

# BAG INDEX

THE IMPACT OF THE  
RUSSIA-UKRAINE WAR ON THE  
BAG BUSINESS CLIMATE



საქართველოს ბიზნეს ასოციაცია  
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Research

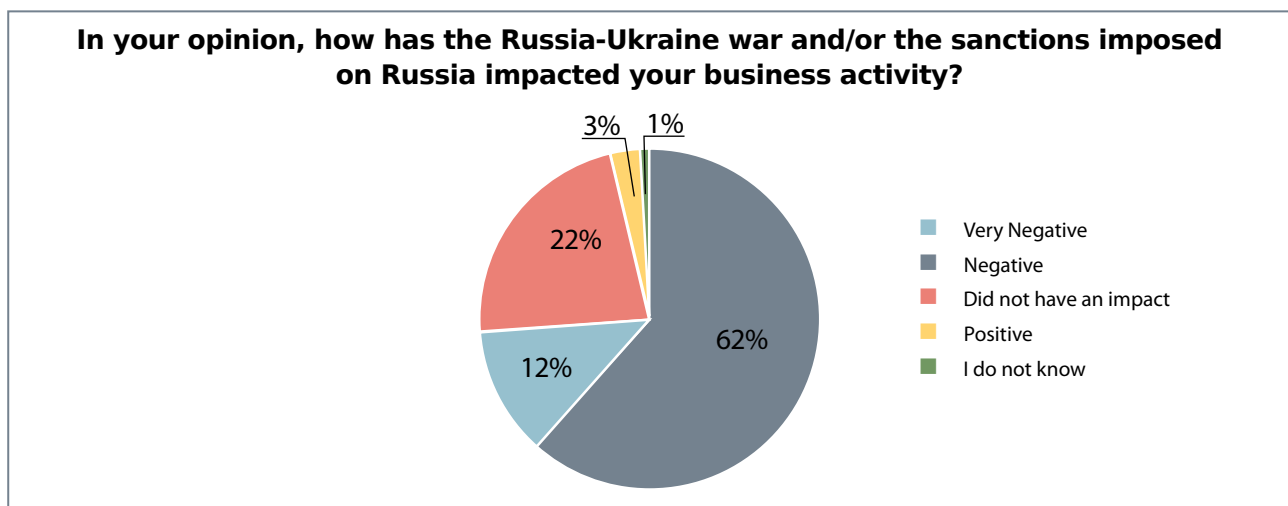
II QUARTER 2022

## THE IMPACT OF THE RUSSIA-UKRAINE WAR ON THE BAG BUSINESS CLIMATE

In the report on the second quarter of 2022, to assess the impact of the Russia-Ukraine war on the BAG business climate, some additional questions were integrated into the BAG index survey.

### THE IMPACT OF THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA ON BUSINESS ACTIVITY

In the survey conducted in the second quarter of 2022, the majority of surveyed companies (62%) stated that the Russia-Ukraine war and/or the sanctions imposed on Russia had impacted their business activity negatively, while 12% stated that the impact had been very negative. In total, 22% of the surveyed companies stated that the Russia-Ukraine war and/or the sanctions imposed on Russia had not had an impact on their business activity. Only 3% of businesses stated that the impact had been positive.



**Graph 1:** The impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on business activity

Among sectors, the impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on business activity was most negative for the trade sector. In particular, 71% of surveyed companies in the trade sector stated that the impact on their business activity had been negative, while 11% stated that this impact had been very negative. The impact of the war had been least negative for the service sector (the impact had been negative for 61% and very negative for 4%).

### FACTORS CAUSED BY THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA HINDERING BUSINESS ACTIVITY

Among the factors to have affected business activity negatively due to the Russia-Ukraine war and/or the sanctions imposed on Russia in Q2 of 2022, the most often stated factor was logistical problems in the global market (72% of surveyed companies to have stated that the Russia-Ukraine war had negatively impacted their business activity), followed by increased prices of intermediate goods (56%), hindered imports-exports with Ukraine (48%), and the aggravation of trade relations with Russia (39%).



