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II QUARTER 2026

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II QUARTER 2026

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BAG INDEX

Prepared by PMC Research Center and ifo Institute

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[1]. 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, 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. In the current quarter, companies also responded to additional questions related to artificial intelligence (AI). 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 Q2 of 2026 in the period 09 - 25 June.

IN Q2 OF 2026, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 47.6 POINTS IN Q2 OF 2026, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 30.0, AND THE BUSINESS EXPECTATIONS INDICATOR AT 66.5.

In Q2 of 2026, compared to Q1 of 2026, the BAG Business Climate improved by 5.1 points. Moreover, in this period, the assessment of the business expectations, and present business situation increased by 10.1 and 0.8 points relatively.

The BAG Business Climate indicator improved by 15.9 points for Q2 of 2026 compared to Q2 of 2025. In particular, the business expectations indicator increased by 20.8 points, while the present business situation indicator improved by 11.4 points (see graph 1).

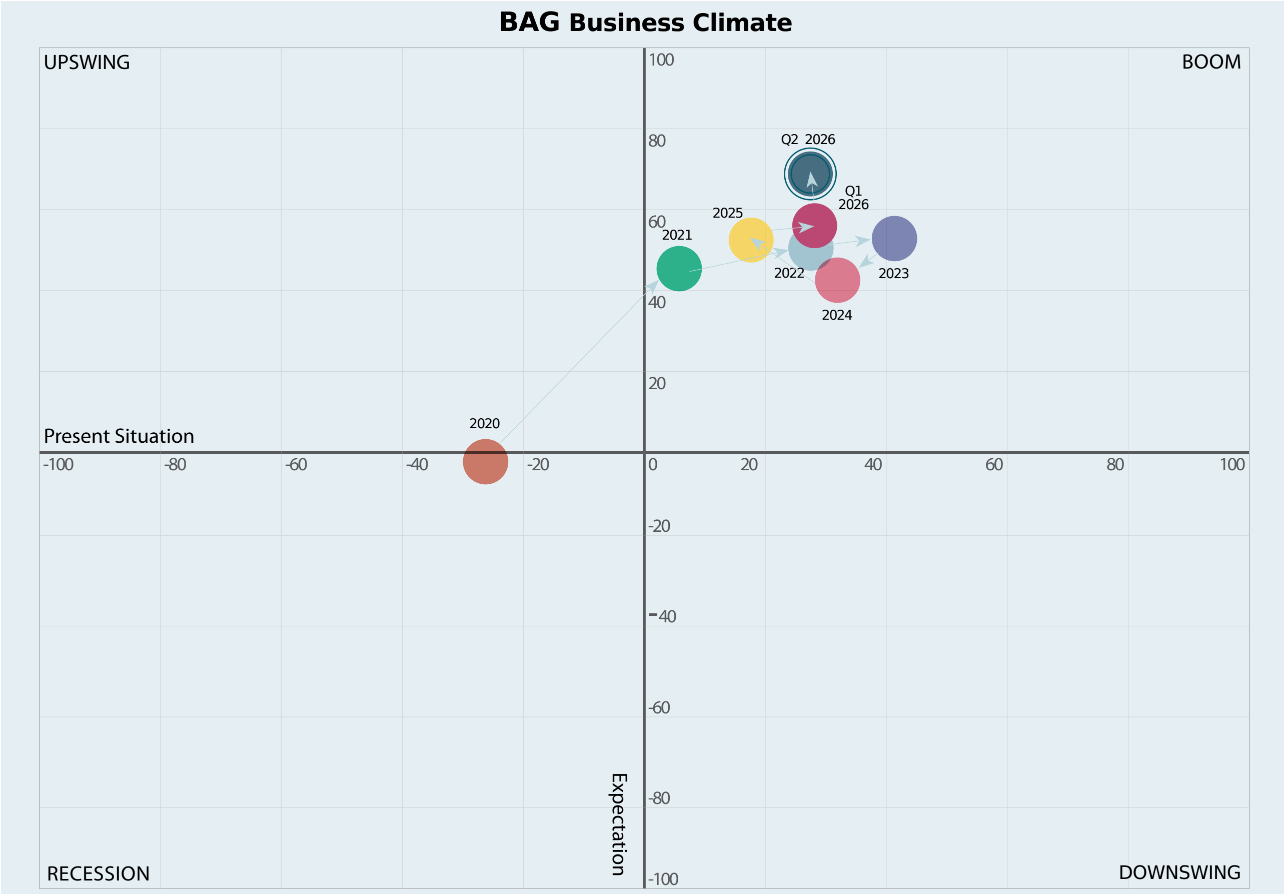
[1] In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

[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[3]

In Q2 of 2026, the BAG Business Climate Indicator increased compared to the previous quarter. The latter indicator remains in the **boom phase.**

[3] For 2019, only Q4 data is available, while for 2020-2023, quarterly averages are presented.

