

# 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 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 <sup>1</sup>. 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<sup>2</sup>. 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 Q4 of 2024 in the period 18 November – 8 December.

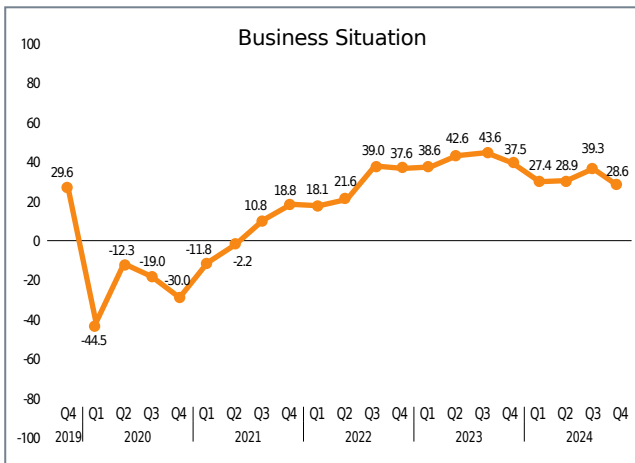
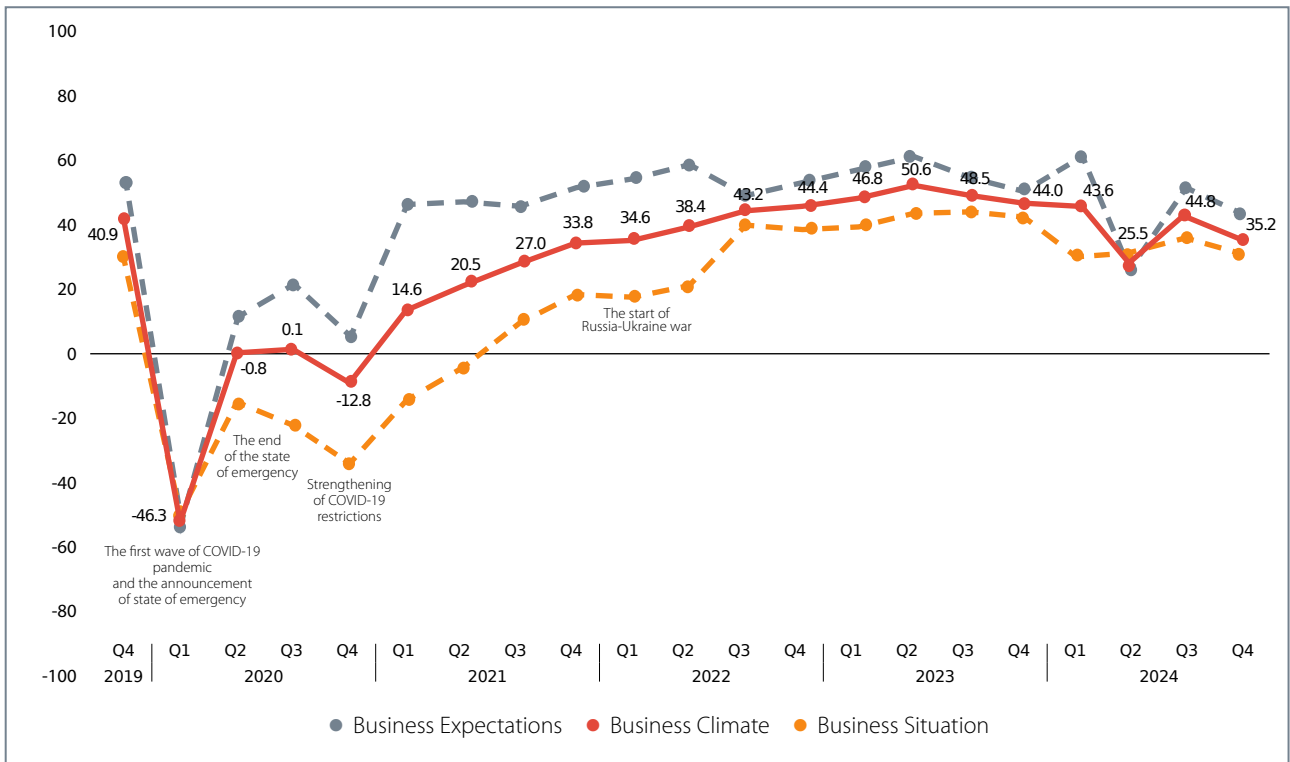
**IN Q4 OF 2024, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 35.2 POINTS IN Q4 OF 2024, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 28.6 AND THE BUSINESS EXPECTATIONS INDICATOR AT 41.9.**

In Q4 of 2024, compared to Q3 of 2024, the BAG Business Climate decreased by 9.6 points. Moreover, in this period, the assessment of the present business situation worsened by 10.7 points, and business expectations worsened by 8.6 points.

The figures for Q4 of 2024 demonstrate a deterioration compared to Q4 of 2023. In Q4 of 2023, the BAG Business Climate indicator was 44.0. The present business situation (37.5) and the business expectations indicators also decreased (50.7) (see graph 1).

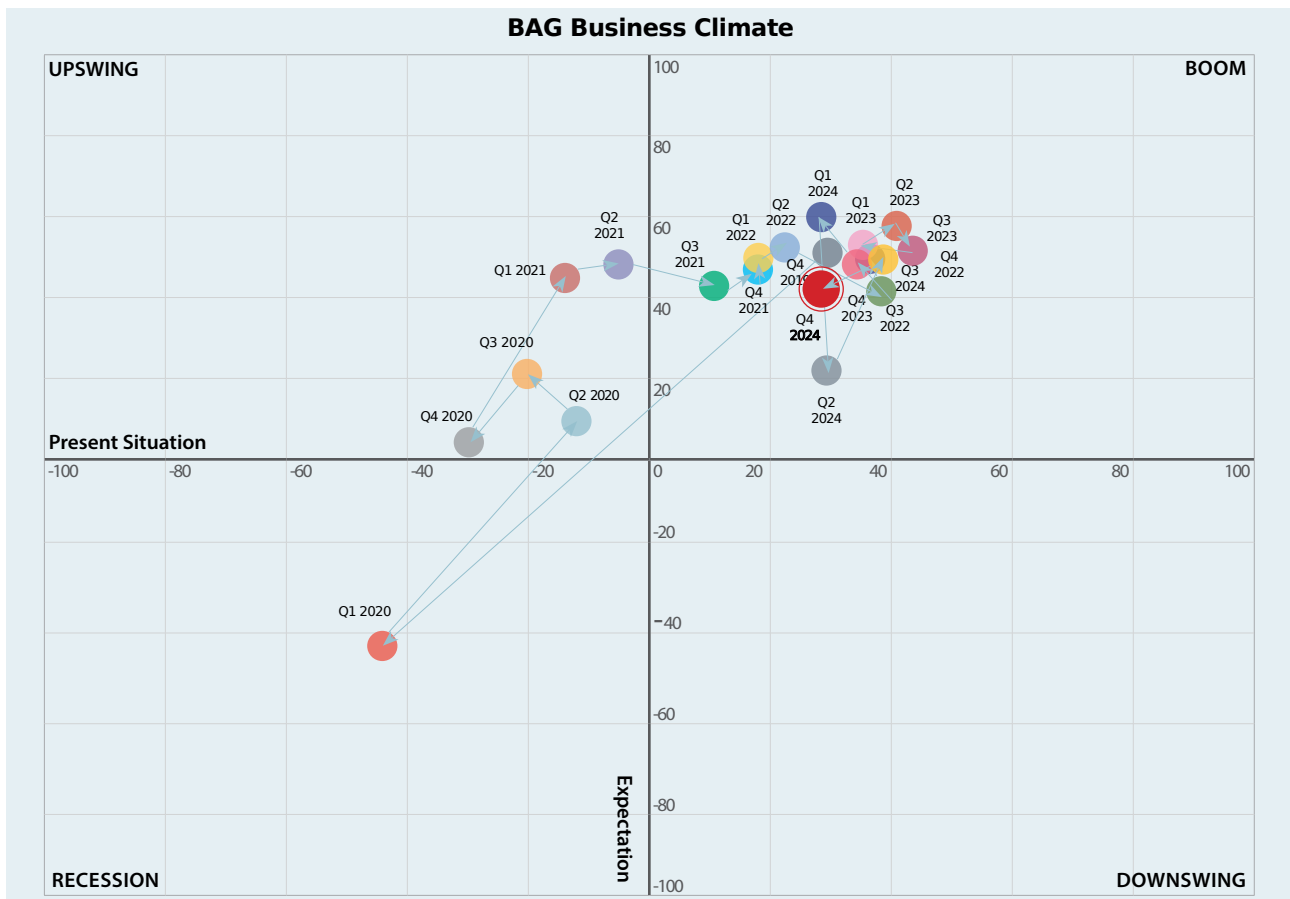
<sup>1</sup> In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

<sup>2</sup> 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 2024, despite a significant deterioration compared to the previous quarter, the BAG Business Climate Indicator is in the **the boom phase (see graph 1)**.



Graph 2: BAG Business Climate<sup>3</sup>

## BAG BUSINESS CLIMATE BY SECTORS

In Q4 of 2024, the **business climate indicator** was positive for all sectors. Compared to Q3 of 2024, in Q4 of 2024, the indicator worsened for all sectors, except the manufacturing sector. (see Graph 3).