**Graph 2:** Factors caused by the Russia-Ukraine war and/or the sanctions imposed on Russia to have negatively affected business activity

In the trade sector, the most-stated hindering factor caused by the war was logistical problems in the global market (90%), while the least-stated factor was the aggravation of trade relations with Russia (41%).

In the service sector, similar to the trade sector, the most-stated hindering factor caused by the war was logistical problems in the global market (57%), while the least-stated factor was the aggravation of trade relations with Russia (33%).

In the construction sector, the most-stated factors were increased prices on intermediate goods (78%) and logistical problems in the global market (78%). On the other hand, the least-stated factor was the aggravation of trade relations with Russia (33%).

In the manufacturing sector, the most-stated factor was hindered imports-exports with Ukraine (82%), while relatively less often stated factors were increased prices of intermediate goods (55%) and aggravation of trade relations with Russia (55%).

### AGGRAVATED TRADE RELATIONS WITH RUSSIA

Among the surveyed companies in Q2 of 2022 to have cited the aggravation of trade relations with Russia as a factor hindering business activity, payment issues were most often stated as the underlying reason (68%), followed by hindered logistics, including freight insurance issues (58%) and export barriers imposed by Russia (39%). Among the factors to have aggravated trade relations with Russia, the least-stated factors were reputational problems (26%) and trade partners being listed as sanctioned companies (19%).



**Graph 3:** Factors to have aggravated trade relations with Russia

By sector, payment issues as a factor to have aggravated trade relations with Russia was the most-stated factor in the construction sector (100%), while it was least-stated in the service sector (60%).

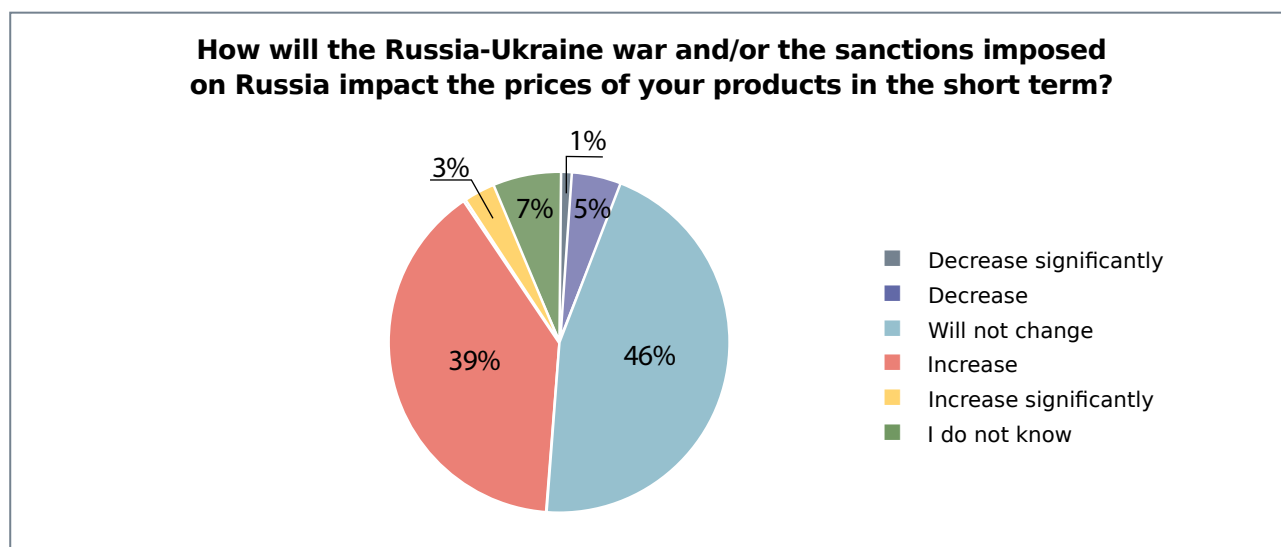
Hindered logistics including freight insurance issues was stated as a factor aggravating trade by all companies in the construction sector and by 50% of companies in the trade and manufacturing sectors. Export barriers imposed by Russia was the least problematic factor for the service sector (20%) but relatively pertinent for the construction sector (67%).

