

BAG INDEX

Index for the Business Association of Georgia

**I QUARTER
2020**



Research

BAG Index

I QUARTER 2020

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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 and BAG Employment Barometer assessed by the top managers of BAG member businesses for the I quarter of 2020. The report also includes analysis of the impact of COVID-19 on the members of BAG. The 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. Companies assess their current business situation and expectations for the next six months. They can describe their current business situation as “good”, “satisfactory” or “bad”, and their expectations for the next six months as “more favorable”, “unchanged” or “less favorable”. BAG Business Climate is a transformed mean of the balance values¹ of the current business situation and the expectations for the next six months. In the frame of this index BAG members were divided in four sectors: manufacturing, service, trade, and construction.

Apart from assessing their current business situation and expectations for the next six months, BAG member businesses are asked to assess their situation regarding sales prices, sales/turnover/demand and number of employees in the last quarter and in the next three months. Moreover, businesses are asked questions related to factors hindering their business activity, access to finance and exchange rate expectations.

BAG BUSINESS CYCLE CLOCK

The BAG Business Cycle Clock shows the relationship between the current business situation and business expectations for the next six months in a four-quadrant diagram. Quadrants are labeled upswing, boom, downswing, and recession:

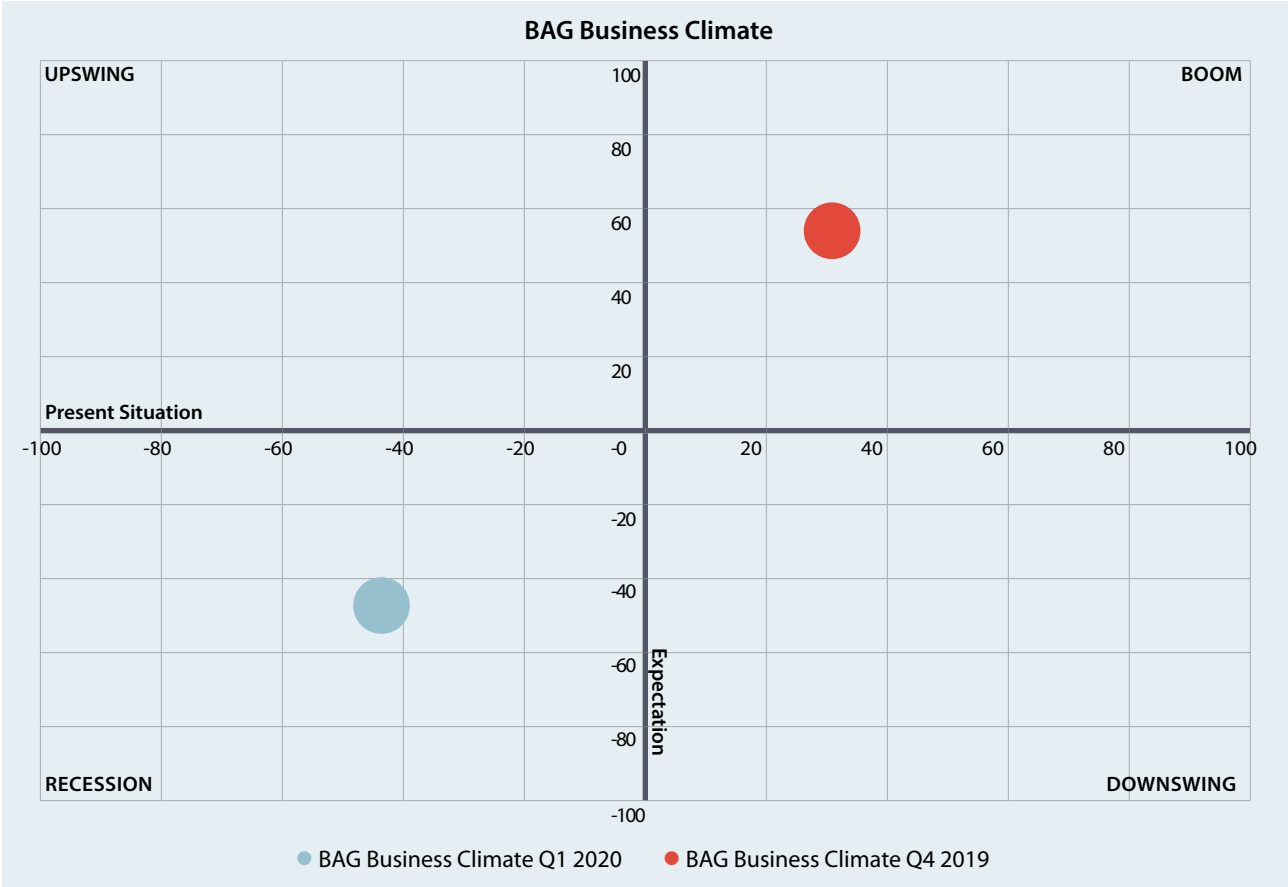
- If survey participants assess the current business situation negatively and business expectations for the next six months positively on balance, the BAG business climate indicator is in the “upswing” quadrant.
- If survey participants assess the current business situation and business expectations for the next six months positively on balance, business climate indicator is in the “boom” quadrant.
- If survey participants assess the current business situation positively and business expectations for the next six months negatively on balance, BAG business climate indicator is in the “downswing” quadrant.
- If survey participants assess both the current business situation and business expectations for the next six months negatively on balance the BAG business climate indicator is in the “recession” quadrant.

¹ Balance values for the current business situation is the difference in the percentage shares of the responses “good” and “bad” and the balance value for the expectations for the next six months is the difference in the percentage shares of the responses “more favorable” and “less favorable”. In the frame of this index BAG businesses were divided in four sectors: manufacturing, service, trade, and construction.

BAG Business climate can be between -100 and +100. +100 means that all surveyed businesses assess business climate positively, while -100 means all surveyed businesses assess business climate negatively.

IN THE FIRST QUARTER OF 2020, BAG MEMBER BUSINESSES ASSESSED THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS **NEGATIVELY**. IN THE FIRST QUARTER OF 2020, THE BAG BUSINESS CLIMATE AMOUNTED -46.3 POINTS, THE BUSINESS SITUATION AMOUNTED -44.5 POINTS, WHILE BUSINESS EXPECTATION -47.4 POINTS.

It has to be noted that assessment of BAG Business Situation and BAG Business Expectations in the Q1 2020 has worsened drastically compared to the Q4 2019.



Graph 1: BAG Business Climate, I quarter 2020

The assessment of the present situation and expectations for the next six months were mostly negative in all four sectors (manufacturing, service, trade, and construction). The only exception was manufacturing sector, where surveyed BAG member businesses had positive expectations.