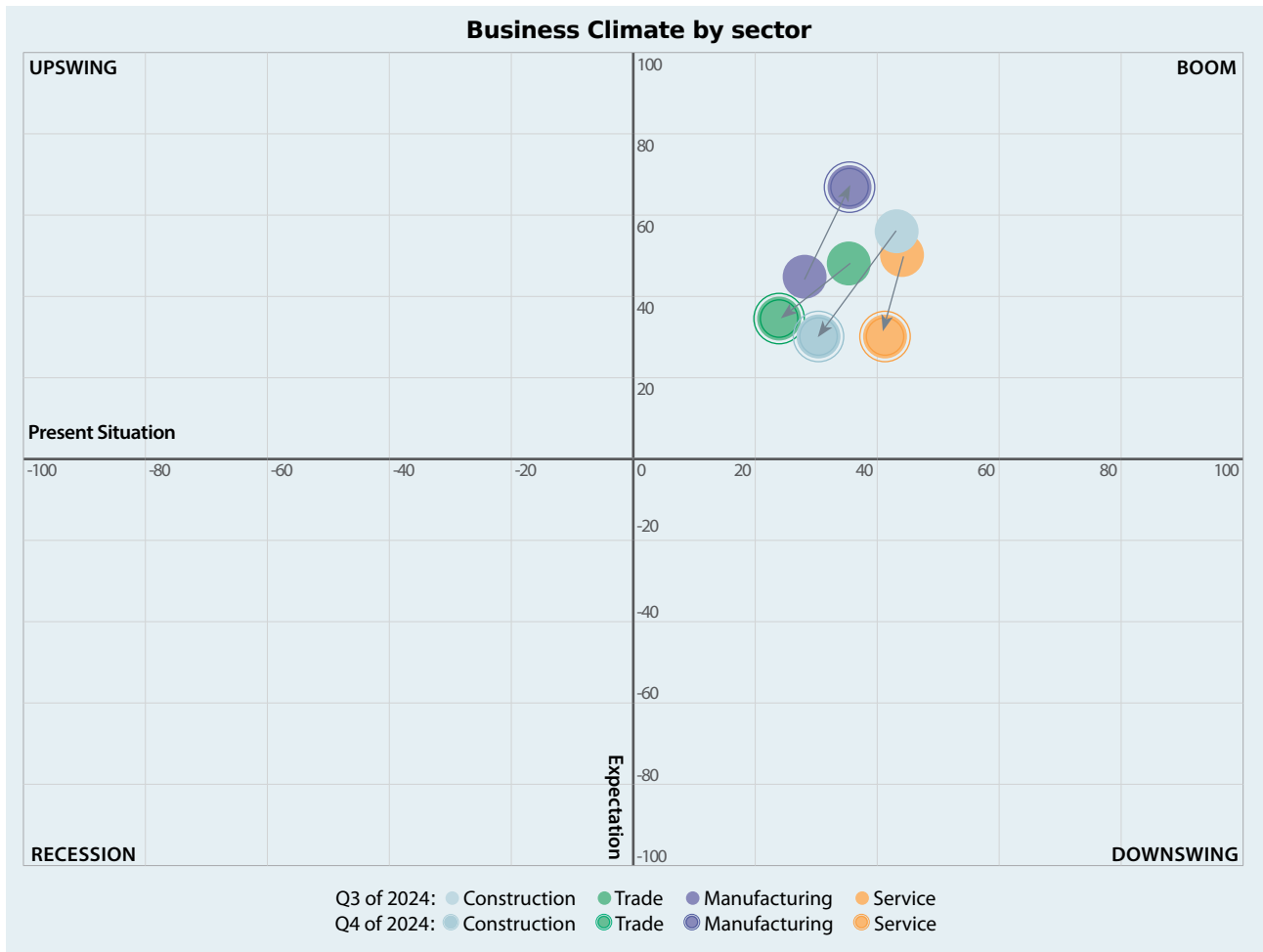
In Q4 of 2024, compared to Q3 of 2024, the **present business situation indicator** improved in the manufacturing sector by 4.7 points, while it worsened in the construction sector by 12.1 points, in the service sector by 12.7 points, and in the trade sector by 14.2 points. In Q4 of 2024, the **business expectations indicator** improved in the manufacturing sector by 20 points, while worsened in the service sector by 10.6 points, in the trade sector by 11.5 points, and in the construction sector by 26.4 points.

It is worth noting that in Q4 of 2024, the present business situation indicator was highest in the manufacturing sector and lowest in the trade sector. Among the sectors, the most positive business expectations were recorded in the manufacturing sector, while the most negative expectations were observed in the construction sector (see Table 1).

<sup>3</sup> 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.

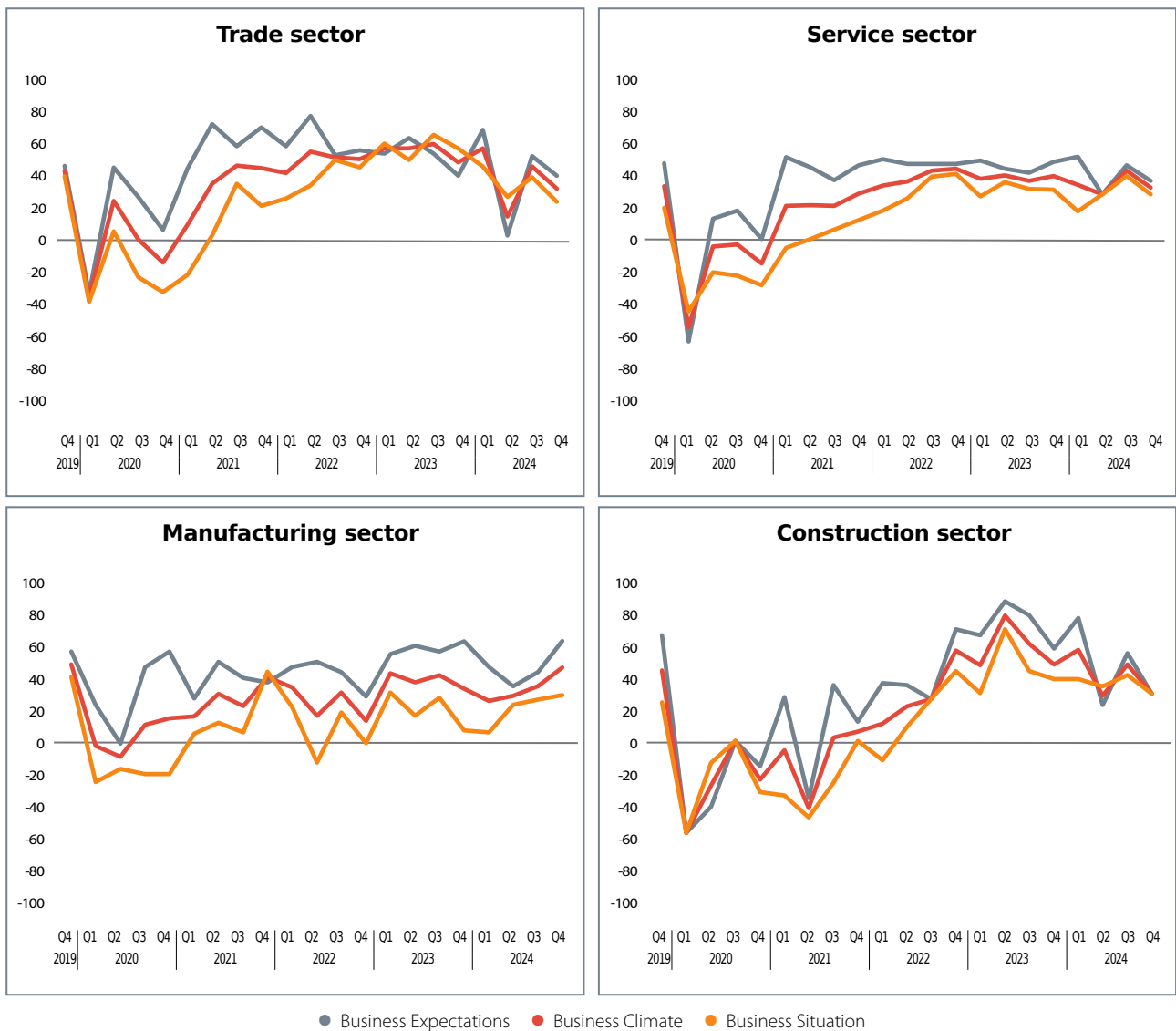
**Table 1:** Balance values by sector in Q4 of 2024

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	29.5	22.2	37.0
Service Sector	35.9	31.3	40.6
Manufacturing Sector	49.4	33.3	66.7
Construction Sector	30.8	30.8	30.8
All Sectors	35.2	28.6	41.9



**Graph 3:** Business climate by sector in Q3 and Q4 of 2024

In Q4 of 2024, compared to Q4 of 2023, the business climate indicator declined in all four sectors, except the manufacturing sector. Namely, the business climate indicator declined in the construction sector by 19.1 points, in the trade sector by 12.8 points, and in the service sector by 11.6 points. As for the manufacturing sector, the business climate indicator improved by 12.0 points. Notably, in the construction sector, a decrease in business climate indicators is associated with deteriorated business expectations, while in the trade sector, the decline is associated with deteriorated assessments of present business situation.