Reputational issues as a factor aggravating trade relations with Russia was most-stated in the construction sector (67%), while no companies in the manufacturing sector cited reputational issues as a factor aggravating trade relations with Russia.

Trade partners being listed as sanctioned companies was most problematic for the service sector (40%), while it was not deemed a problem for the construction and manufacturing sectors.

### THE IMPACT OF THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA ON PRICES OF PRODUCTS/SERVICES

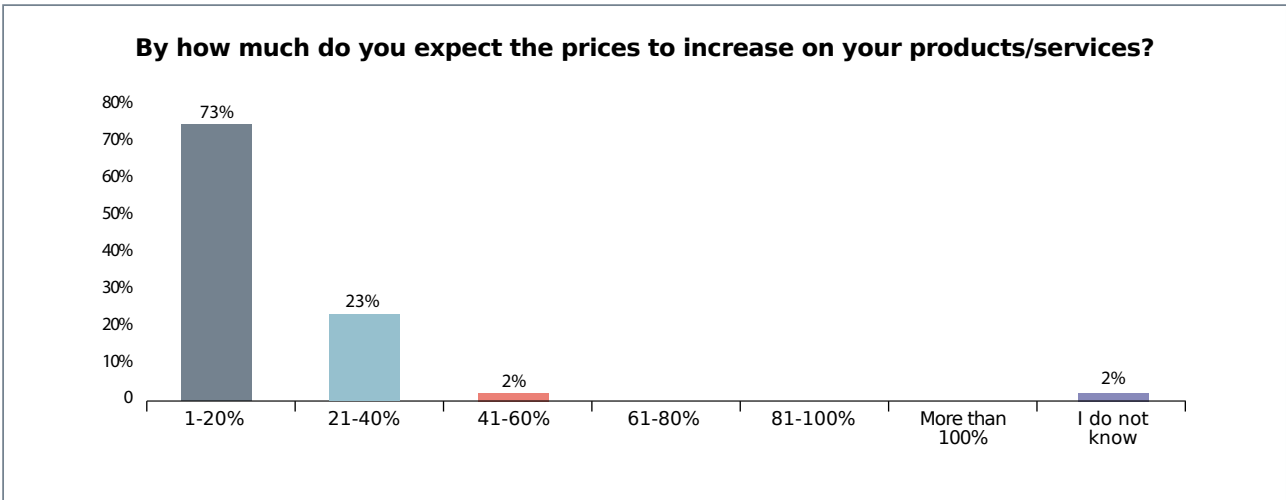
Overall, 46% of surveyed companies in Q2 of 2022 expect that the Russia-Ukraine war and/or the sanctions imposed on Russia will not have an impact on the prices of products/services in the short run. In total, 39% of surveyed companies expect prices to increase, while 3% expect prices to increase significantly.



**Graph 4:** The impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on prices of products/services in the short run

By sector, the expectations regarding price increases due to the Russia-Ukraine war and/or the sanctions imposed on Russia is the highest in the trade (52% expect prices to increase) and construction (45%) sectors, while they are lowest in the service sector (35%).

