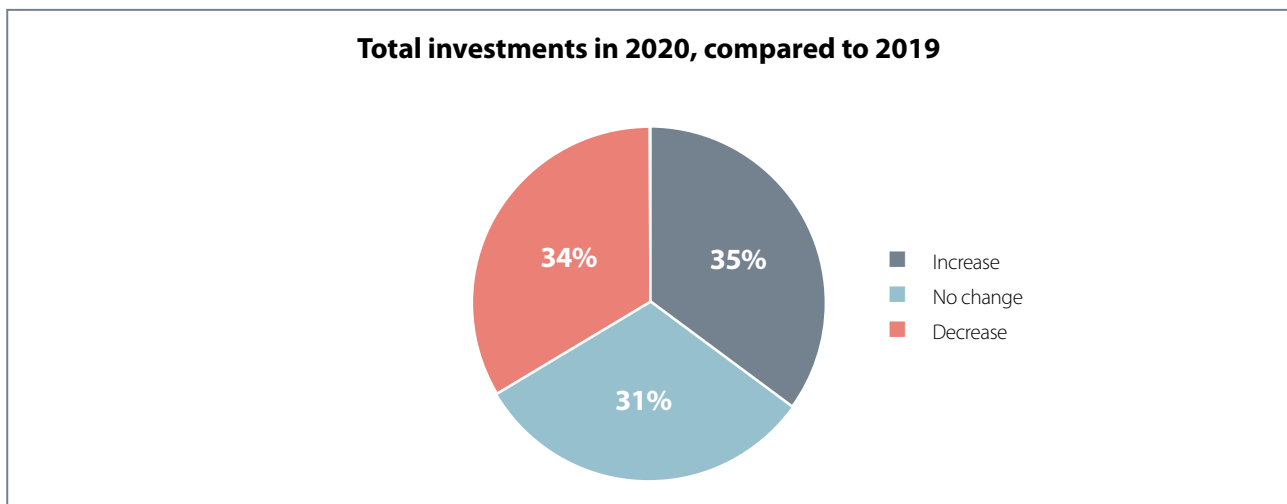
As part of an investment survey, which is carried out bi-annually, PMC Research Center collects data on investment trends. For the purposes of this survey, respondents were divided into the following four sectors (similar to the BAG Business Climate): construction, manufacturing, service and trade. The survey conducted in the first quarter of 2021 covered investments made by surveyed businesses in 2020 and their plans for 2021.

INVESTMENT ENVIRONMENT IN 2020

Overall, 35.4% of the surveyed BAG member businesses stated that their total investments had increased in 2020, compared to 2019. Meanwhile, 31% of the surveyed BAG member businesses claimed their total investments were unchanged, while 33.6% stated their investments had decreased over the same period.

Only 6.3% of companies in the manufacturing sector reported a decrease in total investments in 2020, compared to 2019. These figures for trade, construction, and service sectors were 44.4%, 35.7%, and 34%, respectively (For detailed information see graphs 19, 20, 21 and 22).

Furthermore, 41.7% of respondents in the trade sector stated that total investments increased in 2020, compared to 2019. At the same time, 37.5% of surveyed companies in the manufacturing sector recorded an increase in total investments in this timeframe, while for the service and construction sectors these figures were 32% and 28.6%.



Graph 17: Investment environment in 2020

In 2020, the majority of companies (44%) recorded an increase in their total investments in software and databases. The lowest increase in the volume of total investments was recorded in plants, with 23% of surveyed companies recording growth in this regard. Moreover, 38% of respondents stated they had increased investments in equipment over the same period.

Looking at things sector by sector, the service sector recorded the highest percentage share of companies stating an increase in their total investments in software/databases amongst the four sectors (51.2%).