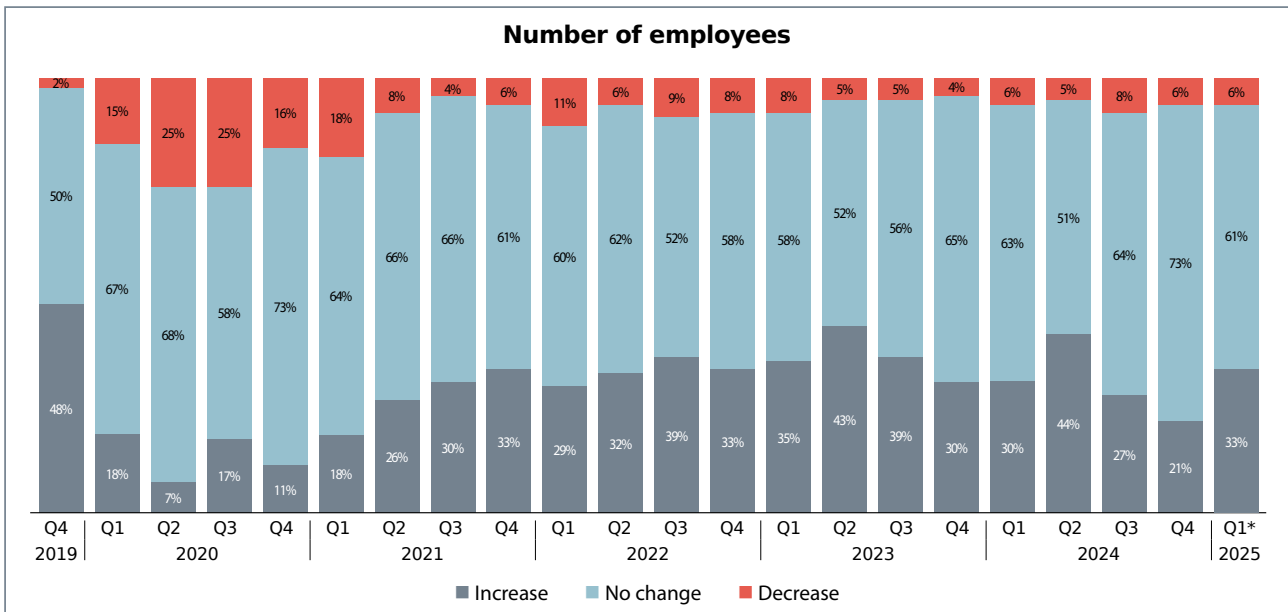


**Graph 4:** Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

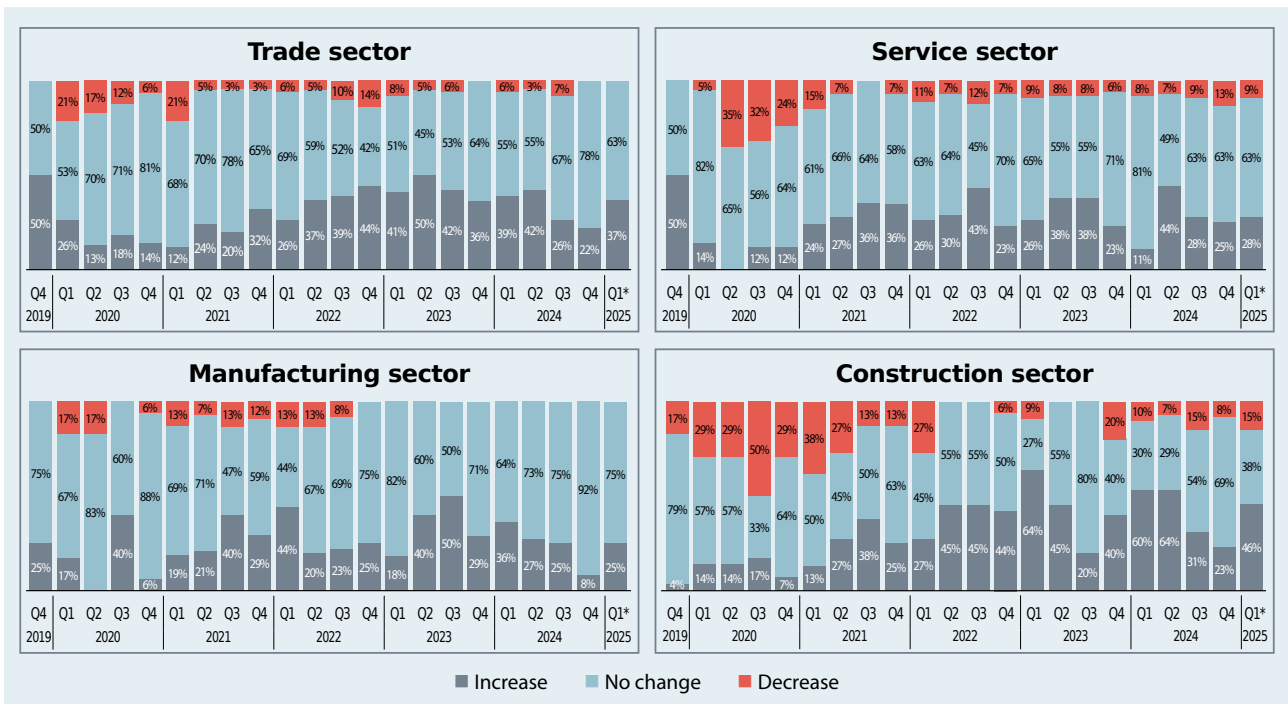
## EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

### Employment

- ✘ 21% of surveyed companies stated that the number of employees increased in Q4 of 2024. As for the expectations for Q1 of 2025, 33% expect the number of employees to increase, however, 61% do not plan to increase the number of employees. (see Graph 5).
- ✘ Across the sectors covered, the situation regarding employment in Q4 of 2024 is most positively assessed in the service sector. Additionally, the expectations for Q1 of 2025 are most positively assessed in the construction sector. (see Graph 6).



Graph 5: Number of employees in BAG member businesses and companies in their corporate group<sup>4</sup>



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

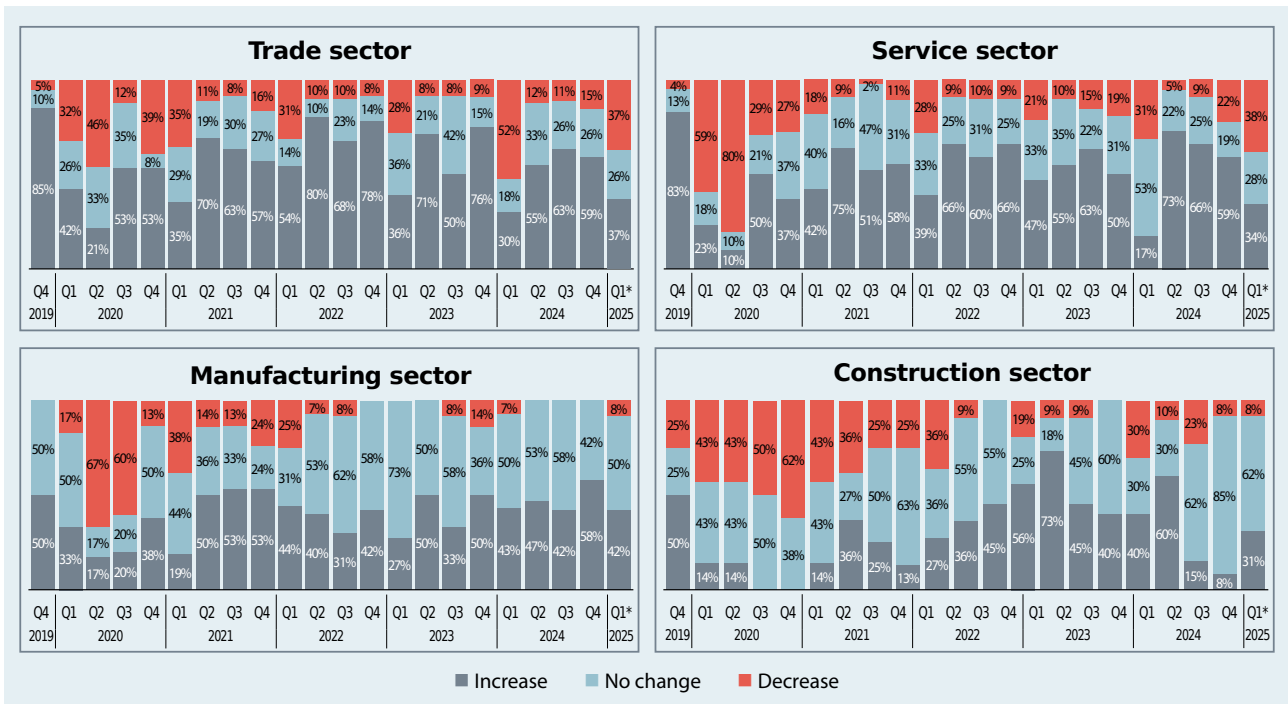
### Sales/demand/domestic production

- ✘ The situation in Q4 of 2024 regarding sales was assessed almost equally positively in the trade, service and manufacturing sectors. As for the expectations in Q1 of 2025, the situation was most positively assessed in the manufacturing sector (see Graph 7).
- ✘ It should be noted that in Q4 of 2024, in the construction sector 85% of surveyed companies did not change their sales, while 31% expects increased sales in Q1 of 2025.

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

\* Expectation.