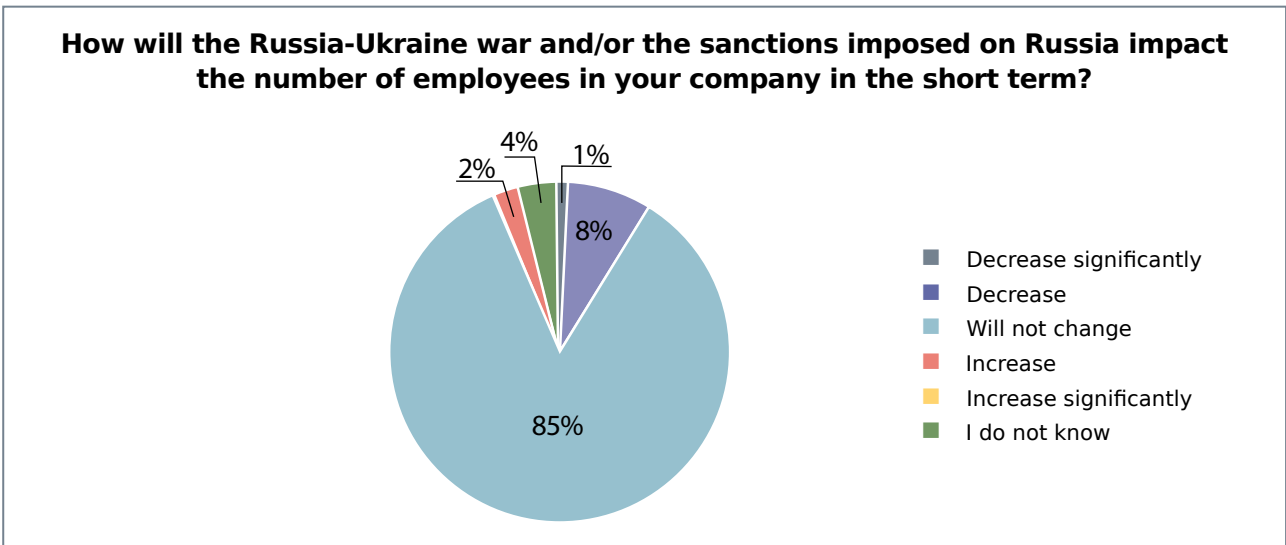
Among companies to have expected prices to increase in the short run, the majority (73%) of them expect prices to increase by 1-20%, while 23% of them expect prices to increase by 21-40%. None of the companies expect prices to increase by more than 60%.



**Graph 5:** Expected price increase for products/services

### THE IMPACT OF THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA ON NUMBER OF EMPLOYEES

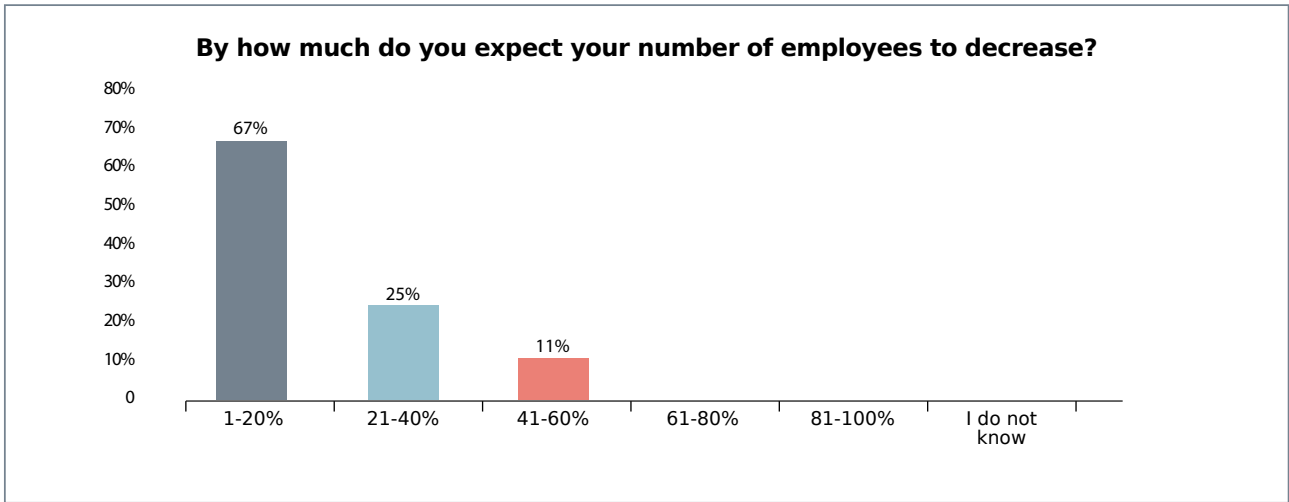
The majority (85%) of the companies surveyed in Q2 of 2022 expect that the Russia-Ukraine war and/or the sanctions imposed on Russia will not have an impact on the number of employees in their company. Only 8% of businesses expect their number of employees to decrease and 1% of businesses expect to decrease significantly.