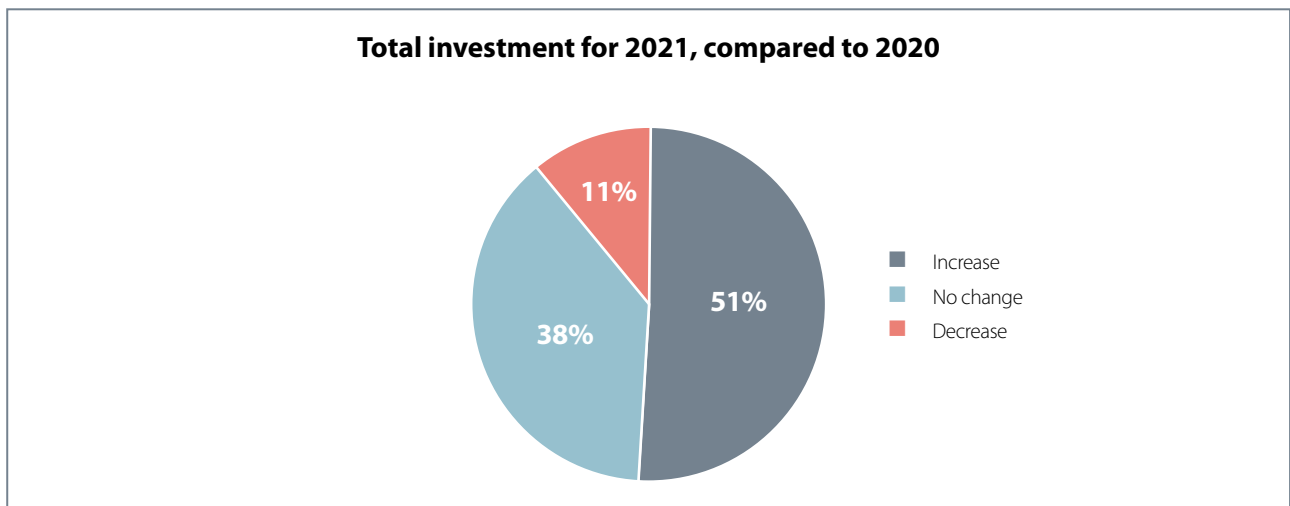
The construction sector recorded the highest percentage share of businesses stating an increase in their investments in plants in 2020, compared to 2019 (30%).

INVESTMENT PLANS FOR 2021

In the first quarter of 2021, 51.3% of surveyed businesses claimed that they will increase their total investments in 2021, compared to 2020. At the same time, 37.6% of the surveyed companies expect no change in their total investments for the year, while 11.1% expect a decrease in total investments.