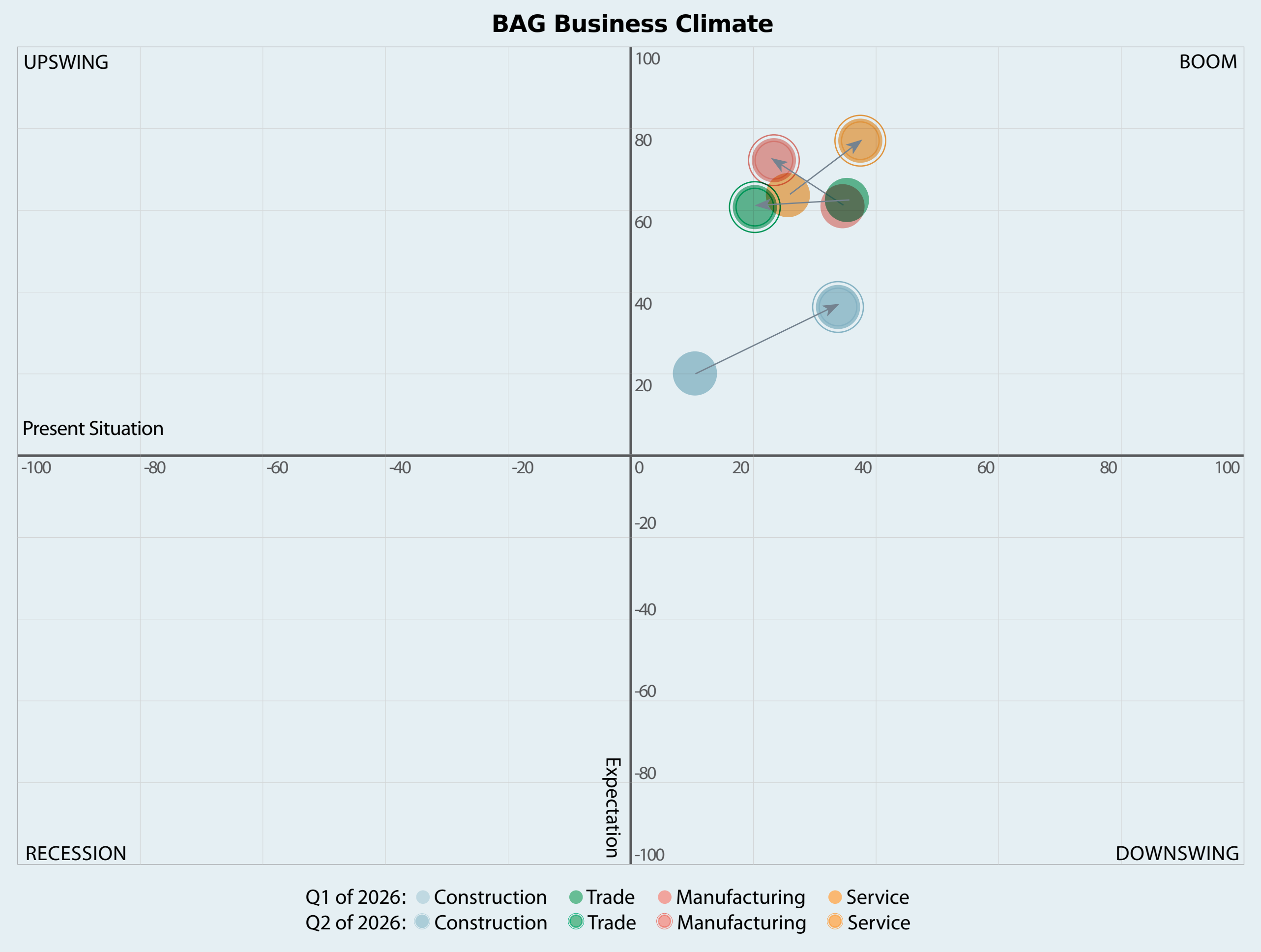


Graph 2: BAG Business Climate[4]

BAG BUSINESS CLIMATE BY SECTORS

In Q2 of 2026, **the business climate** indicator was positive for all sectors. Compared to Q1 of 2026, the indicator improved in the construction and the service sectors, while it deteriorated for trade and manufacturing sectors (see Graph 3).

4 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. The graph shows average quarterly figures for 2020-2025.



Graph 3: Business climate by sector in Q1 of 2026 and Q2 of 2026

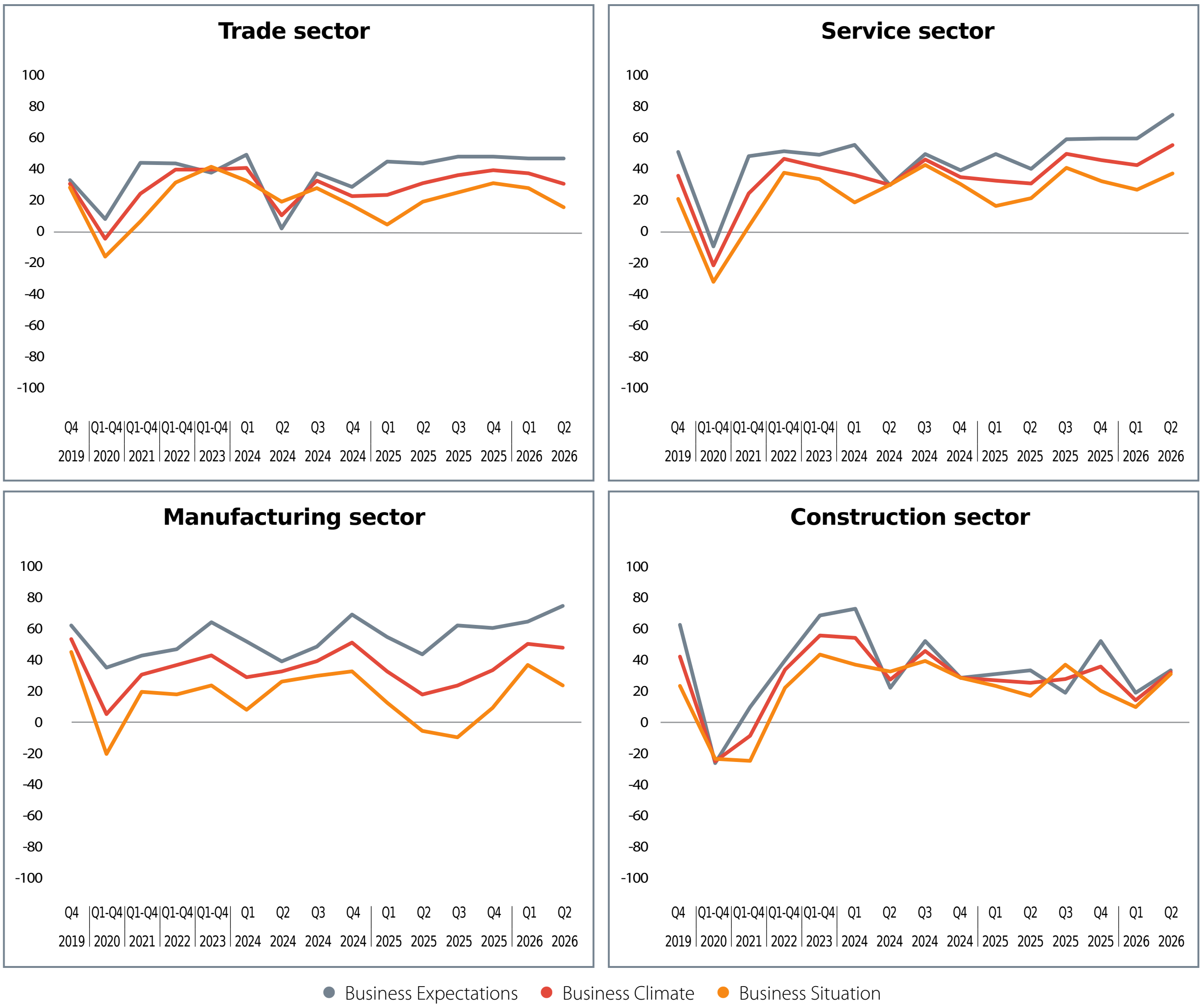
In Q2 of 2026, compared to Q1 of 2026, the present **business situation indicator** improved in the construction sector by 23.3 points, and in the service sector by 11.0 points. Meanwhile, the indicator declined in the trade sector by 15.9 points, and in the manufacturing sector by 13.1 points. As for the **business expectations indicator**, it increased in the construction sector by 16.4 points, and in the service sector by 15.4 points, and in the manufacturing sector by 9.7 points, while it slightly worsened in the trade sector by 0.1 points.