Table 1: Balance values by sectors in the I quarter of 2020

	Business Climate	Business Situation	Business Expectation
Trade Sector	-32.5	-35	-30
Manufacturing Sector	-1.6	-25	25
Construction Sector	-60	-60	-60
Service Sector	-60.8	-50	-70.8

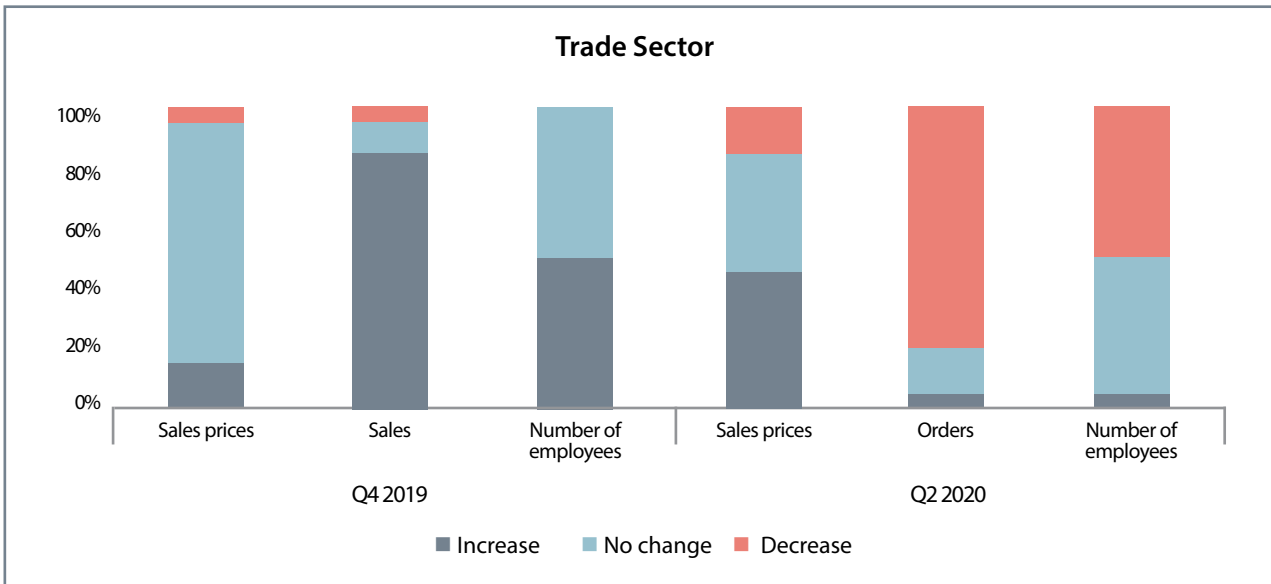
EXPECTATIONS FOR THE SECOND QUARTER OF 2020

- Only 1.9% of the surveyed BAG member businesses expect the number of employees to be increased in Q2 2020, while 50.9% of the surveyed BAG member businesses expect the number of employees will be unchanged, and for 47.2% it will be decreased.
- 28.3% of the surveyed BAG member businesses expect the sales prices will be increased in Q2 2020, while 47.2% of the surveyed BAG member businesses expect the sales prices will be unchanged and 24.5% state they will be decreased.
- In the manufacturing sector 50% of the surveyed BAG member businesses expect sales prices to be increased in Q2 2020, while another 50% expect sales prices to be unchanged.
- All of the surveyed businesses in construction sector expect sales/build to be decreased in Q2 2020.

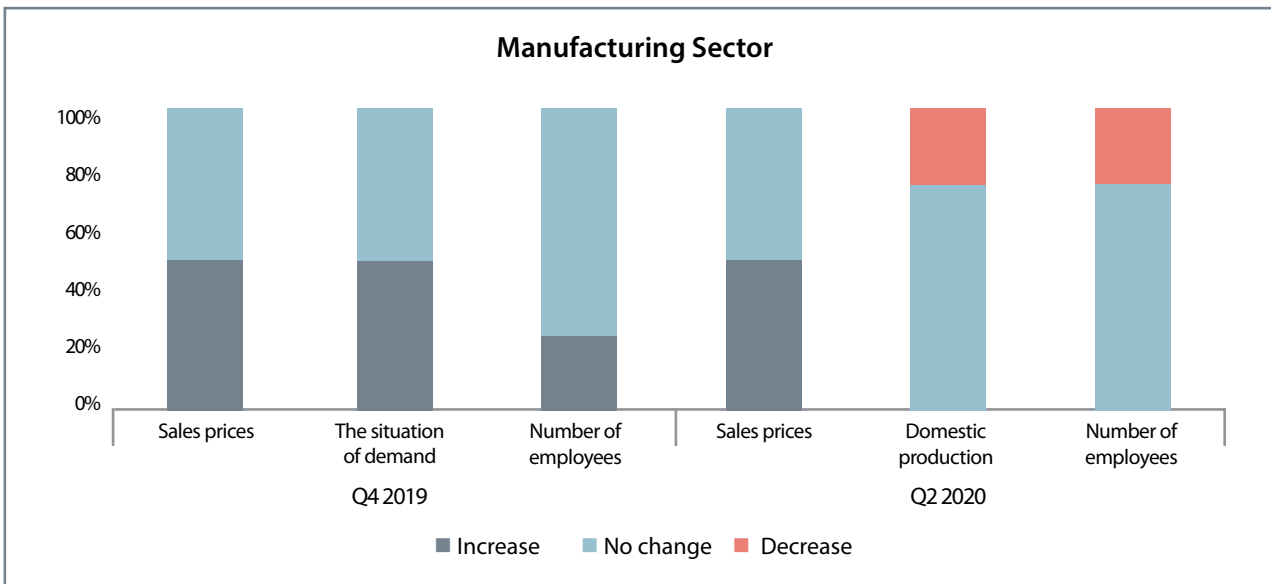
- In the **construction sector** none of the surveyed BAG member businesses expect the sales prices to be increased in Q2 2020, moreover, 60% of them expect sales prices to be decreased.
- 80% of the surveyed BAG member businesses in the **trade sector** expect the orders to be decreased in Q2 2020.