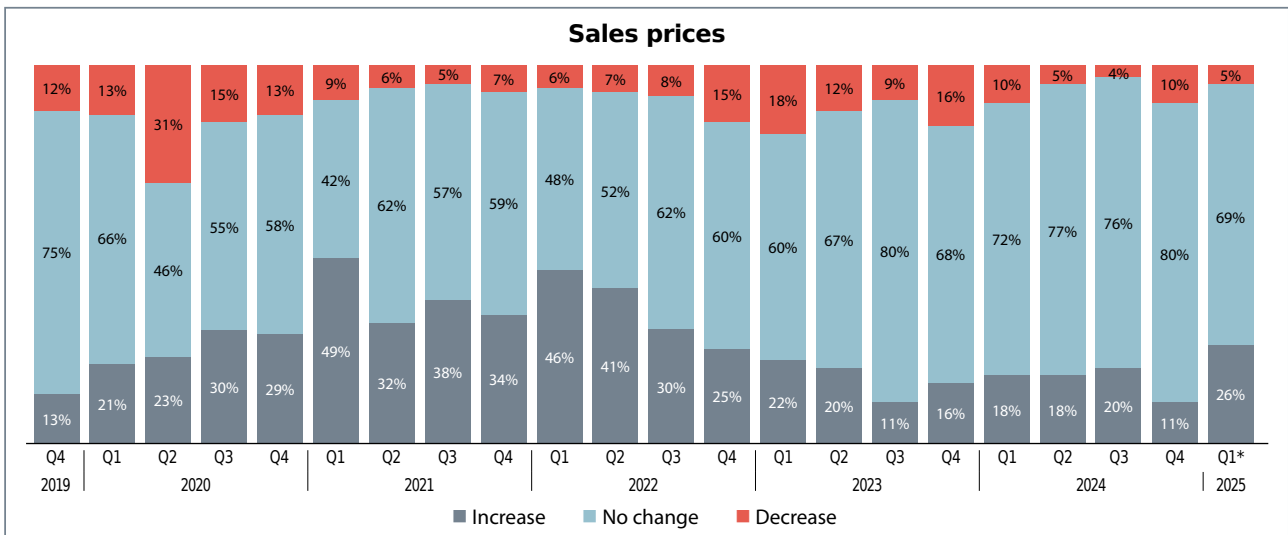




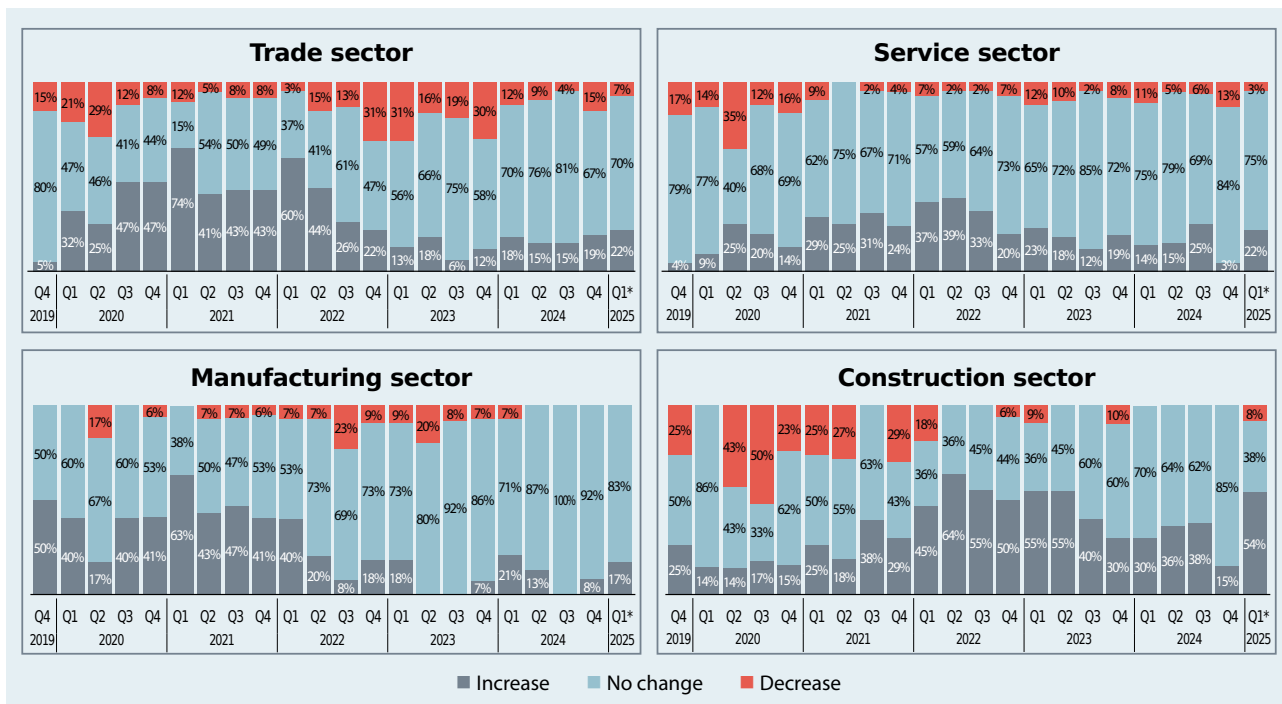
**Graph 7:** Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

**Sales Prices**

- ✘ In Q4 of 2024, 11% of surveyed companies increased sales prices, and 26% of the companies expect the prices to rise in Q1 of 2025 (see Graph 8).
- ✘ Among sectors, in Q4 of 2024, the share of the companies that are increasing sales prices is the highest for the trade sector. Additionally, as for the expectations for Q1 of 2025, the highest share of companies predicting sales prices to increase was recorded in the construction sector, while in other sectors, 70% or more of companies do not expect sales prices to increase (see Graph 9).



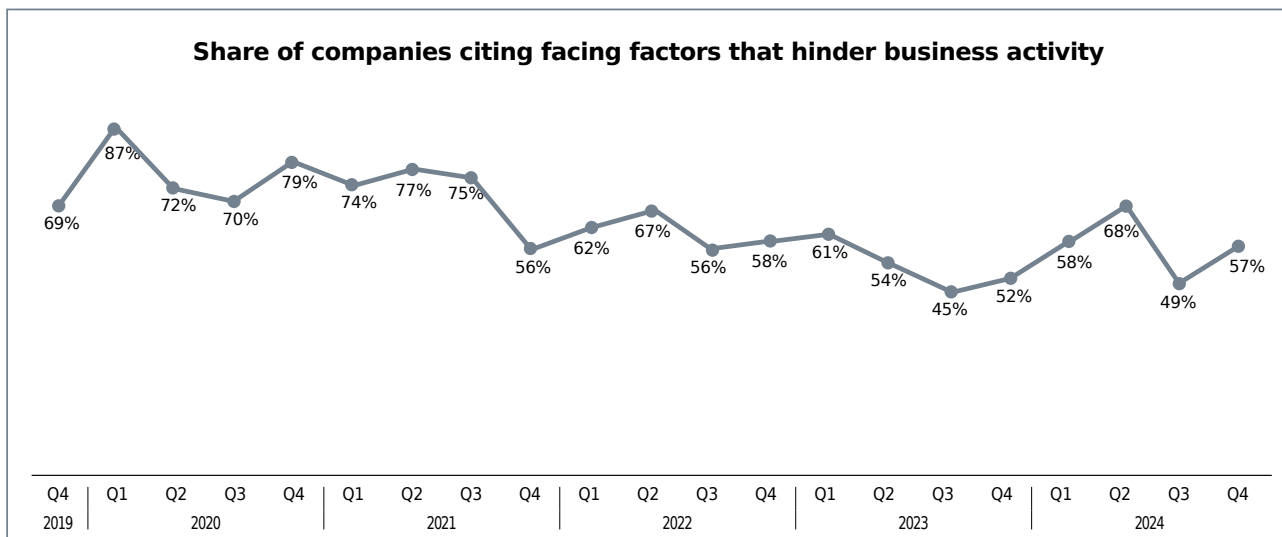
**Graph 8:** Sales prices in BAG member businesses and companies in their corporate group



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

## FACTORS HINDERING BUSINESS ACTIVITY

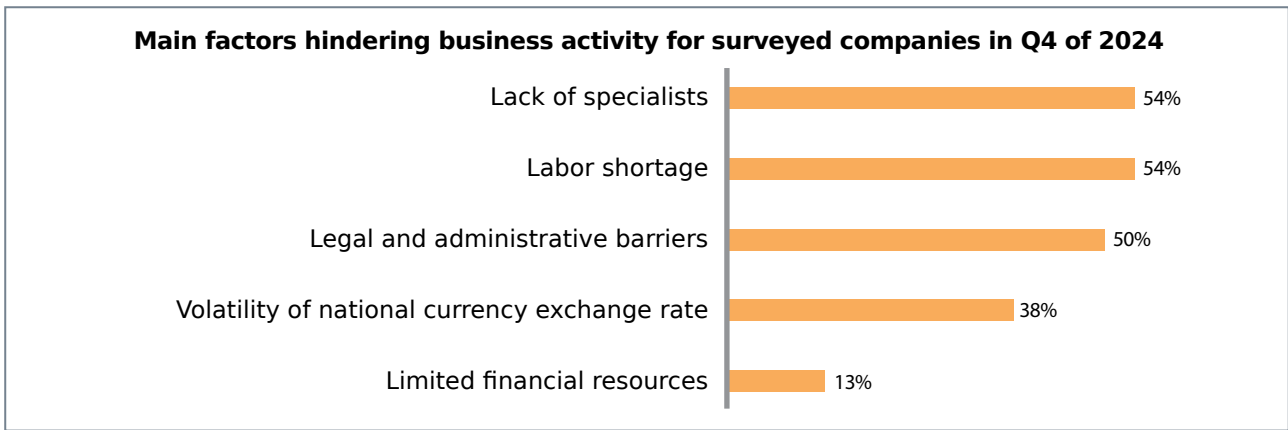
In Q4 of 2024, compared to Q3 of 2024, the share of surveyed companies claiming that there are factors hindering their business activity increased by 8 percentage points.