It is worth noting that in Q2 of 2026, the present business situation indicator was highest in the service sector and lowest in the trade sector. Among the sectors, the most positive business expectations were once again recorded in the service sector, while the least positive expectations were observed in the construction sector (see Table 1).

Table 1: Balance values by sector in Q2 of 2026

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	39.7	20.5	60.5
Service Sector	57.0	38.5	76.9
Manufacturing Sector	46.0	22.2	72.2
Construction Sector	34.8	33.3	36.4
All Sectors	47.6	30.0	66.5

In Q2 of 2026, compared to Q2 of 2025, the business climate indicator improved in the manufacturing sector by 29.2 points, in the service sector by 25.3, and in the construction sector by 7.8 points. Meanwhile, the business climate indicator slightly decreased in the trade sector by 0.4 points.

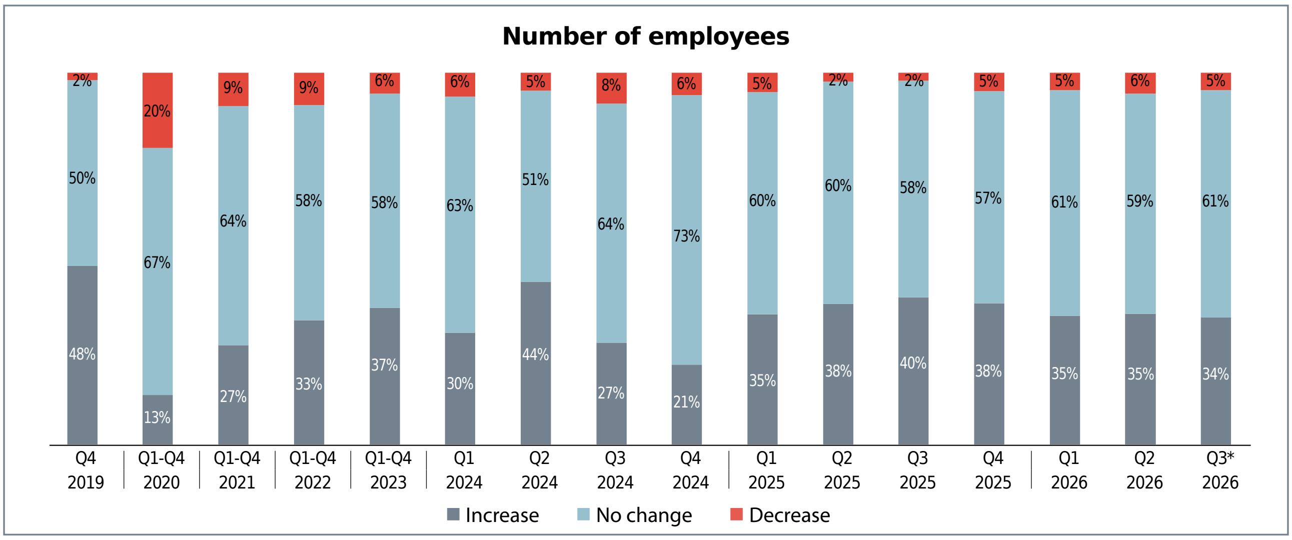


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

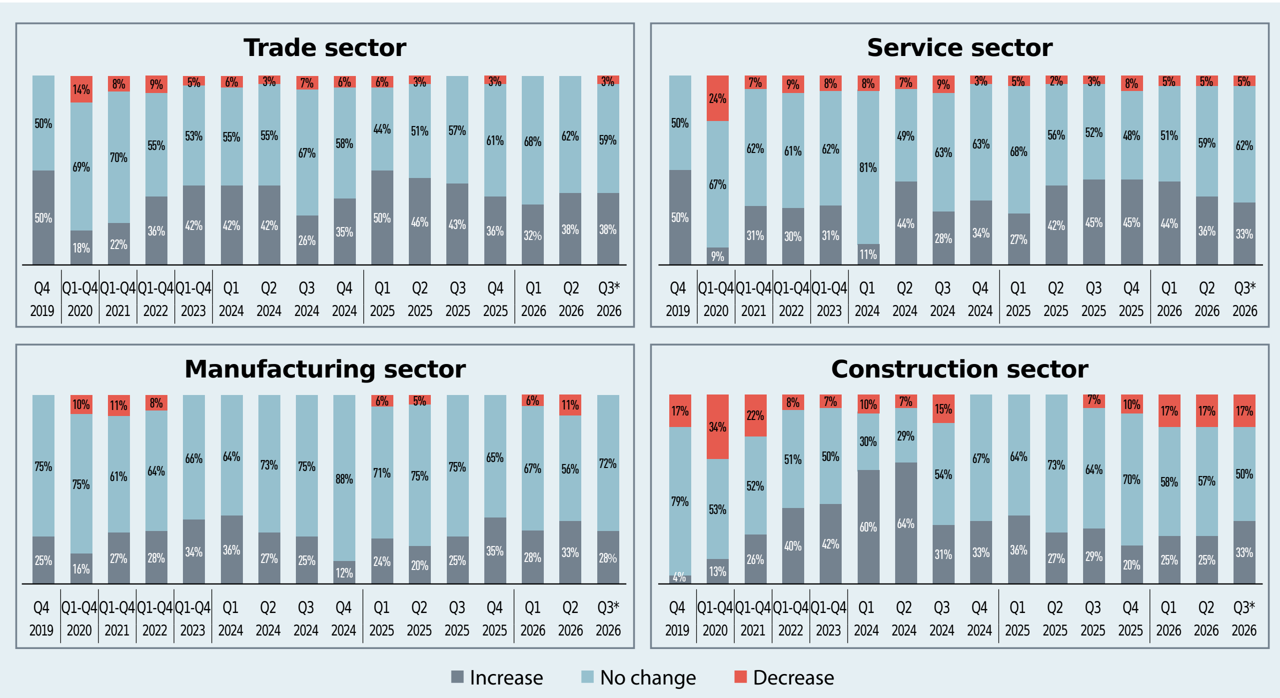