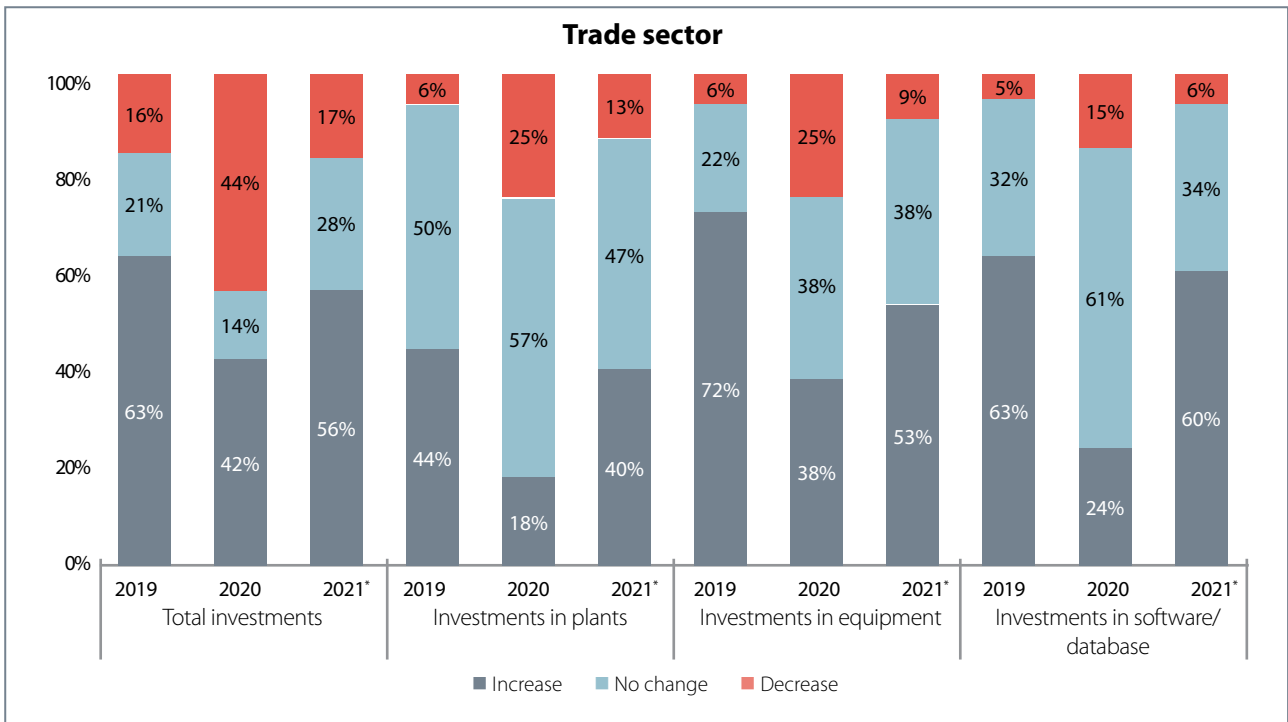
The construction sector conveyed the most pessimistic expectations for 2021 amongst all four sectors. Only 43% of companies in the construction sector claimed that they will increase their total investments in 2021, compared to 2020. Moreover, either half or more than a half of respondents held similar expectations in the manufacturing, service, and trade sectors (50%, 51%, and 55.6%, respectively).

Overall, 21.4% of companies in the construction sector expect that they will record a decrease in total investments in 2021, compared to 2020. Elsewhere, 16.7% of respondents in the trade sector have similar expectations, compared to 6.3% in the manufacturing sector and 5.9% in the service sector.