**Graph 10:** Existence of factors hindering business activity

In Q4 of 2024, the following five factors were emphasized as the most hindering for business activity: lack of specialists, labor shortage, legal and administrative barriers, volatility of national currency exchange rate<sup>5</sup>, and limited financial resources (see Graph 11).

<sup>5</sup> 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 Q4 2024

In Q4 of 2024, **lack of specialists** and **labor shortage** were cited as the top factors hindering business activities (54-54% of surveyed companies cited this factor as the most hindering).

From a sector-by-sector view, lack of specialists was most frequently pointed out in the manufacturing sector (63%), while it was considered the least hindering for the construction sector (50%) (see Graph 12). In terms of the size of the enterprise <sup>6</sup>, lack of specialists was most cited by small enterprises as a factor hindering business activity (44%) (see Graph 13).

Labor shortage was most frequently pointed out in the trade sector (77%), while it was considered the least hindering for the manufacturing sector (25%). In terms of the size of the enterprise, lack of specialists was most cited by small enterprises as a factor hindering business activity (39%).

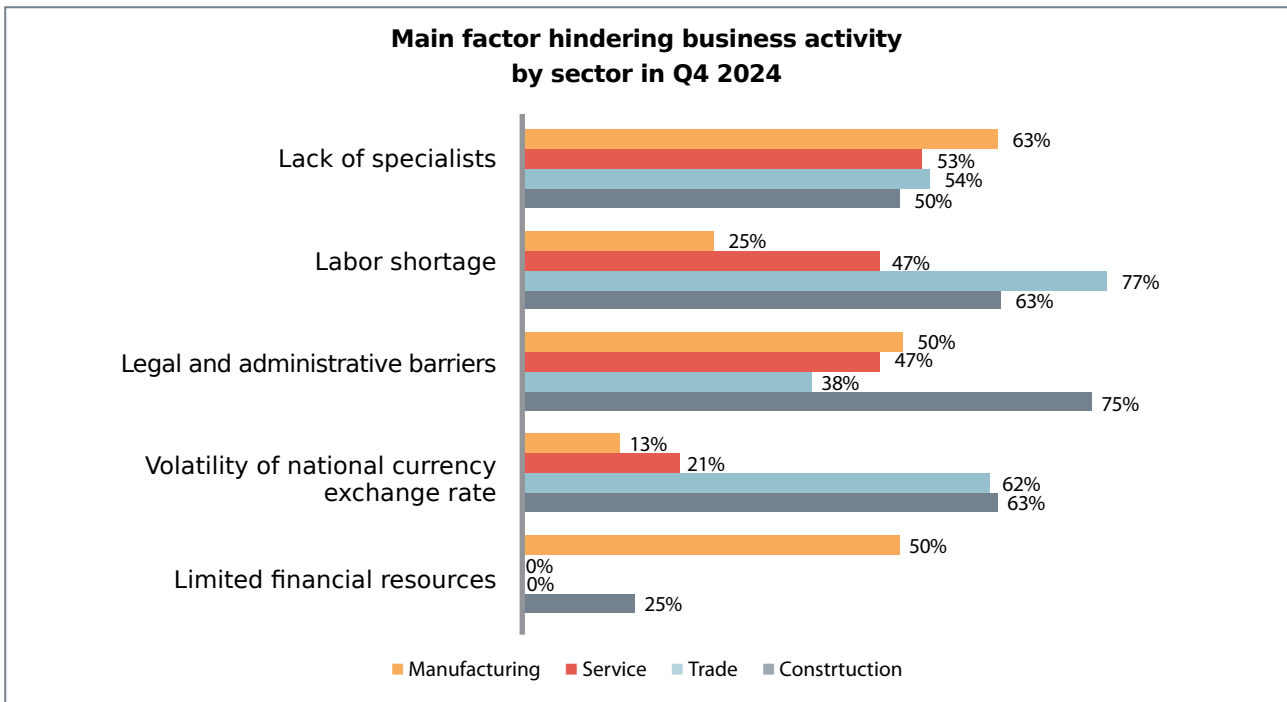
In Q4 of 2024, **legal and administrative barriers** were cited as a hindering factor by 50% of surveyed companies. Across the covered sectors, this factor was deemed the most hindering for the construction sector (75%), while it was less of a hindrance for the trade sector (38%). In Q4 of 2024, legal and administrative barriers were considered equally problematic in small, medium and large companies.

In Q4 of 2024, **volatility of the national currency exchange rate** was cited as a hindering factor by 38% of surveyed companies. This issue was felt most acutely in the construction and trade sectors (63% and 62%, respectively), 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 small enterprises (cited by 33% of them as a hindering factor).

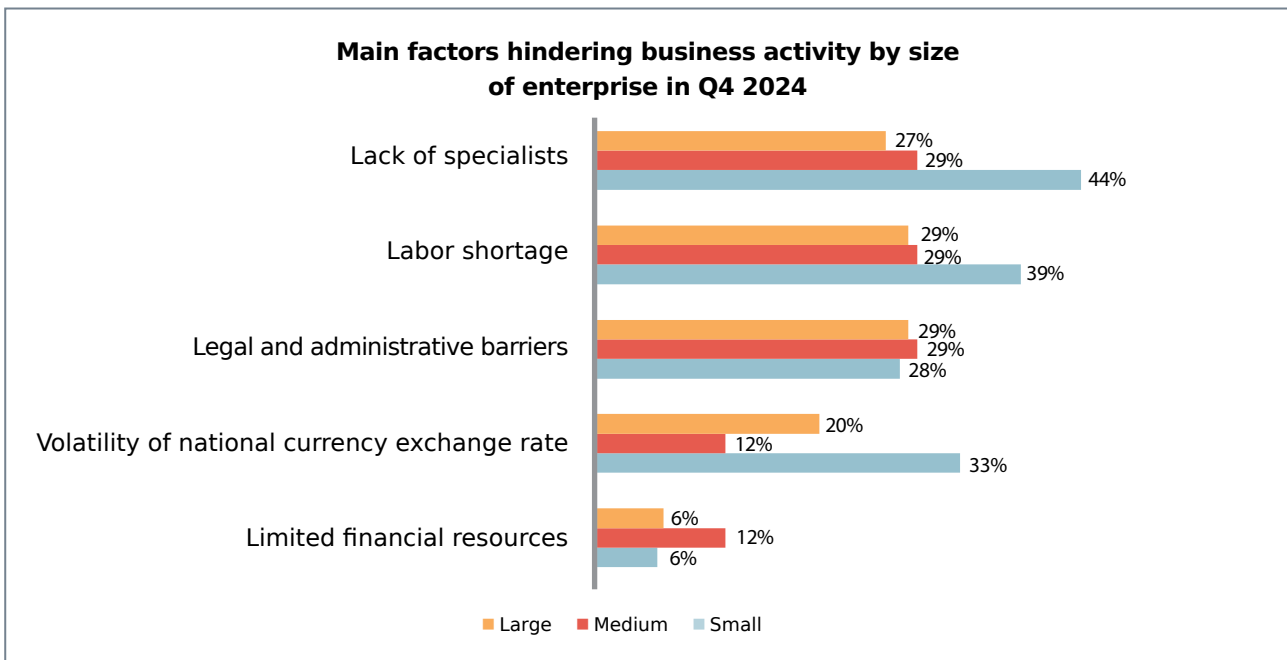
In Q4 of 2024, **limited financial resources** were cited as a hindering factor by 13% of surveyed companies. This issue was felt most acutely in the manufacturing sector (50%). limited financial resources were considered the most problematic for medium enterprises (12%).

To sum up, in Q4 of 2024, the lack of specialists was most hindering for the manufacturing sector, the labor shortage for the trade sector, legal and administrative barriers for the construction sector, the volatility of the national currency exchange rate for both the construction and trade sectors, and limited financial resources for the manufacturing sector.