DEVELOPMENT IN THE FOURTH QUARTER OF 2019

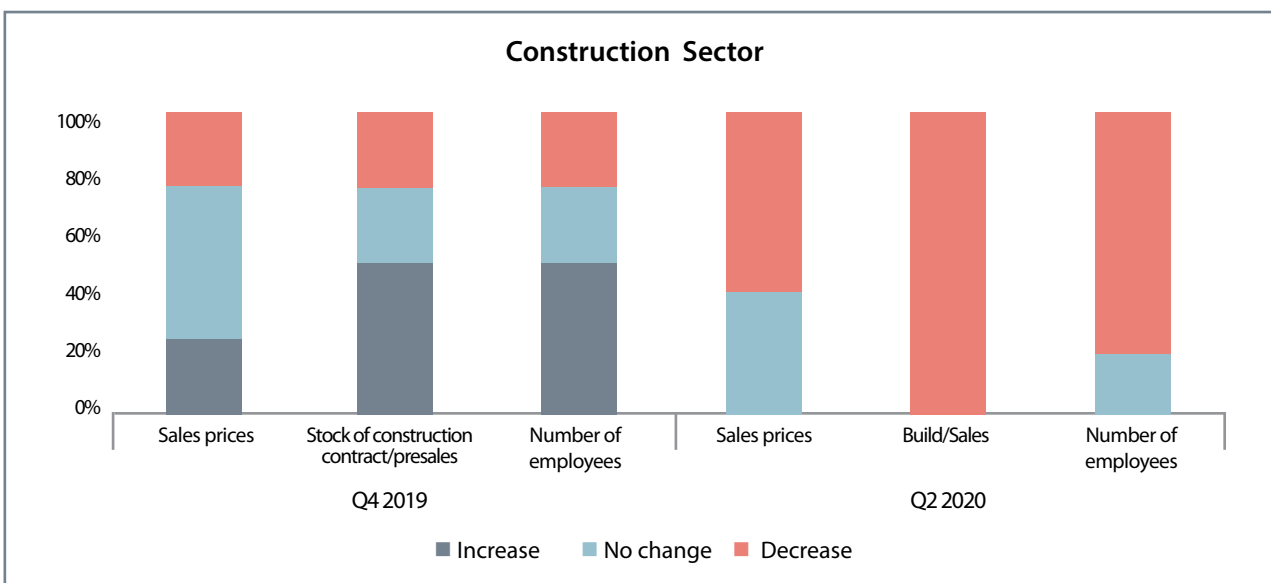
- 48.1% of the surveyed BAG member businesses state the number of employees was increased in Q4 2019, while for 50% of surveyed businesses the number of employees was unchanged and for 1.9% the number was decreased.
- 50% of surveyed BAG member businesses in the trade, construction and service sectors state the number of employees were increased in Q4 2019, this number in manufacturing sector amounted 25%.
- 13.5% of the surveyed BAG member businesses state the sales prices were increased in Q4 2019, while for 75% of the surveyed BAG member businesses the sales prices were unchanged and for 11.5%, they decreased.
- For most of the surveyed businesses in trade (80%) and service (79.2%) sectors the sales prices were unchanged in Q4 2019, while in manufacturing and construction sectors sales prices were unchanged for half of the surveyed businesses.
- 85% of the surveyed businesses in trade sector state sales were increased in Q4 2019.
- 83.3% of the surveyed businesses in service sector state their turnover was increased in Q4 2019.



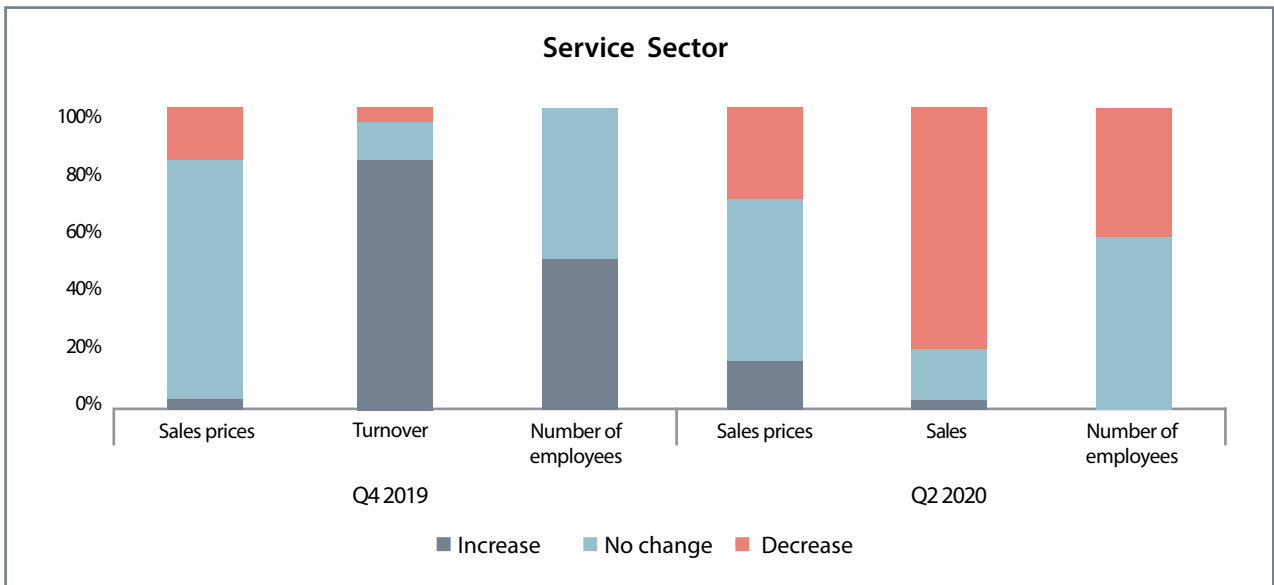
Graph 2: Development in Q4 2019 and expectations for Q2 2020 in the trade sector



Graph 3: Development in Q4 2019 and expectations for Q2 2020 in the manufacturing sector



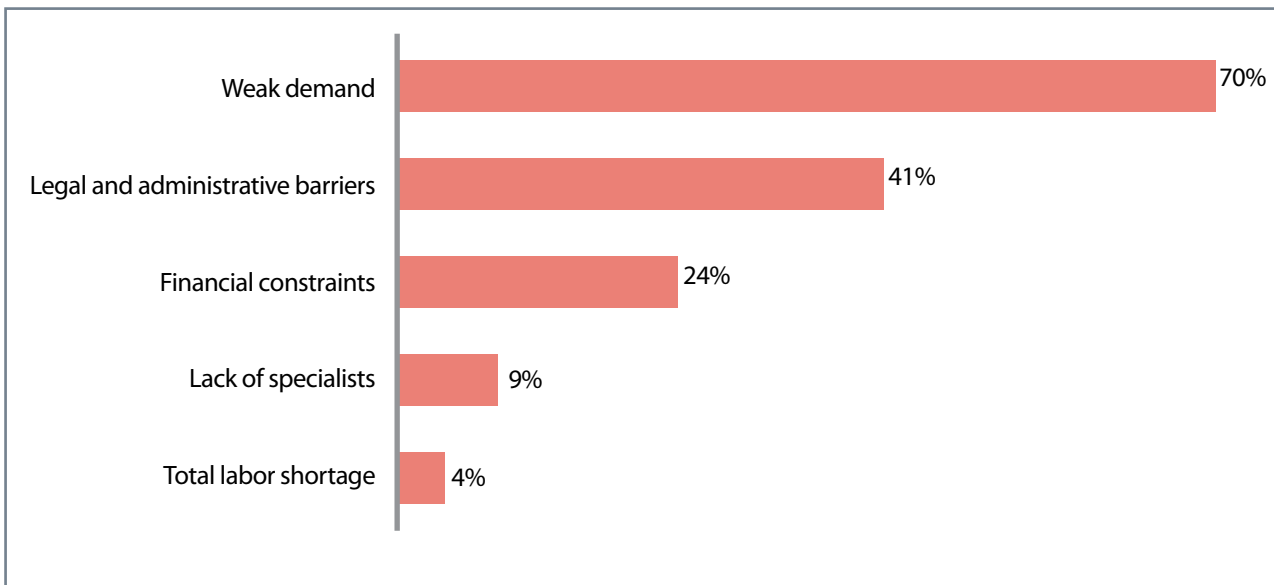
Graph 4: Development in Q4 2019 and expectations for Q2 2020 in the construction sector