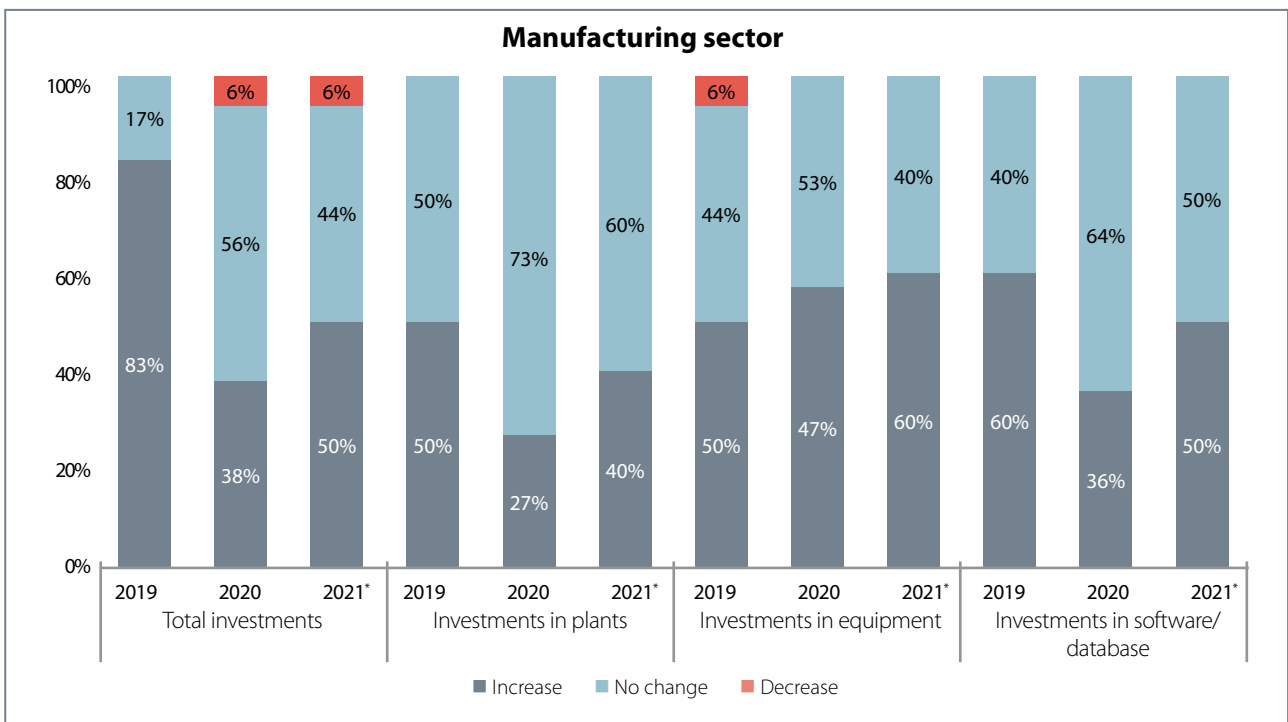


Graph 18: Investment plans for 2021

More positive expectations with regard to investments were recorded in software/databases, while less positive expectations were recorded with regard to investments in plants. Overall, 50% of respondents claimed that they will increase their investments in software/databases, while only 42.9% of respondents have the same expectation for investments in equipment in 2021, compared to 2020. Moreover, only 37% claim that their investments in plants will increase in 2021, compared to 2020.