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- 35% of surveyed companies stated that the number of employees increased in Q2 of 2026. As for the expectations for Q3 of 2026, 34% expect the number of employees to increase, while 61% do not plan to change the number of employees. (see Graph 5).
- Across the sectors covered, the situation regarding employment in Q2 of 2026 is most positively assessed in the trade sector. Similarly, the expectations for Q3 of 2026 are most positively assessed also in the trade sector. (see Graph 6).



Graph 5: Number of employees in BAG member businesses and companies in their corporate group[5]



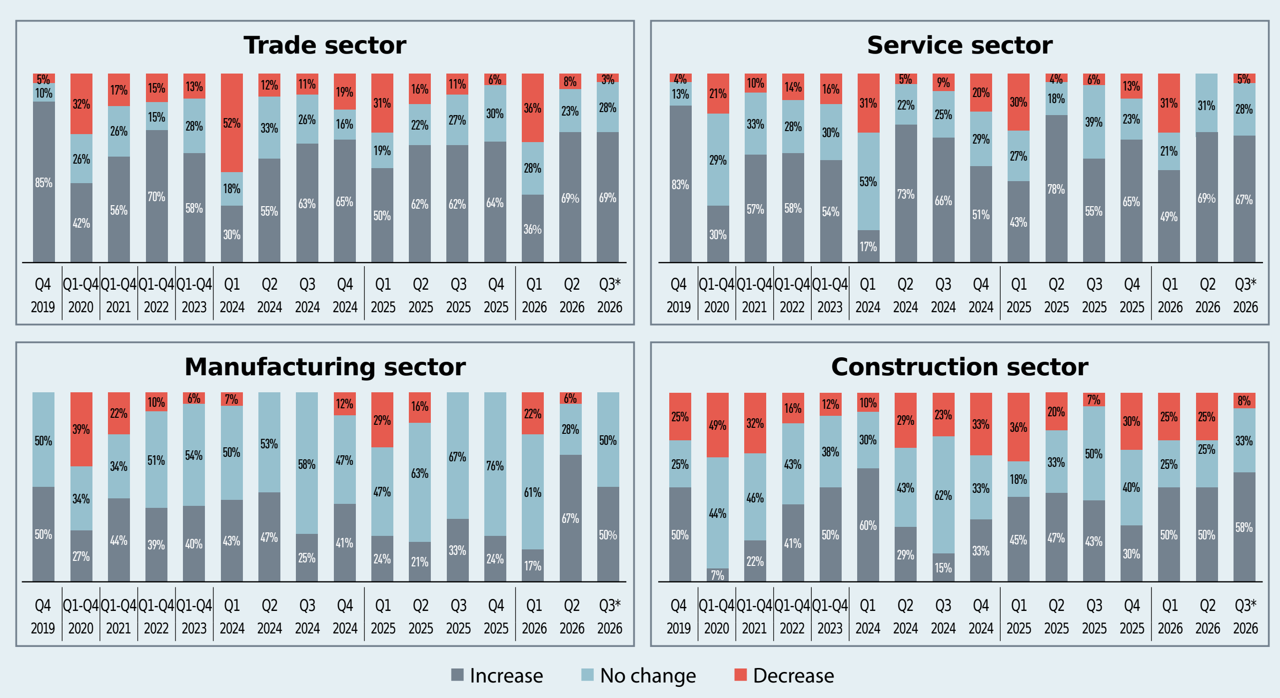
Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- In Q2 of 2026, 67% of surveyed companies reported an increase in sales, while 6% reported a decrease. As for expectations for Q3 of 2026, 64% of surveyed companies project an increase in demand, while 4% expect a decrease.
- The situation regarding sales was assessed most positively in the trade and the service sectors (69-69%), while the construction sector received the least positive assessment (50%) in Q2 of 2026. The most positive expectations for Q3 of 2026 are recorded in the trade sector (69%) (see Graph 7).