Graph 5: Development in Q4 2019 and expectations for Q2 2020 in the service sector

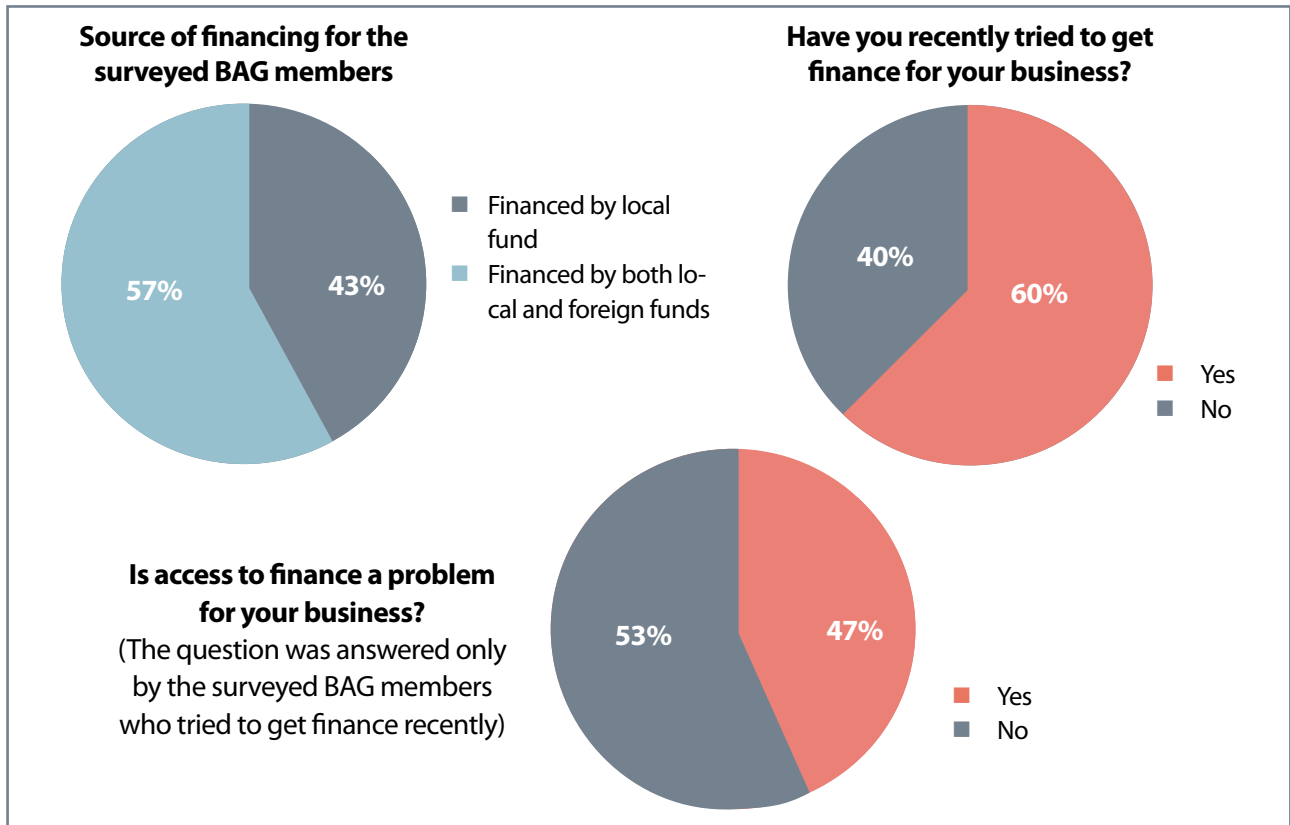
FACTORS HINDERING BUSINESS ACTIVITY

ACCORDING TO THE ASSESSMENT OF CHALLENGES THAT BUSINESSES FACE, 86.5% OF SURVEYED BUSINESSES CLAIM THERE ARE FACTORS THAT HINDER THEIR BUSINESS ACTIVITY, WHILE 13.5% THINK SUCH FACTORS DO NOT EXIST.



Graph 6: The major challenges that surveyed BAG member businesses face

FINANCING

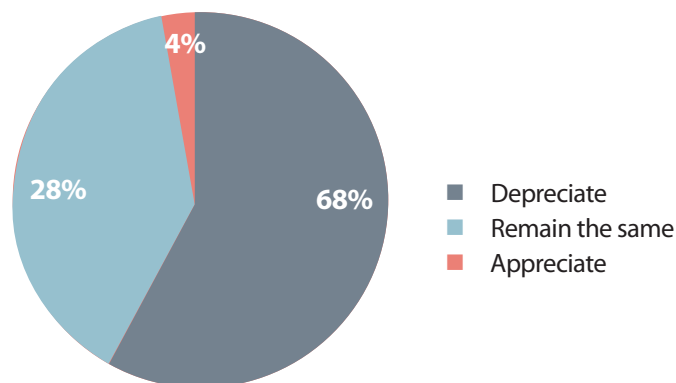


Graph 7: Financing

53.1% of the surveyed BAG businesses that tried to get finance recently claim access to finance is not a problem for them, while 46.9% consider access to finance a problem. It is worth to note that in previous quarter 90% of the surveyed BAG member businesses stated that access to finance is not a problem for them. Such a significant change can be explained by the state of emergency in Georgia and overall uncertainty caused by COVID-19.

EXCHANGE RATE EXPECTATION

For the next 6 months the exchange rate of Georgian Lari against US Dollar is expected to



Graph 8: The expectation of exchange rate of Georgian Lari against US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer is based on responses from BAG member businesses. The companies are asked to report on their employment plans for the coming three months.² The employment barometer is the difference in the percentage shares of the responses “Increasing” and “Decreasing”.

IN THE Q1 OF 2020, THE SURVEYED BAG MEMBER BUSINESSES HAD A NEGATIVE OUTLOOK ABOUT EMPLOYMENT EXPECTATIONS. THE BAG EMPLOYMENT BAROMETER AMOUNTED -46.7 POINT. THIS IS A GREAT DETERIORATION COMPARED TO THE Q4 2019, WHEN THE BAG MEMBER BUSINESSES HAD A POSITIVE OUTLOOK TOWARDS EMPLOYMENT EXPECTATIONS AND BAG EMPLOYMENT BAROMETER ACCOUNTED 26.1 POINT.

According to the sectors, the least negative outlook was recorded by the surveyed BAG businesses in the manufacturing sector, while the most negative outlook was recorded by the surveyed BAG businesses in the construction sector. It has to be noted that in Q4 2019 the most positive outlook towards employment expectations had businesses in the construction sector.