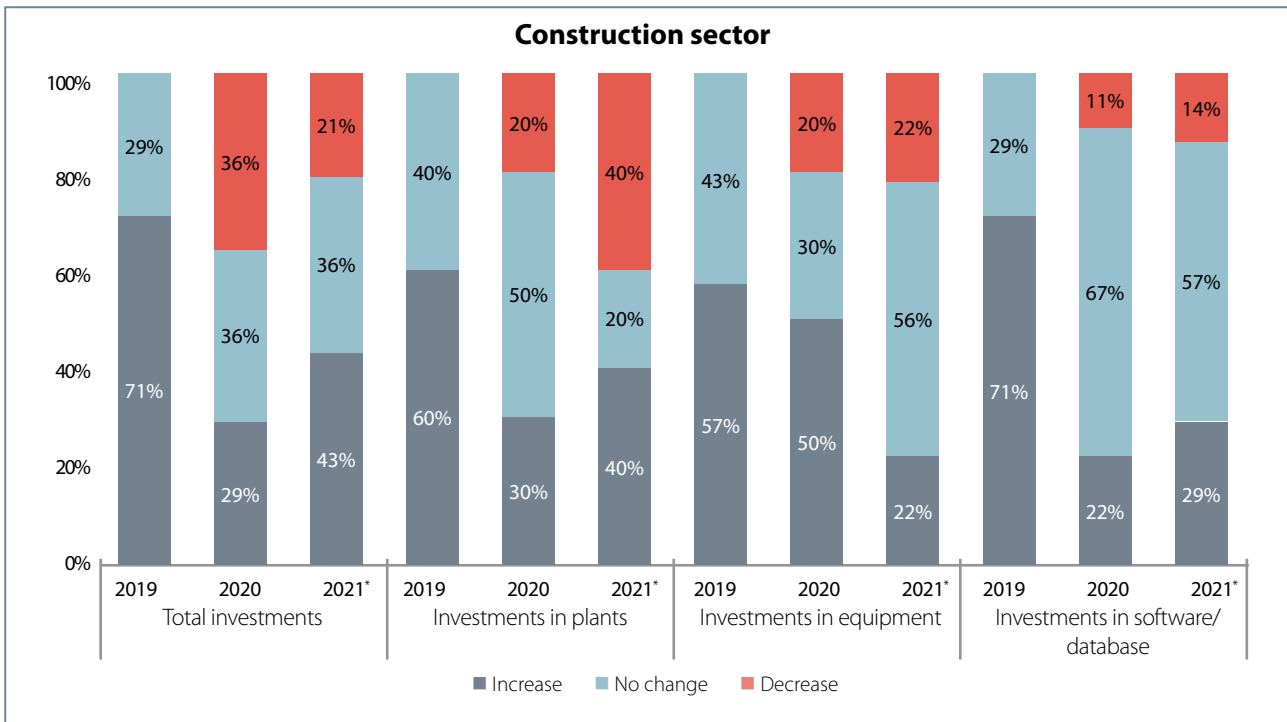


Graph 19: Investment environment in 2019 and 2020 and investment plans for 2021 in the trade sector (annual percentage change)

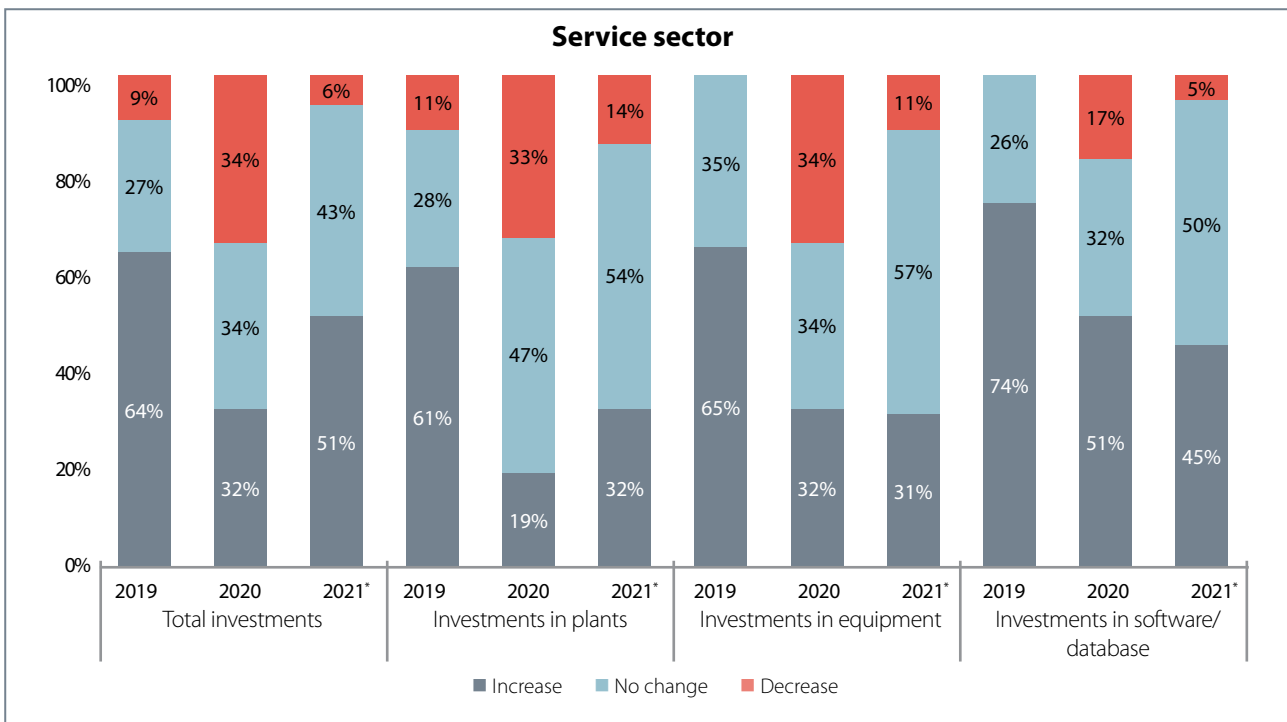


Graph 20: Investment environment in 2019 and 2020 and investment plans for 2021 in the manufacturing sector (annual percentage change)