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



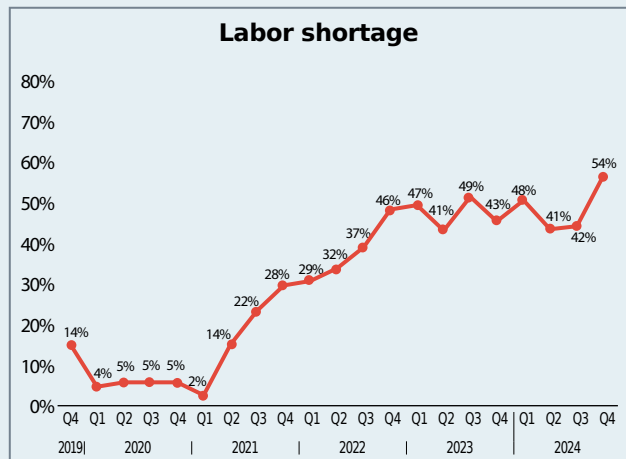
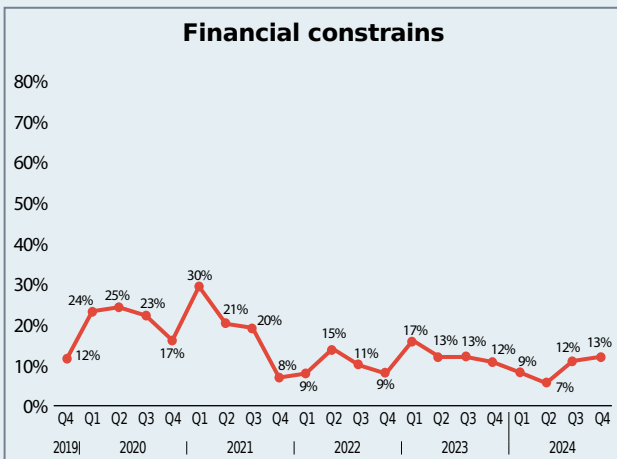
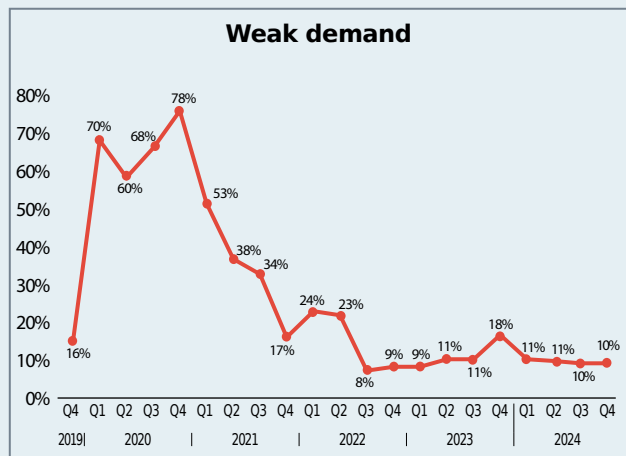
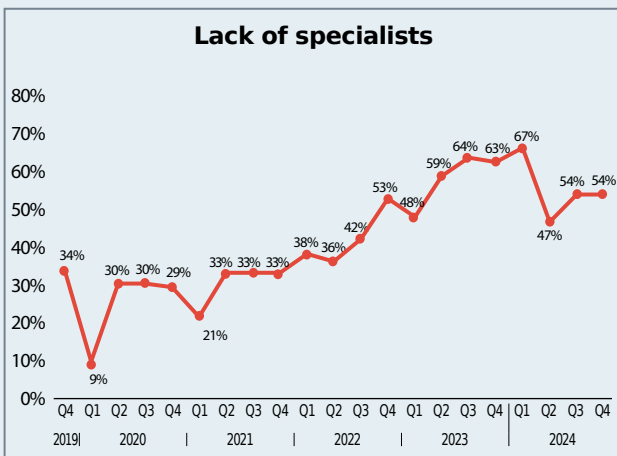
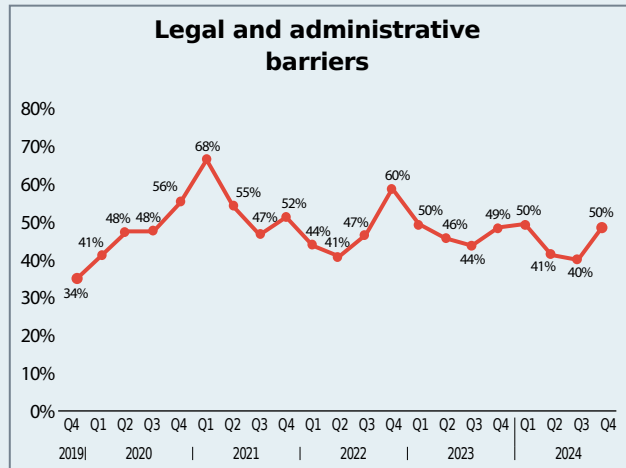
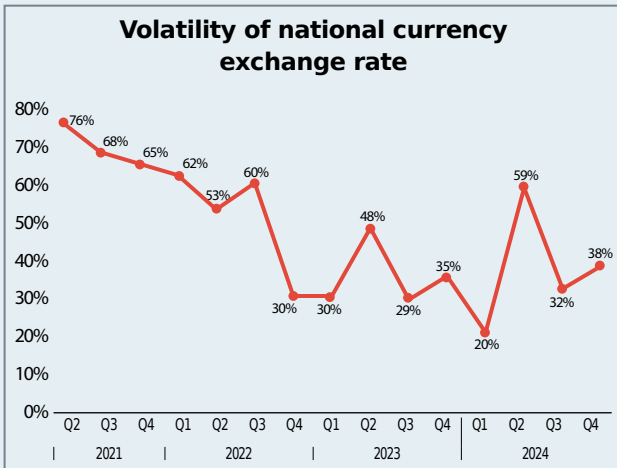
**Graph 12:** Main factors hindering business activity by sectors in Q4 2024



**Graph 13:** Main factors hindering business activity by the size of the enterprise in Q4 2024

In Q4 of 2024, compared to the previous quarter, among the factors hindering business activity, the share of companies citing the Labor Shortage as a hindrance increased the most (by 12 percentage points). Meanwhile, the share of companies citing Lack of Specialists and Weak Demand as a hindering factor remained at the same level (See Graph 14).

## Hindering factors for business activity Q4 2019 - Q4 2024



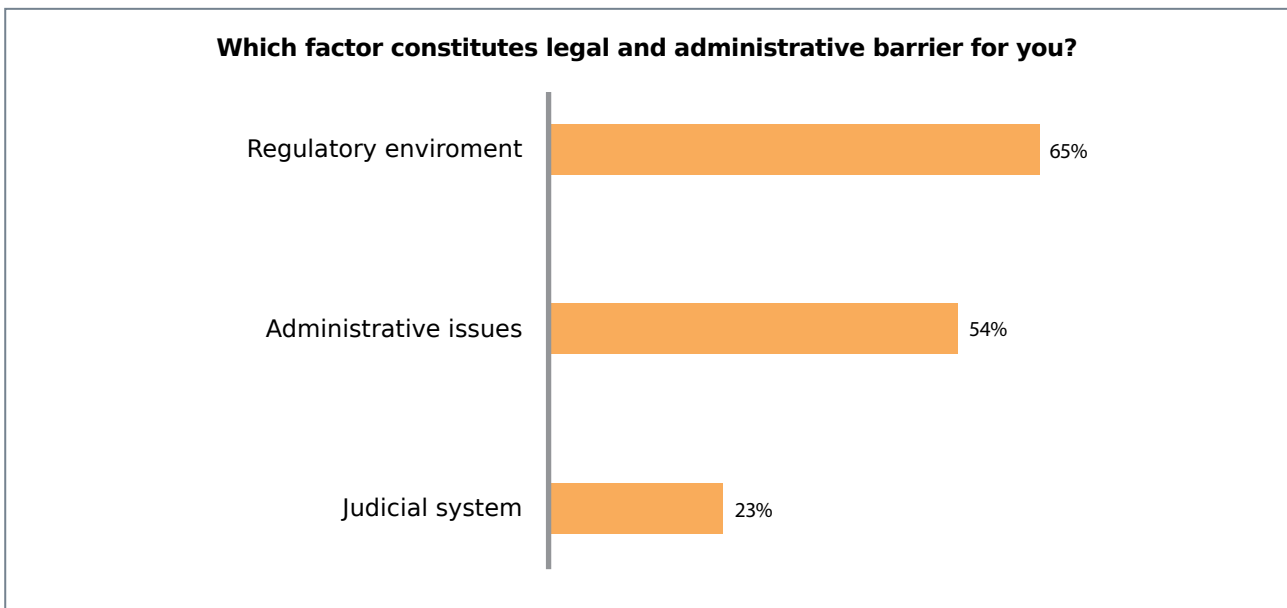
**Graph 14:** Main hindering factors for surveyed companies

## The main factors determining legal and administrative barriers for business

In Q4 of 2024, the **administrative issues** have been considered the main element of legal and administrative barriers hindering business activity. Looking from a sector-by-sector view, the administrative issues were most cited as a hindering factor in the service sector (44%), and least cited in the manufacturing and trade sectors (13-13%).

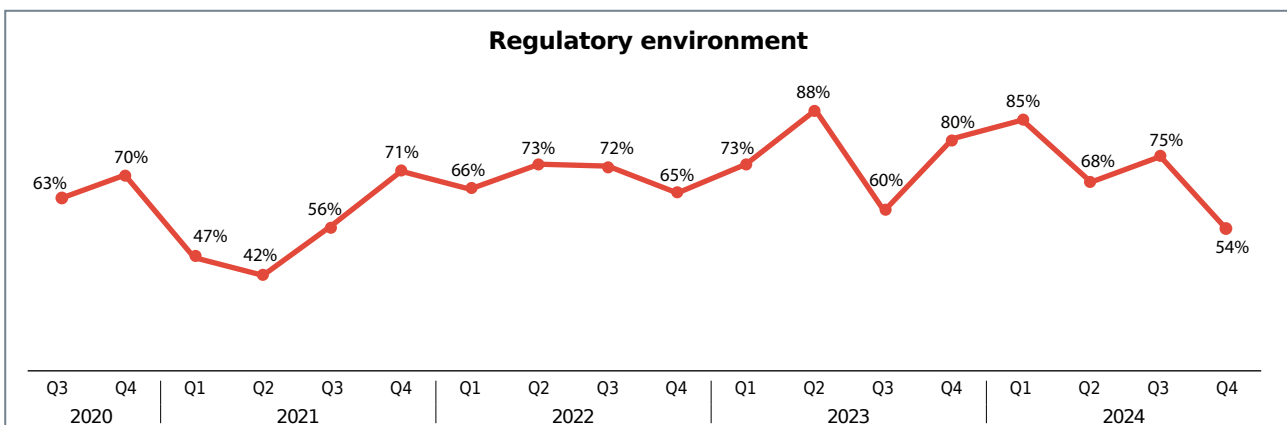
Among legal and administrative barriers, **regulatory framework** was the second-most cited hindering factor. This was deemed the most hindering in the service sector (36%), while in the other sectors, it was equally hindering for companies (21% each).