Table 2: Balance values by sectors in the Q4 2019 and Q1 2020, employment barometer

BAG employment Barometer by Sector (Balances)		
Sector	Q4 2019	Q1 2020
Trade	33.3	-45
Manufacturing	11.1	-25
Construction	50	-80
Service	14.6	-41.7

² They can describe their plans for the number of employees for the coming three months as “increasing”, “stable”, or “decreasing”. The balance value of the plans will be the difference in the percentage shares of the responses “increasing” and “decreasing”. The BAG employment barometer is a transformed mean of the balances in different sectors.

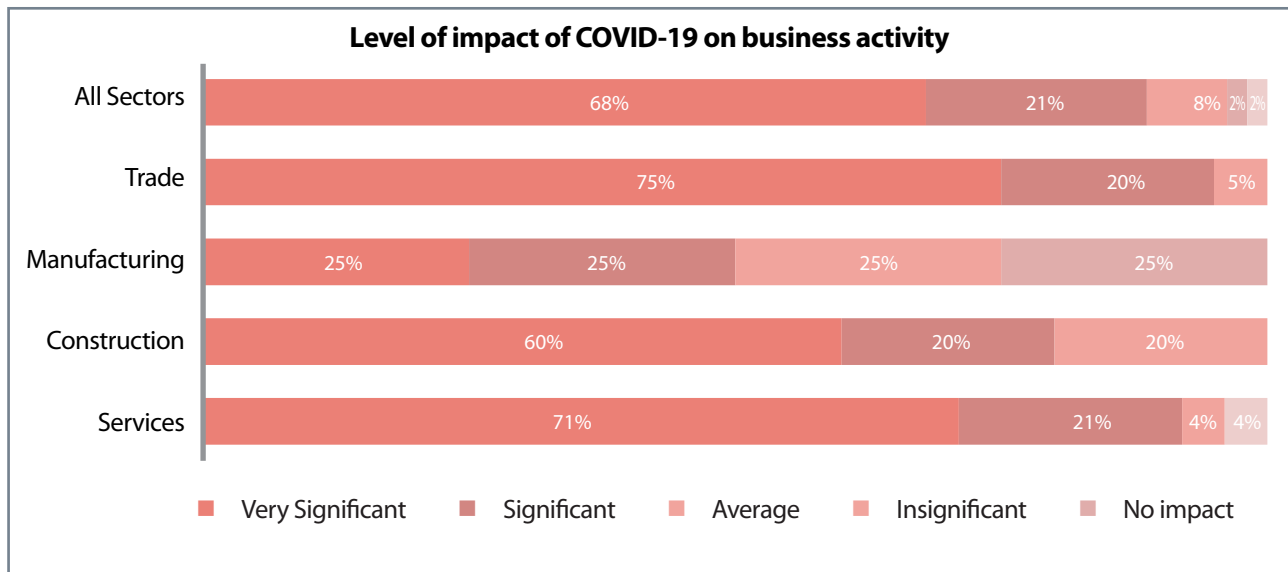
BAG employment barometer can be between -100 and +100. -100 means all surveyed businesses expect employment to be decreasing in the following three months, while +100 means all surveyed businesses expect employment to be increasing during the following three months.

IMPACT OF COVID-19 ON BAG BUSINESS CLIMATE

The first case of COVID-19 in Georgia was reported on February 26.³ A few weeks later, on March 21, a national state of emergency was declared⁴, followed swiftly by the imposition of a quarantine regime on March 31⁵. As a result, economic activity has grinded to a near stand-still, having a significant impact on the business climate. While the stringency of restrictions is expected to loosen in the near future, the impact of the crisis on businesses will be notable for some months yet, if not years. With this in mind, we conducted a survey earlier this month to assess the impact of COVID-19 on BAG member businesses, which yielded the following observations.

THE IMPACT OF COVID-19 ON BAG MEMBER BUSINESSES

- The vast majority of the surveyed BAG member businesses (67.9%) indicated that the impact of COVID-19 on their business activity was very significant, while only 1.9% of them reported that COVID-19 did not affect their business.
- Trade is the most affected sector, with 75% of the surveyed BAG member businesses in this sector indicating that the crisis had a very significant impact, while the service sector was a close second (70.8%) in this regard.
- The manufacturing sector has so far been the least affected sector, with only 25% of surveyed businesses in this sector assessing the impact of the crisis as very significant.

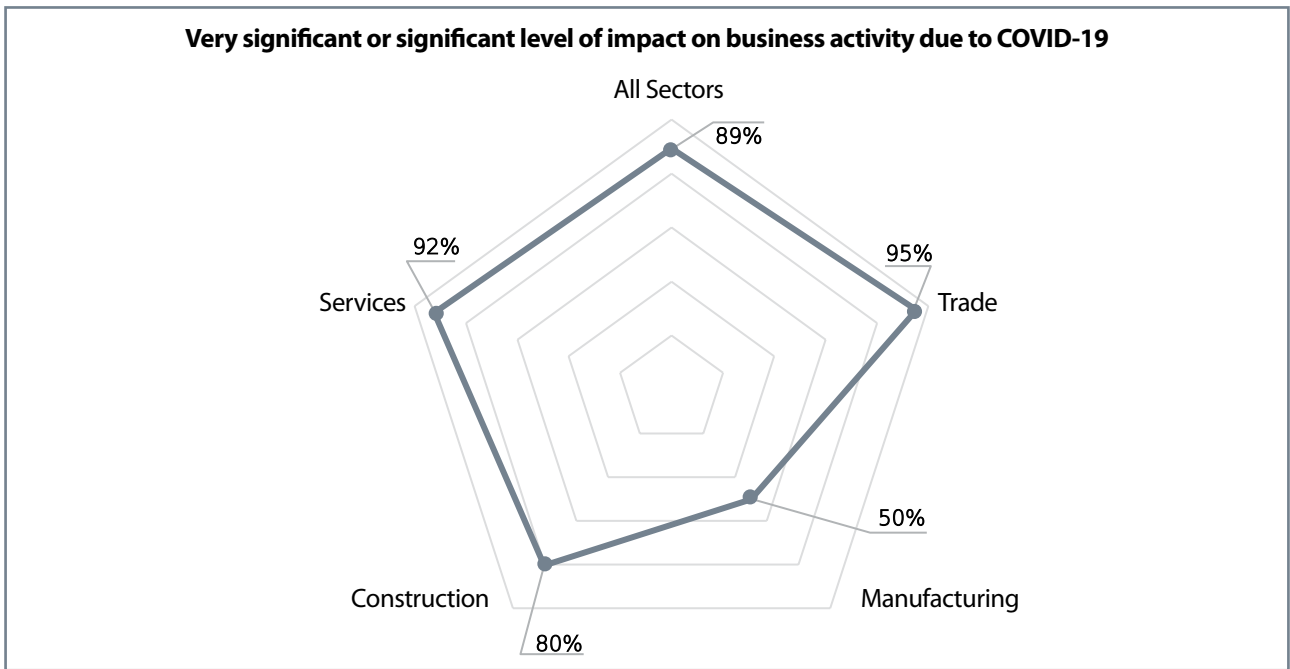


Graph 9: Level of impact of COVID-19 on business activity

³ European Centre for Disease Prevention and Control.