**Graph 6:** The impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on the number of employees

By sector, a decline in the number of employees is most expected in the manufacturing sector (28% of companies expect the number of employees to decrease in the short run) and least expected in the trade sector (3%).

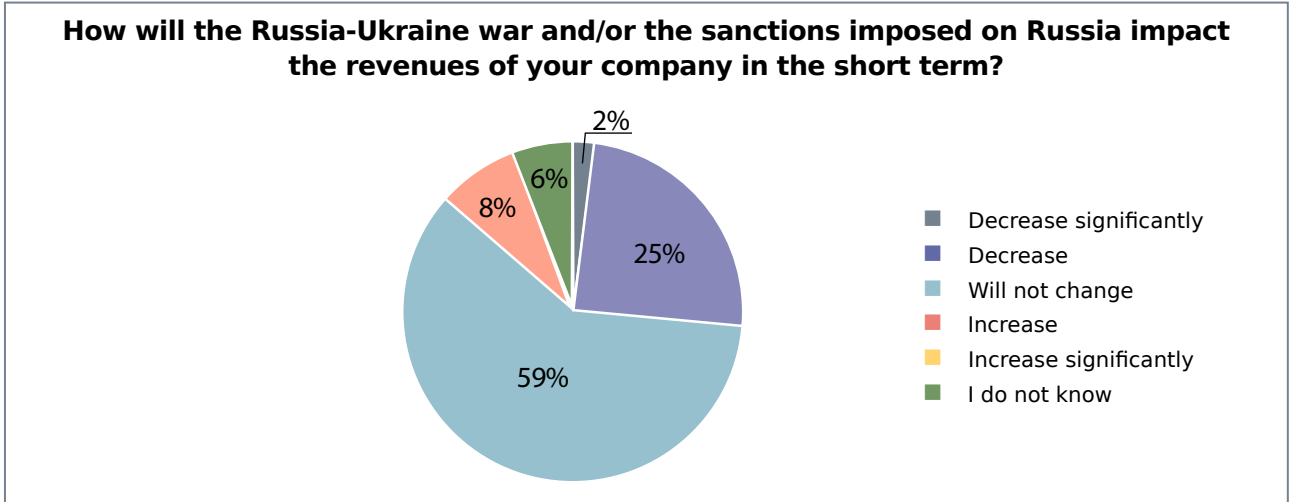
Among the companies expecting their number of employees to decline, the majority (67%) of them expect this decline to be between 1-20%, while 25% of them expect their number of employees to decline by 21-40%, and 11% expects a 41-60% decline. None of the companies expect the number of employees to decline by more than 60%.