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

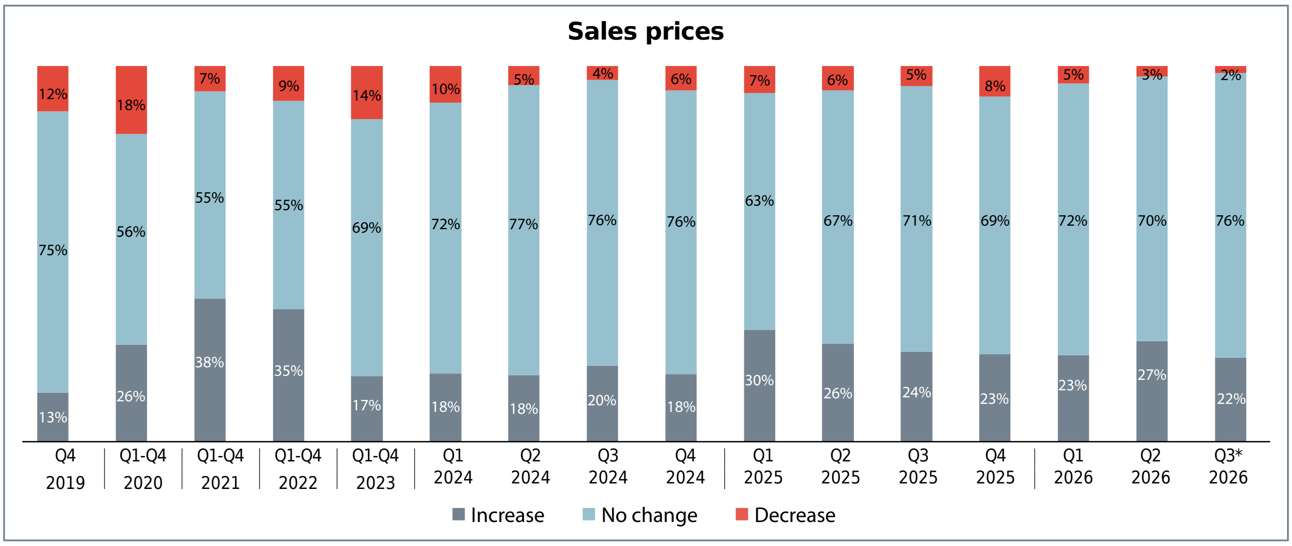
* Expectation.



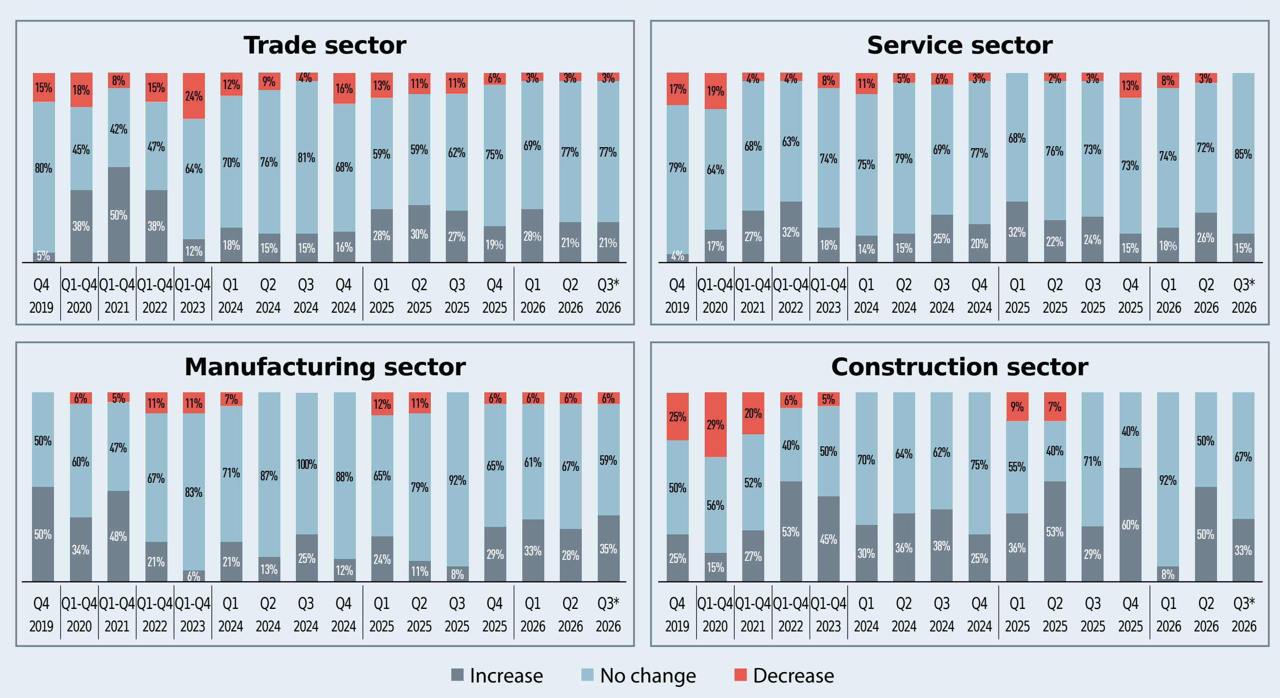
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- In Q2 of 2026, 27% of surveyed companies increased sales prices, and 22% of the companies expect the prices to rise in Q3 of 2026 (see Graph 8).
- Among sectors, in Q2 of 2026, the share of the companies that are increasing sales prices is the highest for the construction sector (50%). As for the expectations for Q3 of 2026, the highest share of companies predicting sales prices to increase was recorded in the manufacturing sector (35%) (see Graph 9).



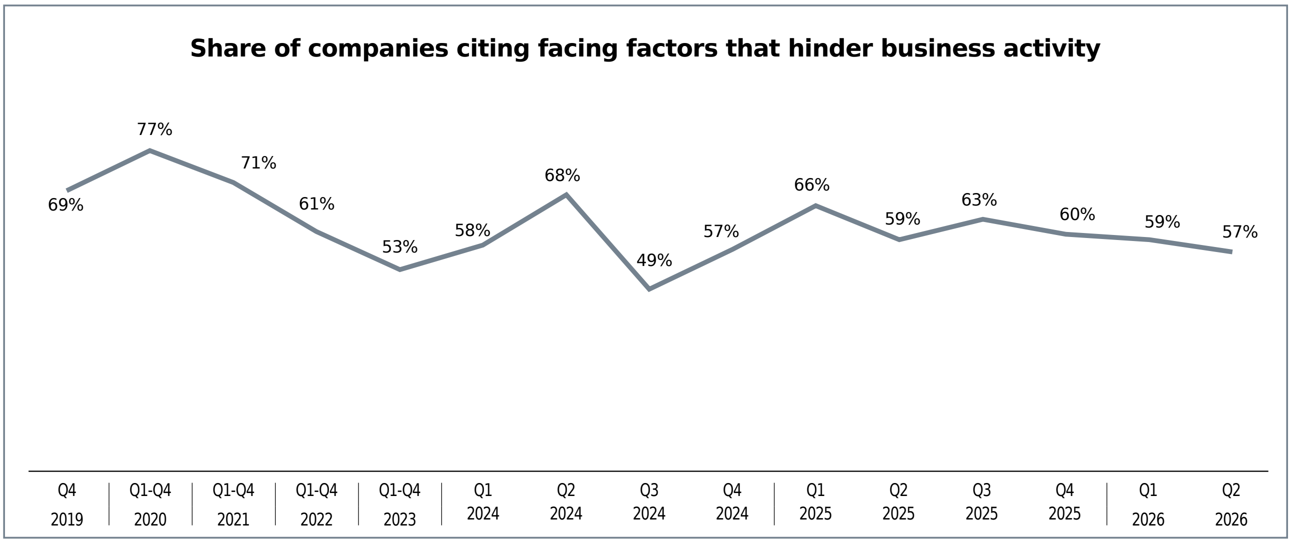
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