⁴ During this period, various containment measures, such as social distancing, lockdown of high-risk districts, closure of border crossings, travel ban on foreign visitors, quarantine for nationals returning to Georgia, closure of shops (other than grocery stores and gas stations) and schools, prohibition of intercity and intracity public transport, and a mandatory requirement to remain indoors from 21:00 to 06:00 have been implemented.

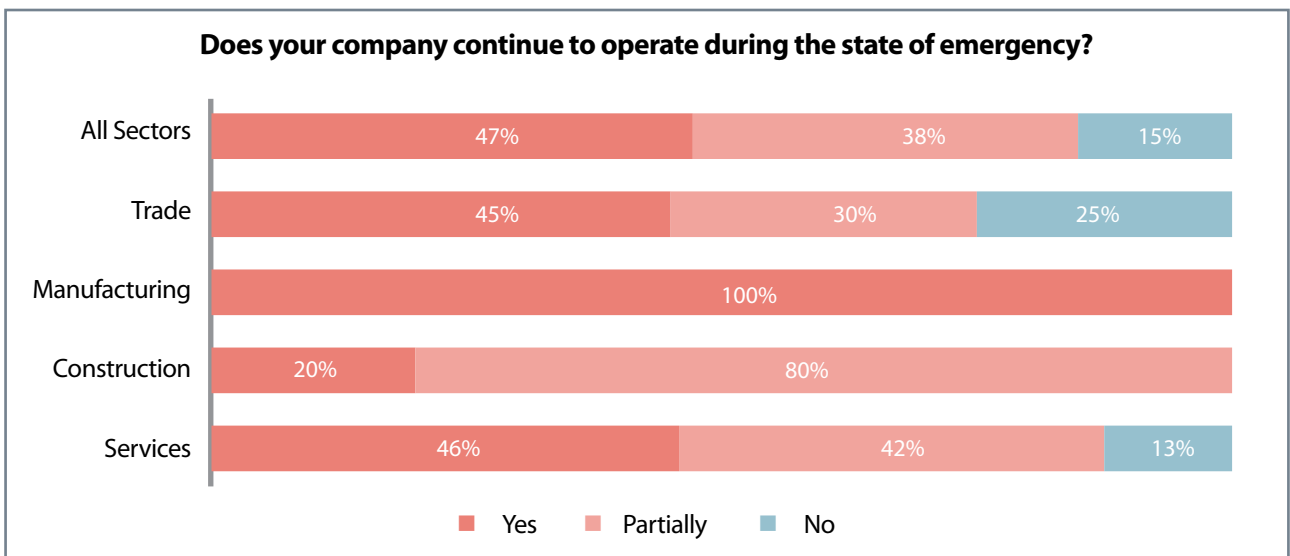
⁵ Source: Government of Georgia <http://www.gov.ge/>



Graph 10: Very significant or significant level of impact on business activity due to COVID-19

BUSINESS OPERATIONS DURING COVID-19

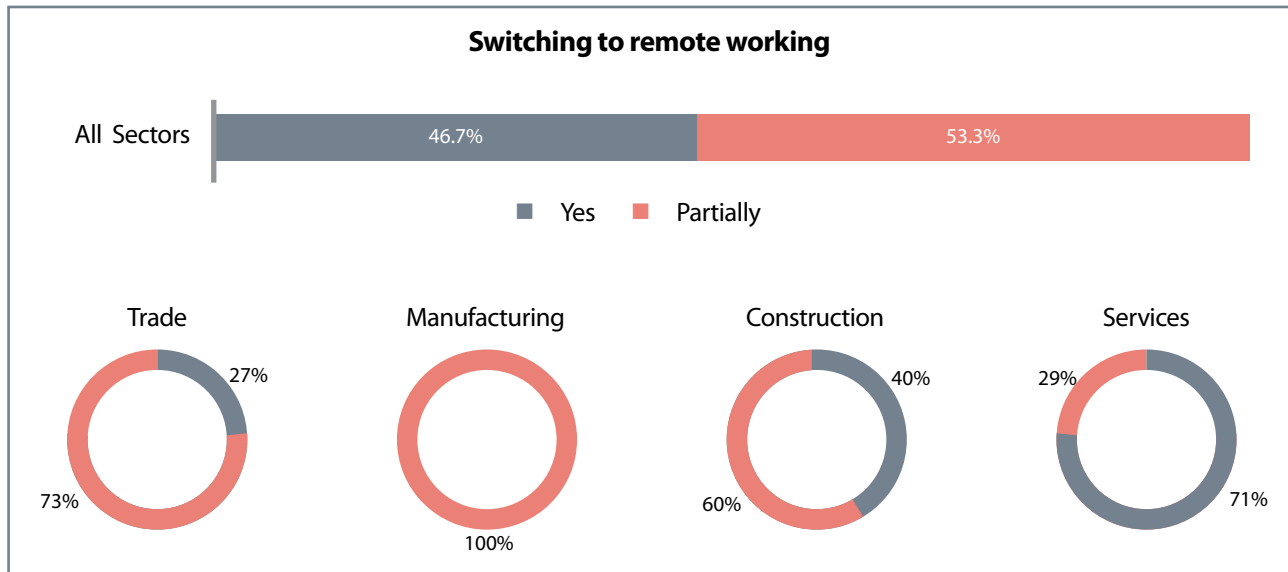
- Overall, 47.2% of the surveyed BAG member businesses reported that they continued to operate during the state of emergency, while 37.7% reported only partially maintaining operations, and 15.1% stated that they had stopped operating due to COVID-19.
- From a sector perspective, trade and service seem to be the most affected, as about 55% of the surveyed BAG member businesses in these sectors have either been reduced to partial operations (41.7% in services, 30% in trade) or have stopped entirely (12.5% in services, 25% in trade).
- The least affected sector is manufacturing, with 100% of the surveyed BAG member businesses in this sector continuing their business activities despite the crisis.
- In the construction sector, no members reported having completely stopped their operations, however 80% have been reduced to partial operations.



Graph 11: Business operation during the state of emergency

WORKING REMOTELY

- Of the surveyed BAG member businesses that continue operating, 46.7% have switched completely to working remotely, while the other 53.3% have partially switched to working remotely.
- Of the surveyed BAG member businesses that continue operating, 70.8% in the service sector managed to maintain all work activities remotely, while the proportions were notably lower for members in construction (40%) and trade (26.7%).
- Of the surveyed BAG member businesses in the manufacturing sector that continue operating, none have been able to complete all work activities remotely.