**Graph 7:** Expected decline in number of employees

**THE IMPACT OF THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA ON COMPANY REVENUES**

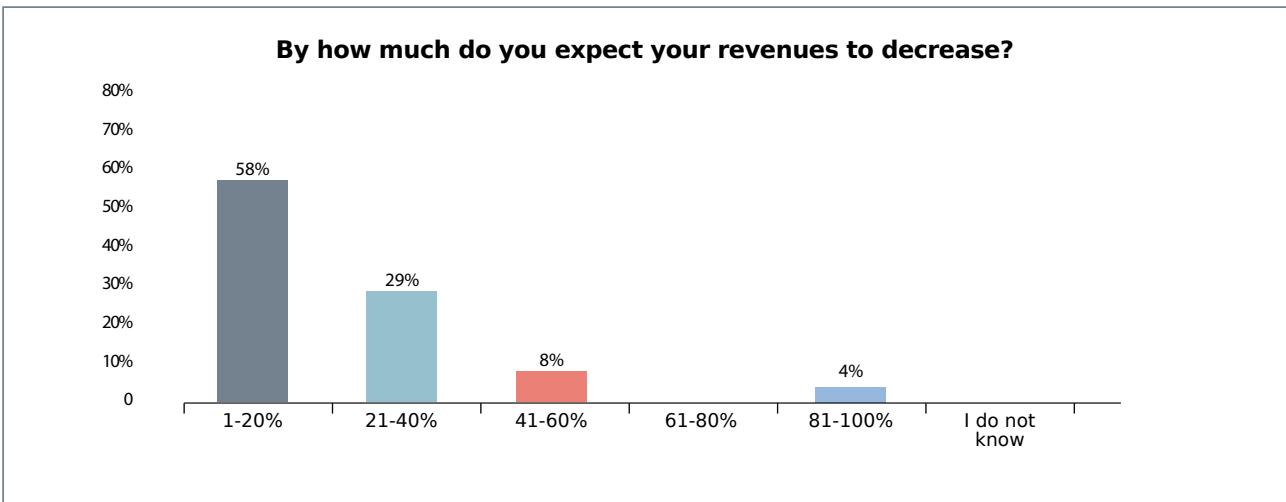
Overall, 59% of the companies surveyed in Q2 of 2022 expect that the Russia-Ukraine war and/or the sanctions imposed on Russia will not impact on their revenues. In total, 25% of the surveyed businesses expect a decrease in revenues, while 2% expect a significant decrease.



**Graph 8:** The impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on company revenues

By sector, the decline in revenues is most expected in the manufacturing sector (39% of companies expect their revenues to decrease in the short run) and least expected in the construction sector (18%).

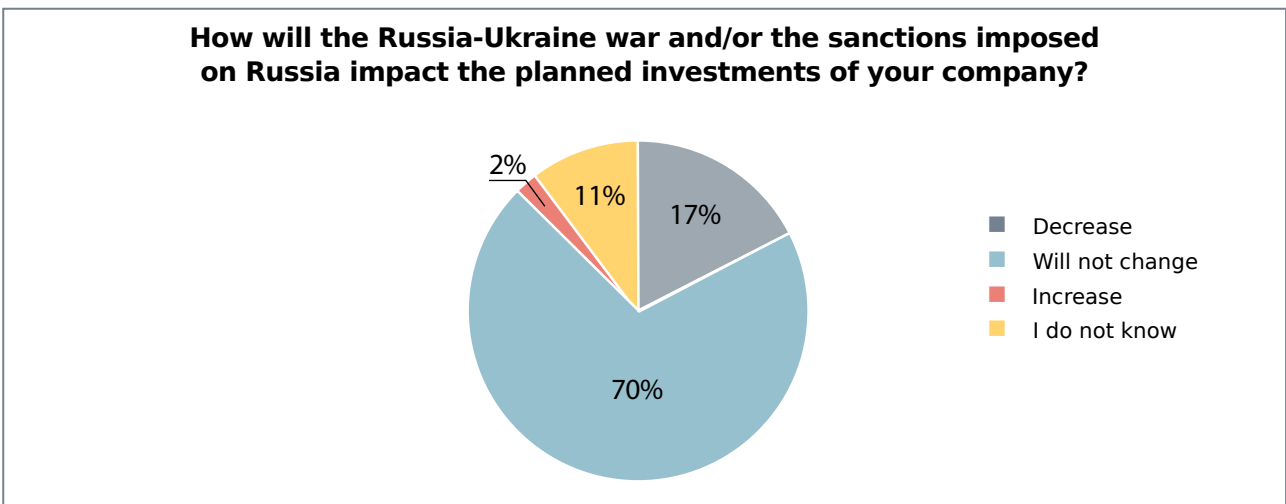
Among the companies expecting their revenues to decline, the majority (58%) of them expect this decline to be between 1-20%, while 29% of them expect their revenues to decline by 21-40%, 8% expect a 41-60% decline, and 4% of the companies expect the decline to be between 81-100%.