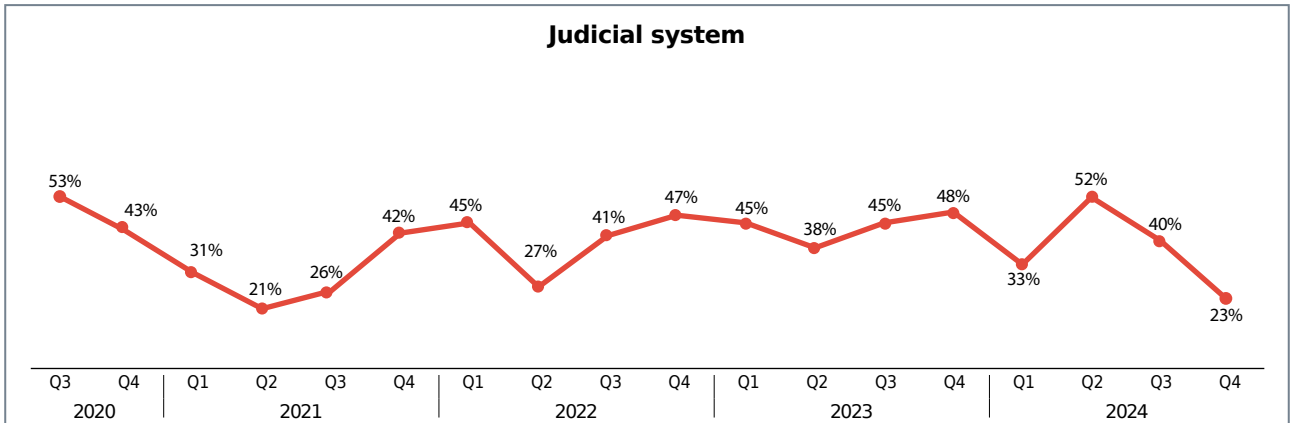
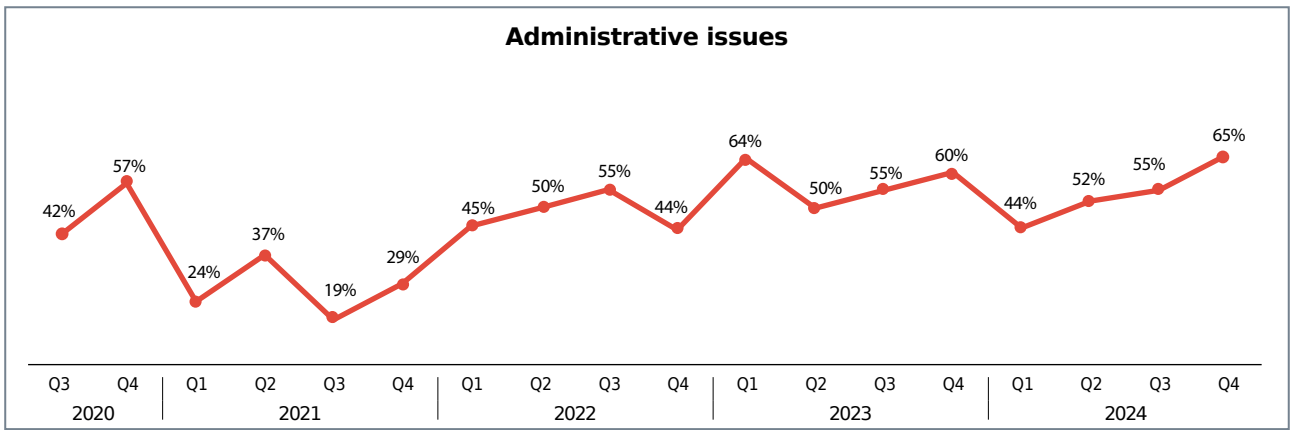
Meanwhile, the **judicial system** was again the most cited as a hindering factor under legal and administrative barriers in the service sector (50%), while none of the surveyed companies identified it as a hindrance in the manufacturing sector.



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

In summary, in Q4 of 2024, compared to the previous quarter, the share of companies to cite administrative issues as hindering factors increased (by 10 percentage points). Meanwhile, the share of companies to cite regulatory framework and judicial system as hindering factors decreased (by 21 and 17 percentage points, respectively).

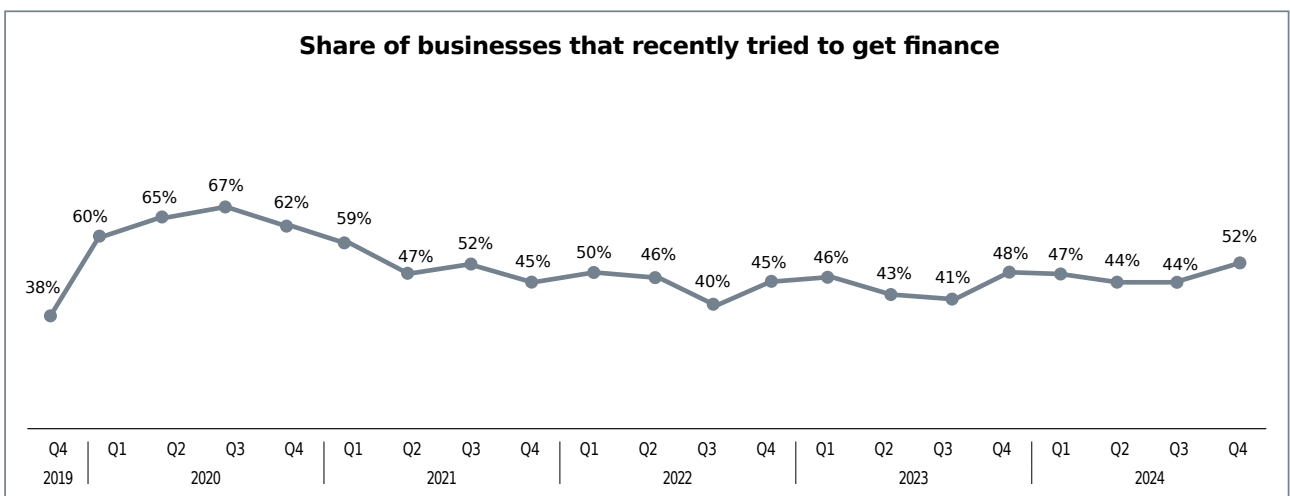




**Graph 16:** Main legal and administrative hindering factors for surveyed companies

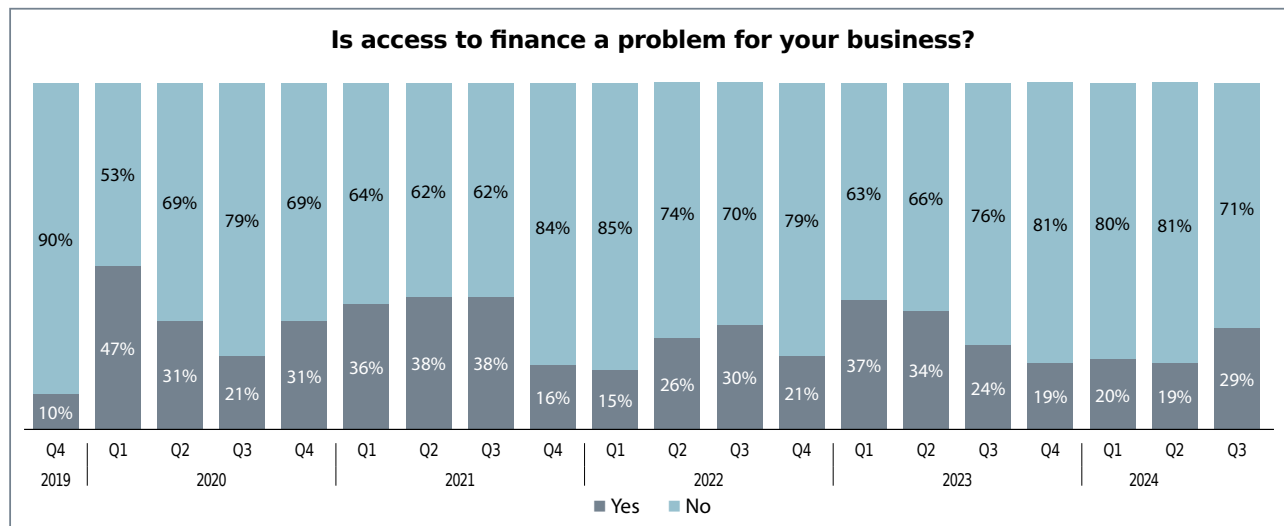
## FINANCING

In Q4 of 2024, 52% of surveyed companies claimed to have recently tried to obtain finance, which is 8 percentage points higher than the figure recorded in the previous quarter (see Graph 17). By enterprise size, large (61%) and medium (47%) enterprises tried to get finance more often than small enterprises (29%).