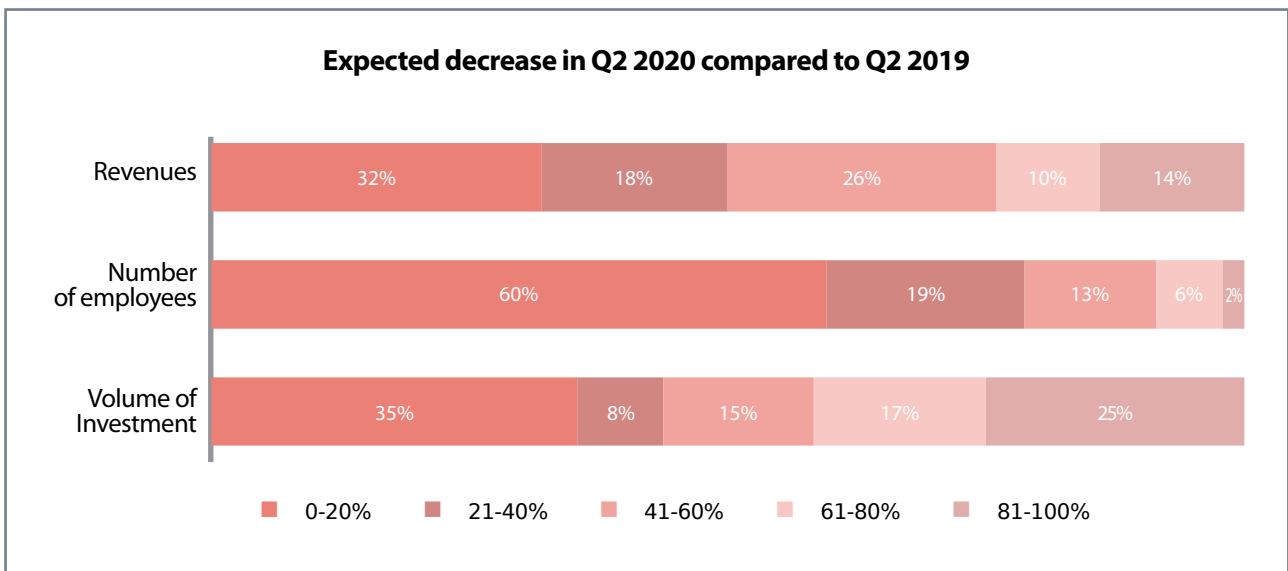
Graph 12: Switching to remote working

EXPECTED REDUCTION IN MAIN BUSINESS INDICATORS

BAG member businesses were asked to estimate their respective reductions in their revenues, in their number of employees, and in their volumes of investments for Q2 of 2020, compared to Q2 of 2019 on the assumption that the state of emergency would continue until the end of May 2020.

- Overall, 14% of the surveyed BAG member businesses expect a significant fall of 81-100% in their revenues, while 32% predict a mild fall of 0-20%.
- The majority of the surveyed BAG member businesses (59.6%) expect a 0-20% decrease in their number of employees, with only 21.3% of them expect a decrease of more than 41%.
- Surveyed BAG member businesses expect the volume of their investments to be affected most significantly, with 25% of them predicting a decrease of 81-100%, and 35.4% predicting a relatively small decrease of 0-20%.
- None of the surveyed BAG member businesses in the manufacturing sector expect their revenues to fall by more than 61%, while half of the member businesses in this sector expect a decrease of 0-20% in revenue.
- All of the surveyed businesses in the construction sector expect a decrease in revenue of somewhere between 21% and 80%.

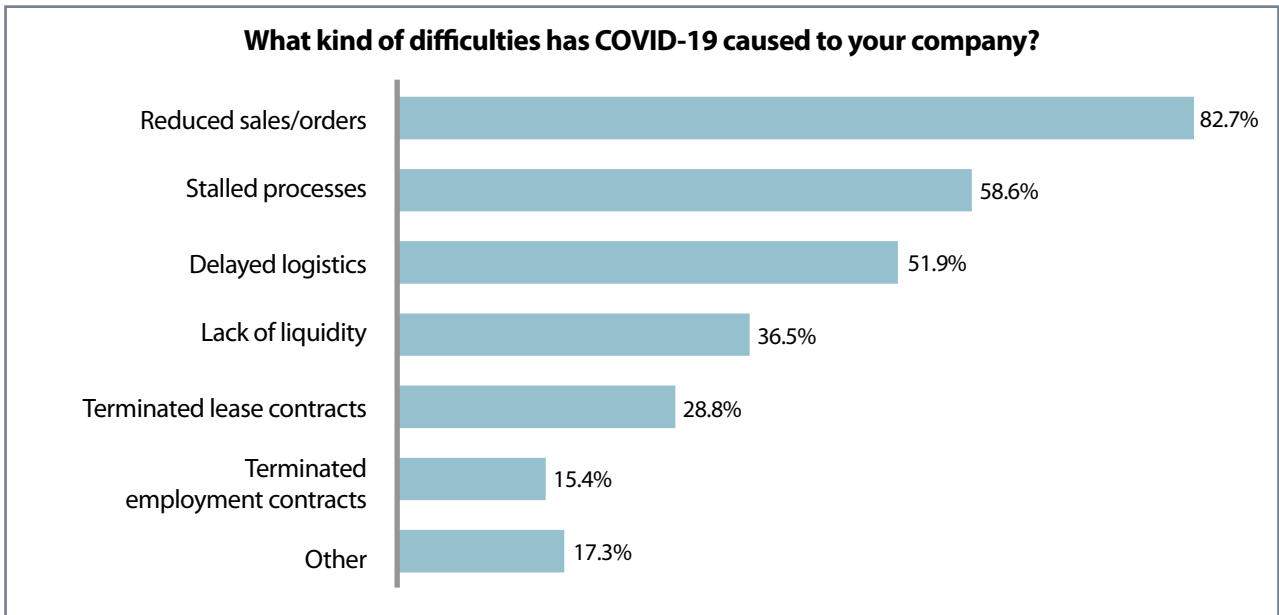
- In total, 21.1% of surveyed BAG member businesses in the trade sector expect their revenue to fall by more than 81%, while 12.5% of surveyed members in the service sector have the same expectation.
- Of the surveyed BAG member businesses in the trade sector, 94.4% expect a decrease of less than 40% in their number of employees, while 75% of surveyed members in the service sector and 100% in the manufacturing sector expect the same level of reduction in this regard.
- All surveyed BAG member businesses in the construction sector expect a decrease of more than 41% in their number of employees.
- Exactly half of surveyed BAG member businesses in the service sector expect a decrease of 0-20% in the volume of their investments, while 27.8% of surveyed members in the trade sector have the same expectation. Meanwhile, the surveyed members in the manufacturing and construction sectors expect no such decrease.
- Contrarily, 50% of the surveyed BAG member businesses in the manufacturing sector expect a decrease of more than 81% in the volume of their investments. The same indicator was significantly lower in the trade (27.8%), construction (25%) and service (20.8%) sectors respectively.