**Graph 9:** Expected decline in company revenues

## THE IMPACT OF THE RUSSIA-UKRAINE WAR AND/OR THE SANCTIONS IMPOSED ON RUSSIA ON PLANNED INVESTMENTS

The majority (70%) of the companies surveyed in Q2 of 2022 expect that the Russia-Ukraine war and/or the sanctions on Russia will not impact upon the planned investments of their company. Meanwhile, 17% of the businesses expect their planned investments to decline.

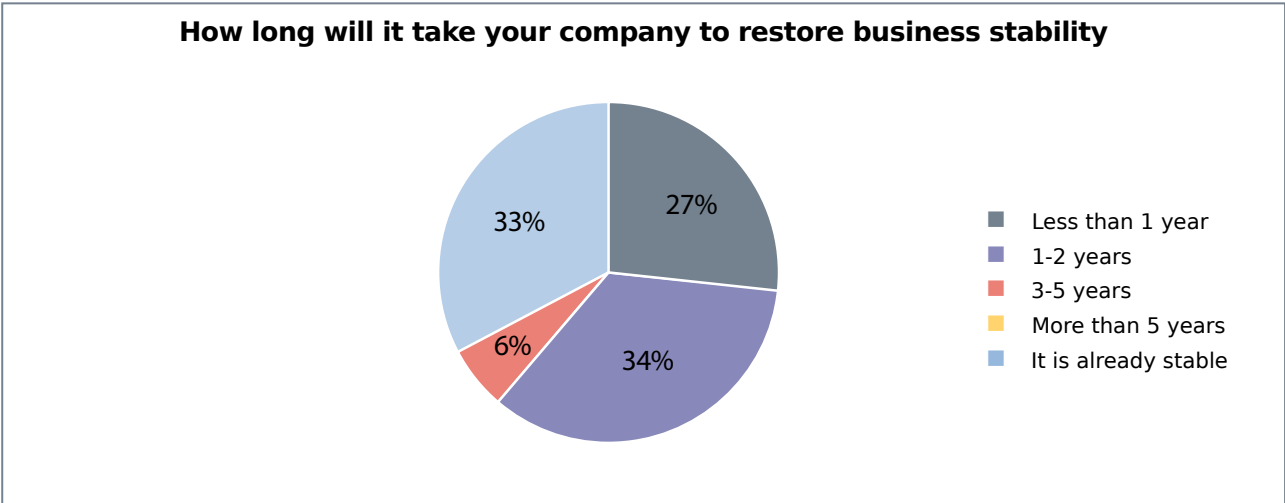


**Graph 10:** The impact of the Russia-Ukraine war and/or the sanctions imposed on Russia on planned investments

Among sectors, the expectations of a decline in investments is highest in the manufacturing sector (36%) and lowest in the service sector (11% expect investments to decline).