FACTORS HINDERING BUSINESS ACTIVITY

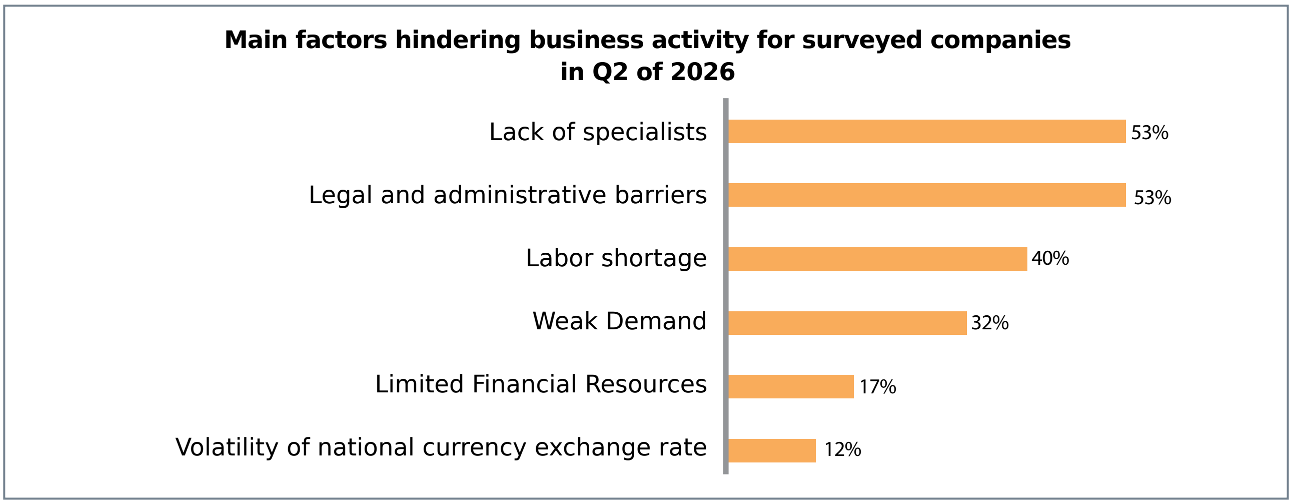
In Q2 of 2026, compared to Q1 of 2026, the share of surveyed companies claiming that there are factors hindering their business activity decreased by 2 percentage points.



Graph 10: Existence of factors hindering business activity

In Q2 of 2026, the following were identified as the main factors hindering business activity: lack of specialists, legal and administrative barriers and labor shortage (see Graph 11).[6]

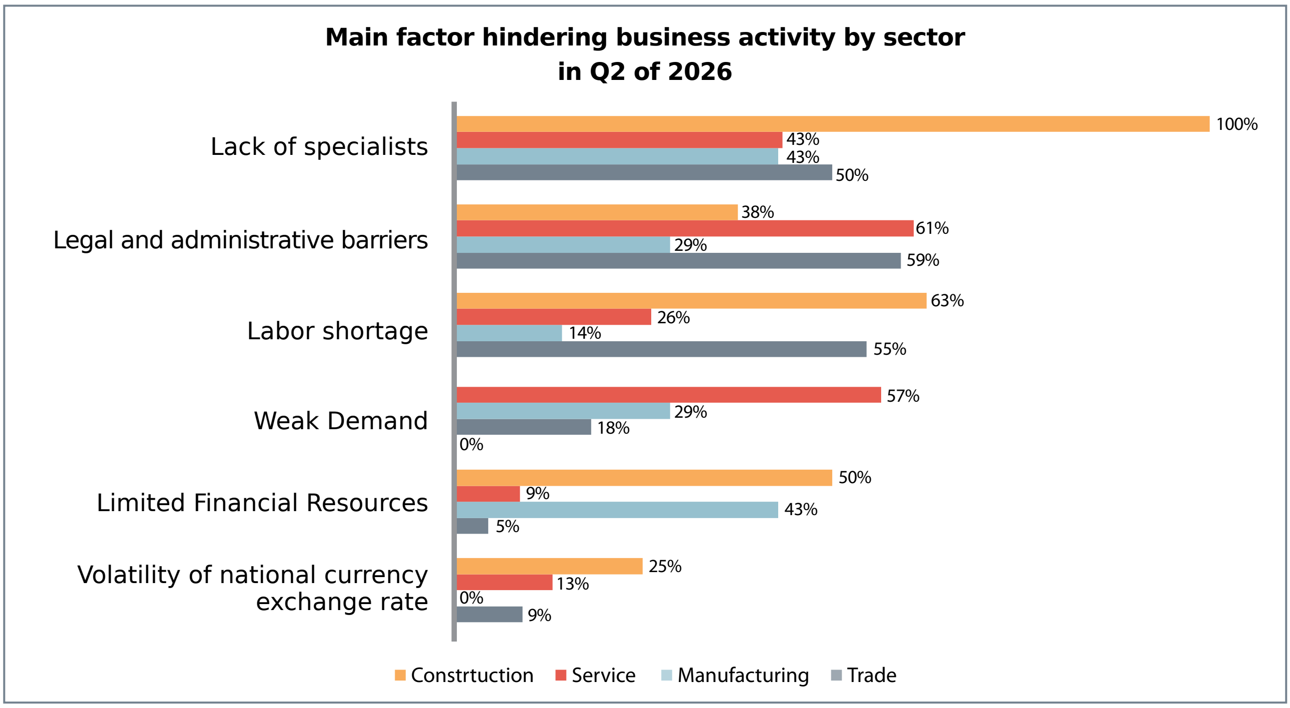
6 The instability of the national currency exchange rate, as one of the hindering factors for business, was added to the existing questionnaire on factors hindering business activity in the Q4 2021.