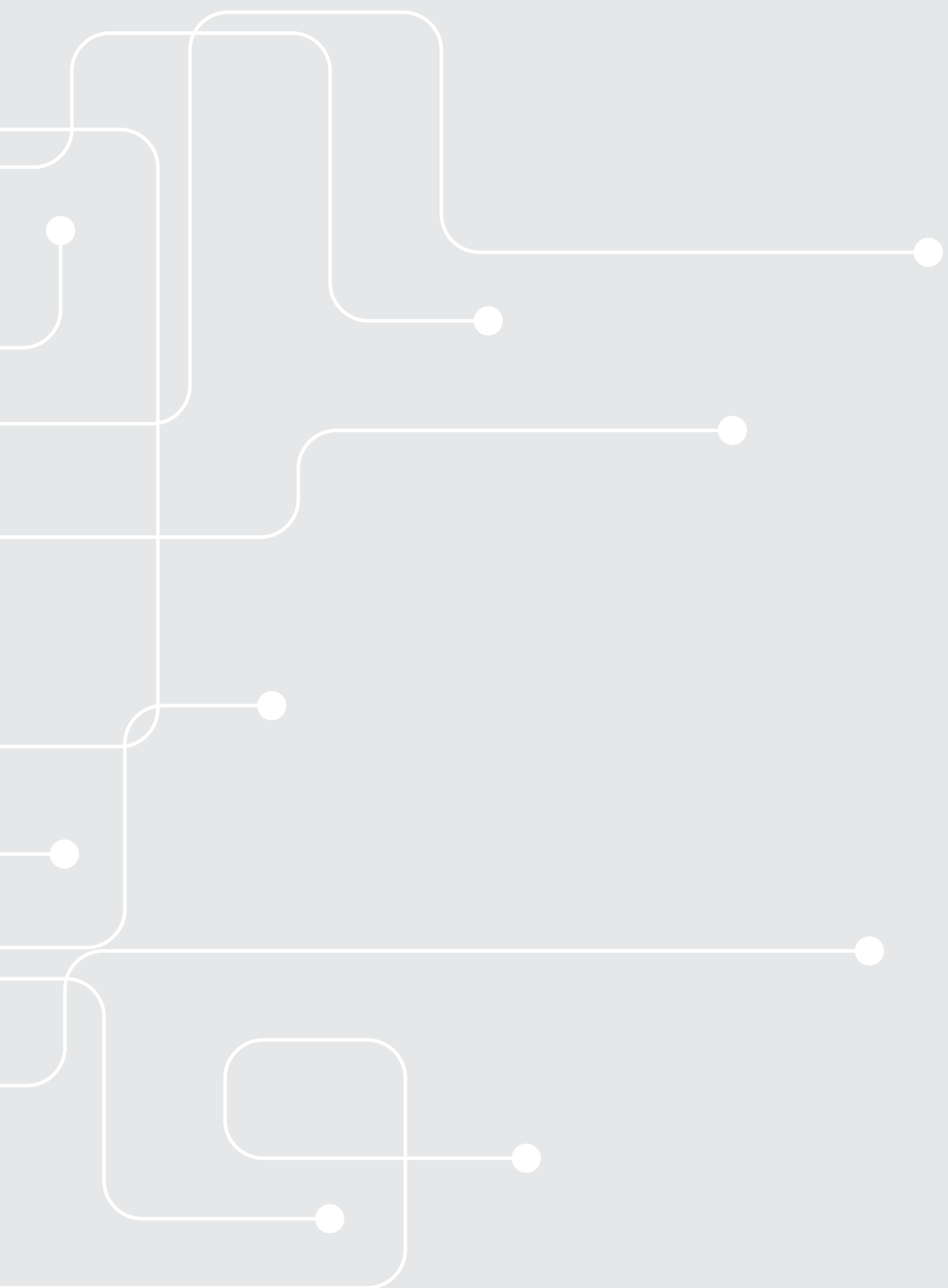
* Expectation.



Graph 21: Investment environment in 2019 and 2020 and investment plans for 2021 in the construction sector (annual percentage change)



Graph 22: Investment environment in 2019 and 2020 and investment plans for 2021 in the service sector (annual percentage change)



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