## RECOVERING TO A PRE-WAR SITUATION

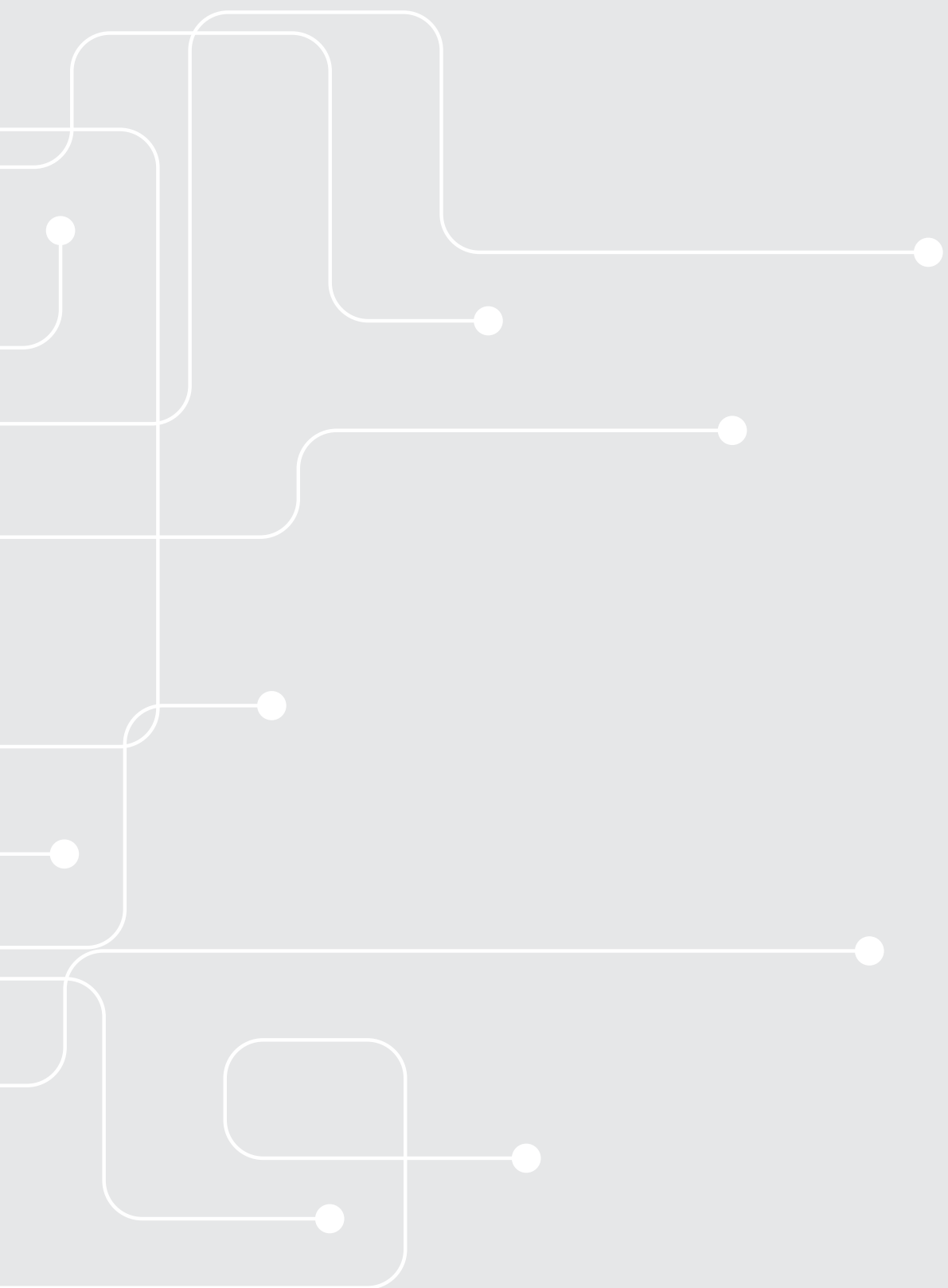
Among the companies to have been affected negatively by the war, 34% stated that recovering to a pre-war situation would require 1-2 years, while 27% of the companies thought that less than one year would be sufficient and 6% of the surveyed companies stated that 3-5 years would be needed for such a recovery. None of the companies stated that more than five years would be necessary for their business to recover to a pre-war situation. It should also be mentioned that 33% of the surveyed companies already considered themselves in a stable position.



**Graph 11:** Time needed for the company to recover to a pre-war situation

Across sectors, the level of stability is highest in the trade sector (48%) and lowest in the manufacturing sector (only 11% of companies in this sector stated that their business was already stable). Meanwhile, it must be noted that none of the companies in the construction sector stated that more than two years would be needed for them to recover to a pre-war situation.





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