Graph 13: Expected decrease in the main business indicators in Q2 2020 compared to Q2 2019

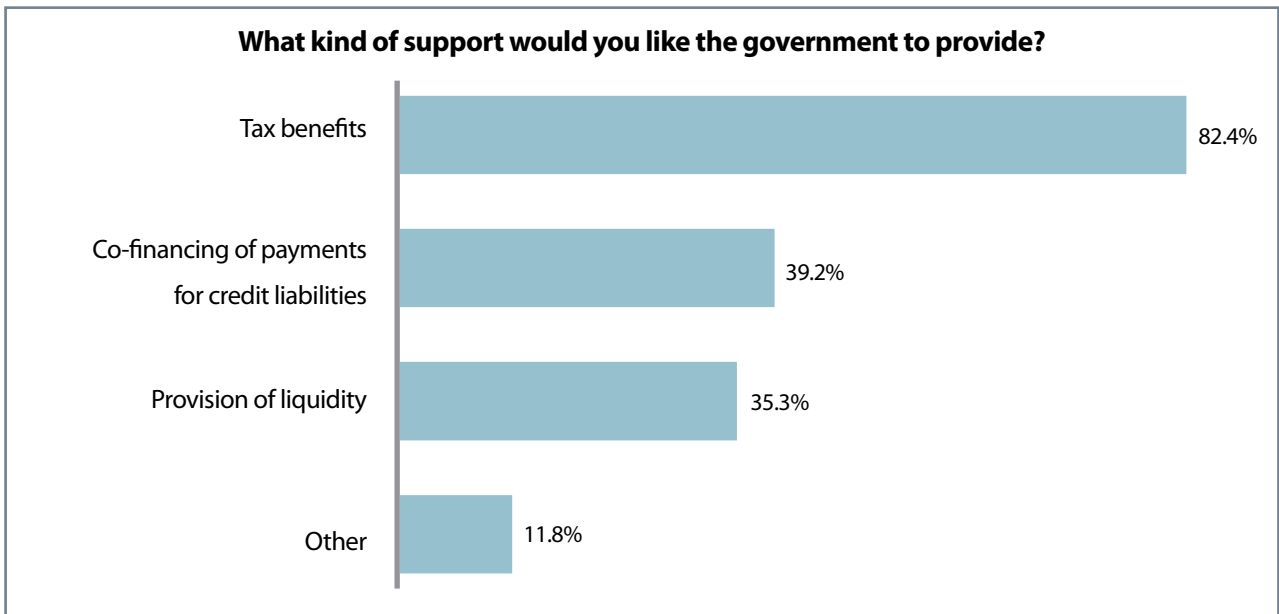
THE MAJOR CHALLENGES BUSINESSES FACE DUE TO COVID-19

THE BIGGEST CHALLENGE BAG MEMBER BUSINESSES FACE DUE TO COVID-19 IS REDUCED SALES/ORDERS.



Graph 14: Difficulties businesses face due to COVID-19

SUPPORT MEASURES BAG MEMBERS REQUIRE

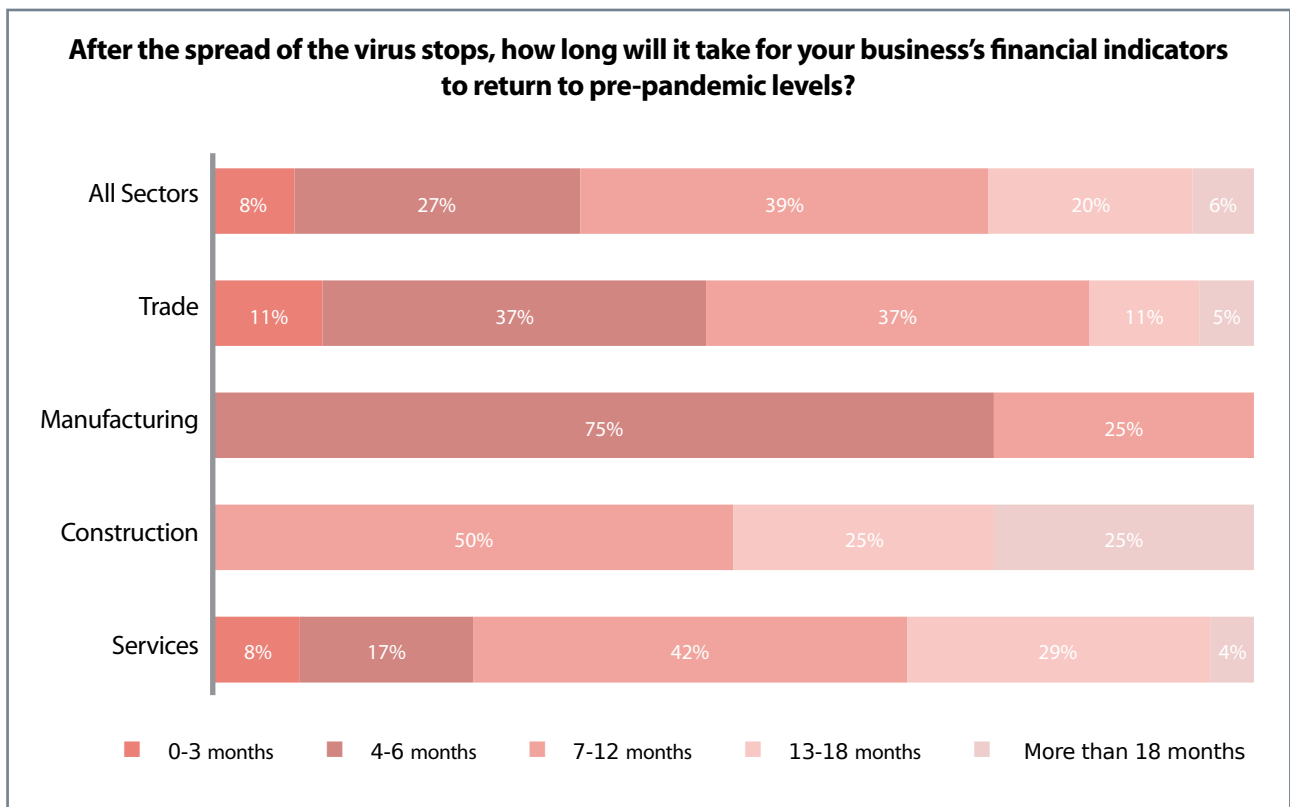


Graph 15: Desired support measures from government

EXPECTATIONS ABOUT THE DURATION OF THE IMPACT

To measure members' expectations as to the duration of the COVID-19 impact, BAG member businesses were asked to predict how long it would take their respective businesses to return to pre-pandemic levels after the spread of the virus stops.

- Only 7.8% of the surveyed BAG member businesses believe that a resumption of pre-pandemic levels will happen within less than 3 months.
- Meanwhile, only 5.9% expect their indicators to return to pre-pandemic levels will take for more than 18 months.
- Overall, 39.2% of BAG member businesses think the return to pre-pandemic levels will take 7-12 months. This is the timeframe most commonly expected in all sectors except manufacturing.



Graph 16: Expected duration of return to pre-pandemic levels



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