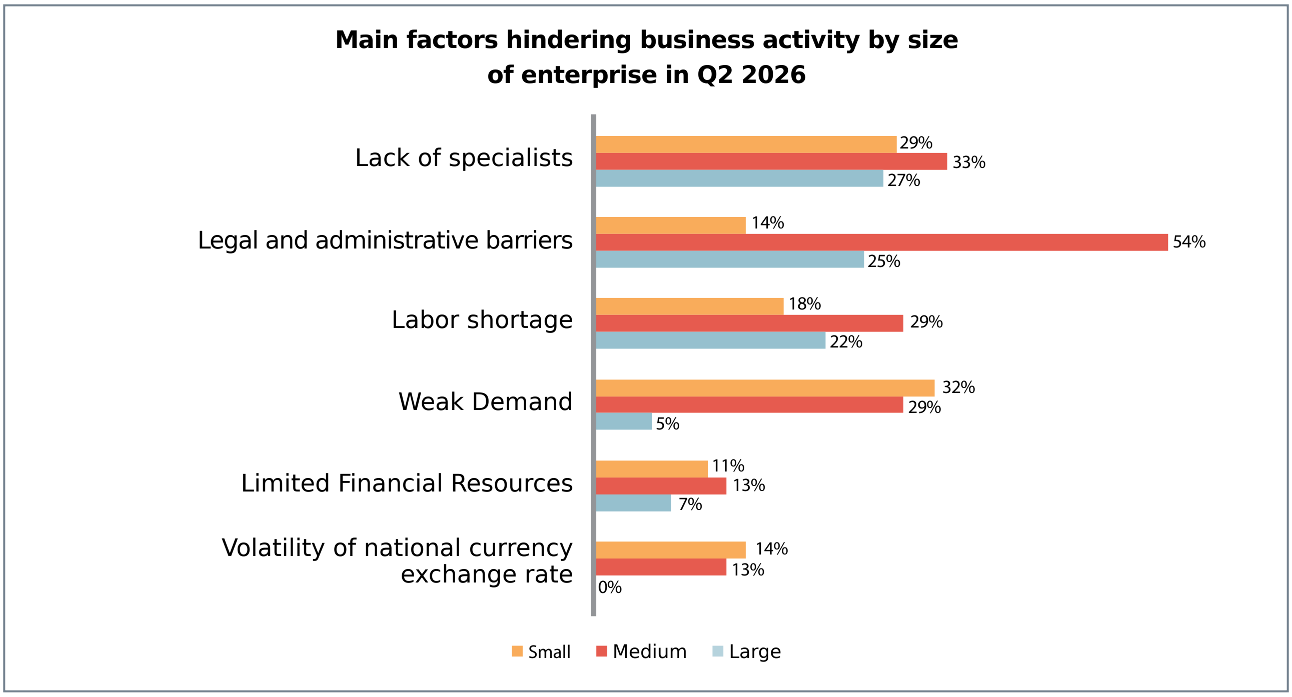
Graph 11: Main factors hindering business activity for surveyed companies in Q2 of 2026

By sector and enterprise size, in the Q2 of 2026:

- ***The lack of specialists*** is the most hindering in the construction sector (100%) and medium-sized enterprises (33%).
- ***Legal and administrative barriers*** are most hindering for medium-sized enterprises (54%), with a particularly strong impact in the service (61%) and the trade (59%) sectors.
- ***The lack of labor force*** is the most hindering in the construction (63%) and trade (55%) sectors and is almost equally problematic for medium-sized companies (29%).
- ***The weak demand represents*** a hindering factor particularly for the service sector (57%), while this problem is not observed at all in the construction sector. By size, it affects small (32%) and medium-sized (29%) enterprises almost equally.
- ***Limited financial resources*** are a major constraining factor most notably for the construction sector (50%). By size, this issue affects medium (13%) and small-sized (11%) enterprises almost equally.
- ***The volatility of the national currency exchange rate*** is particularly hindering in the construction sector (25%) and is almost equally prevalent across small (14%) and medium-sized (13%) companies almost equally. while this issue is not observed at all among large enterprises (see Graphs 12, 13).