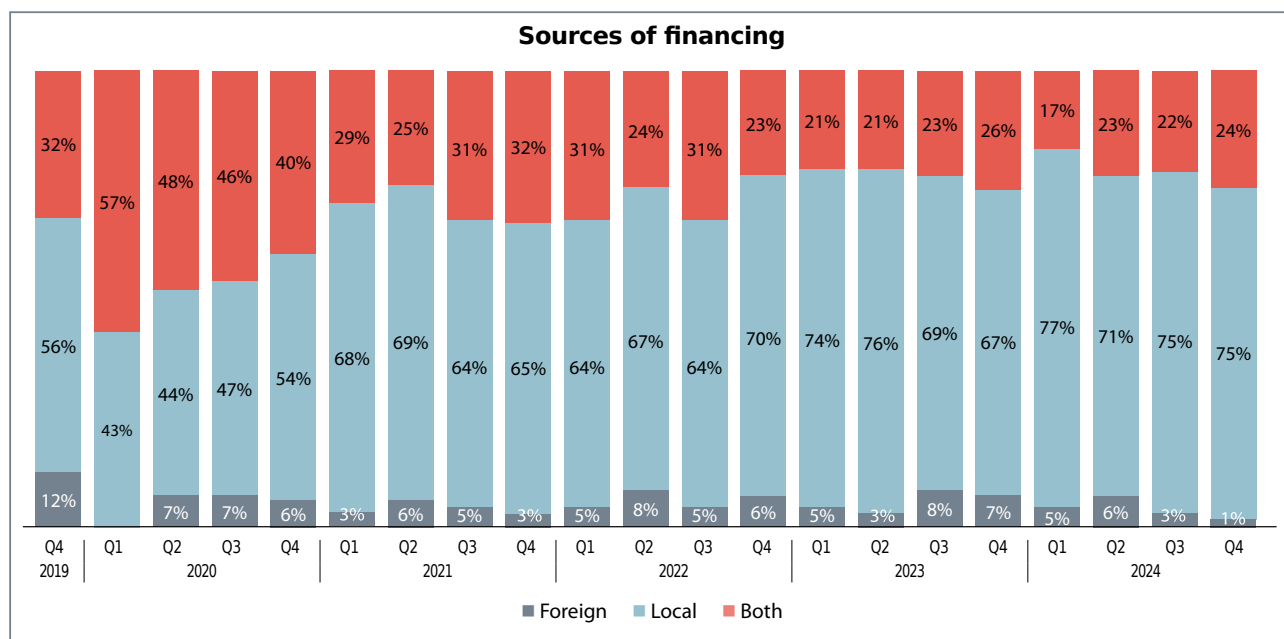
**Graph 17:** Businesses that recently tried to get finance

In Q4 of 2024, 23% 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 6 percentage points) than that of the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in small-sized enterprises (60% of those that tried to obtain finance) and relatively less in large (20%) and medium (13%) enterprises.



Graph 18: Access to finance<sup>7</sup>

Regarding sources of financing<sup>8</sup>, in Q4 of 2024, similar to previous quarters, the majority of surveyed companies stated that they were financed by local sources (75%). The share of companies stating that they were financed by foreign sources decreased by 2 percentage points in Q4 of 2024, compared to the previous quarter, and reached 1%. It's noteworthy that by enterprise size, large (2%) enterprises are more often financed by foreign sources, while none of the surveyed small and medium enterprises (4%) are financed by foreign sources.



Graph 19: Sources of financing

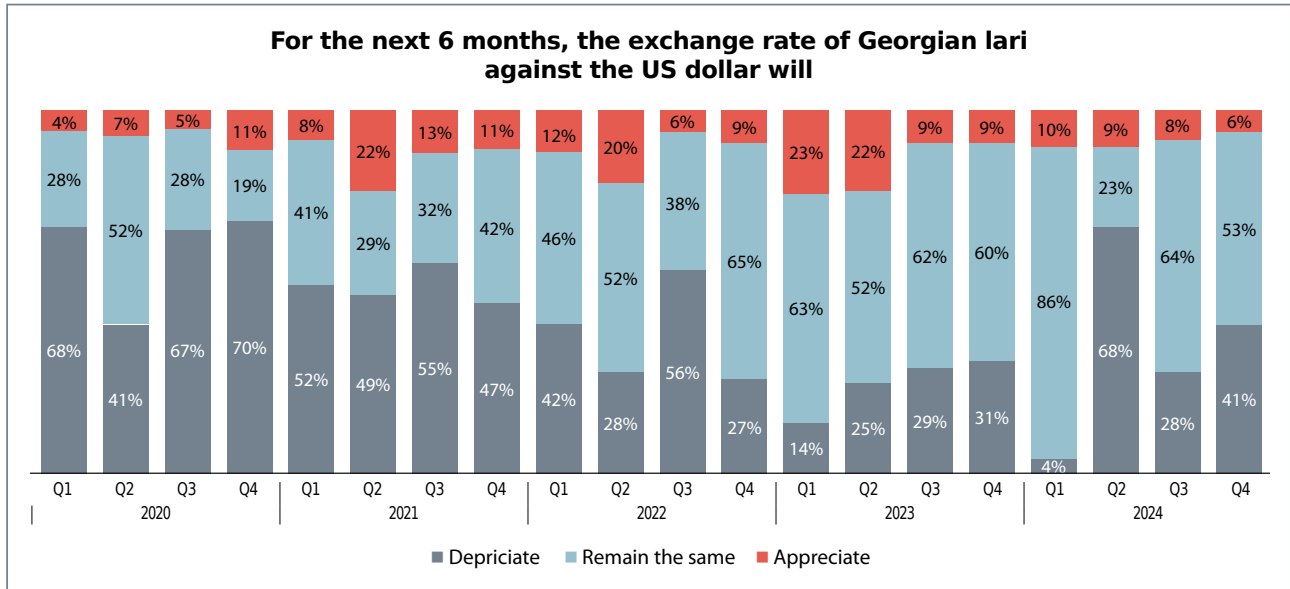
<sup>7</sup> The question was only answered by those companies that stated they had recently sought finance.

<sup>8</sup> 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.

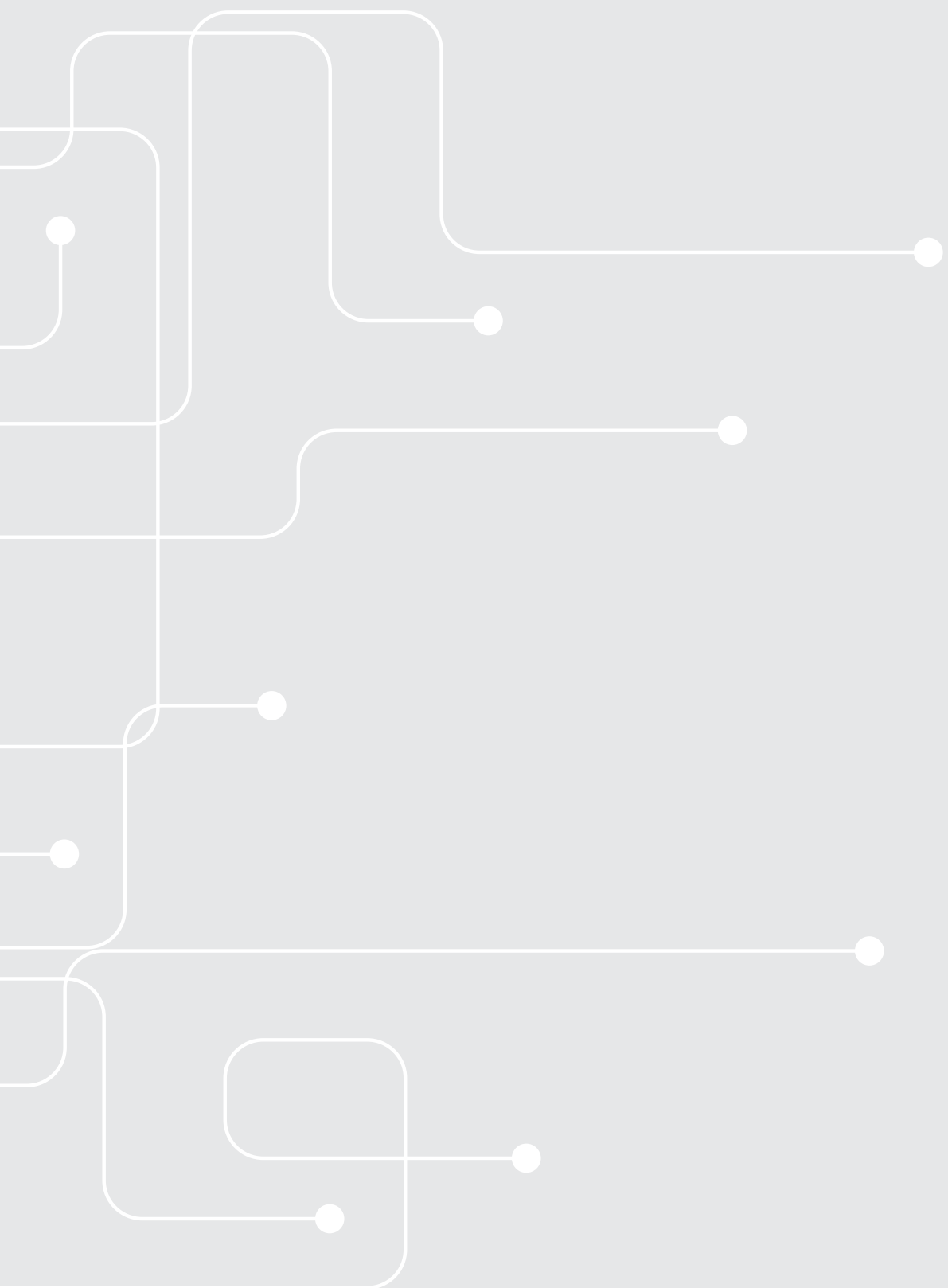


## EXCHANGE RATE EXPECTATIONS

In Q4 of 2024, most of the surveyed companies (53%) do not expect any change in the exchange rate of the national currency against the US Dollar over the next 6 months. Meanwhile, 41% of companies expect the national currency to depreciate, and 6% expect it to appreciate. In Q4 of 2024, compared to Q3 of 2024, the share of companies expecting that the national currency exchange rate would remain the same throughout the next 6 months decreased (by 11 percentage points), while the share of companies expecting that the national currency would depreciate against the US Dollar increased by 13 percentage points.



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



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