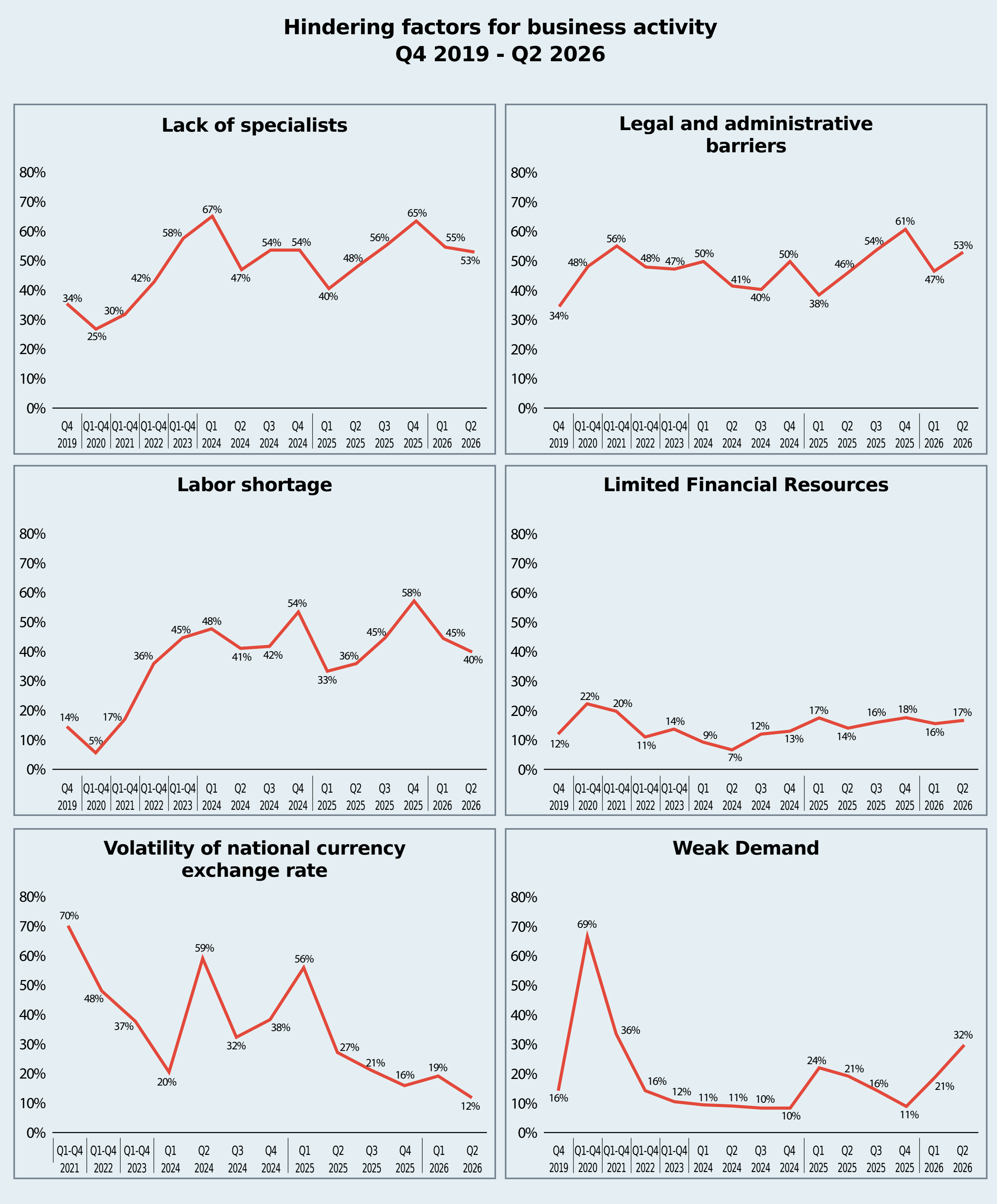


Graph 12: Main factors hindering business activity by sectors in Q2 of 2026



Graph 13: Main factors hindering business activity by the size of the enterprise in Q2 of 2026

In Q2 of 2026, compared to the previous quarter, among the factors hindering business activity, the share of companies citing the weak demand increased the most (by 11 percentage points). Meanwhile, the share of companies citing the volatility of national currency exchange rate as the hindering factor decreased the most (by 7 percentage points) (See Graph 14).



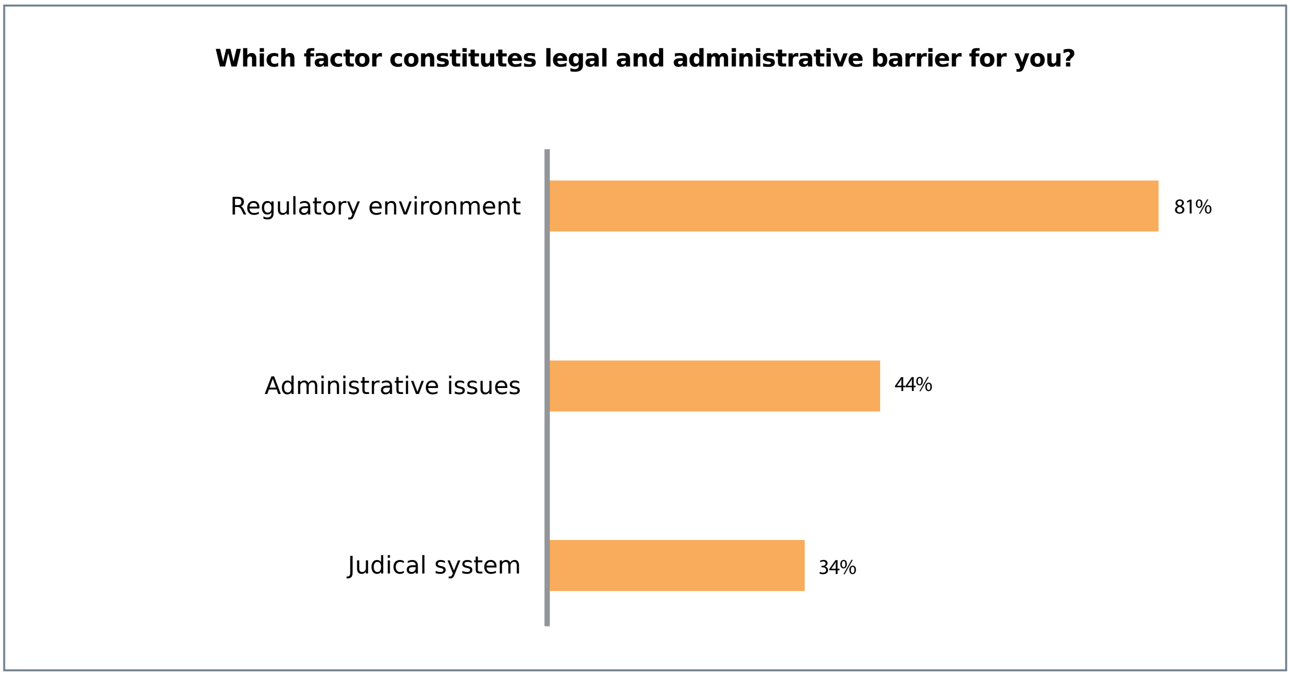
Graph 14: Main hindering factors for surveyed companies

The main factors determining legal and administrative barriers for business

In Q2 of 2026, the **regulatory framework** has been considered the main element of legal and administrative barriers hindering business activity. Looking from a sector-by-sector view, the regulatory framework was least frequently cited as a hindering factor in the service sector, while it was cited almost equally frequently in the remaining sectors.

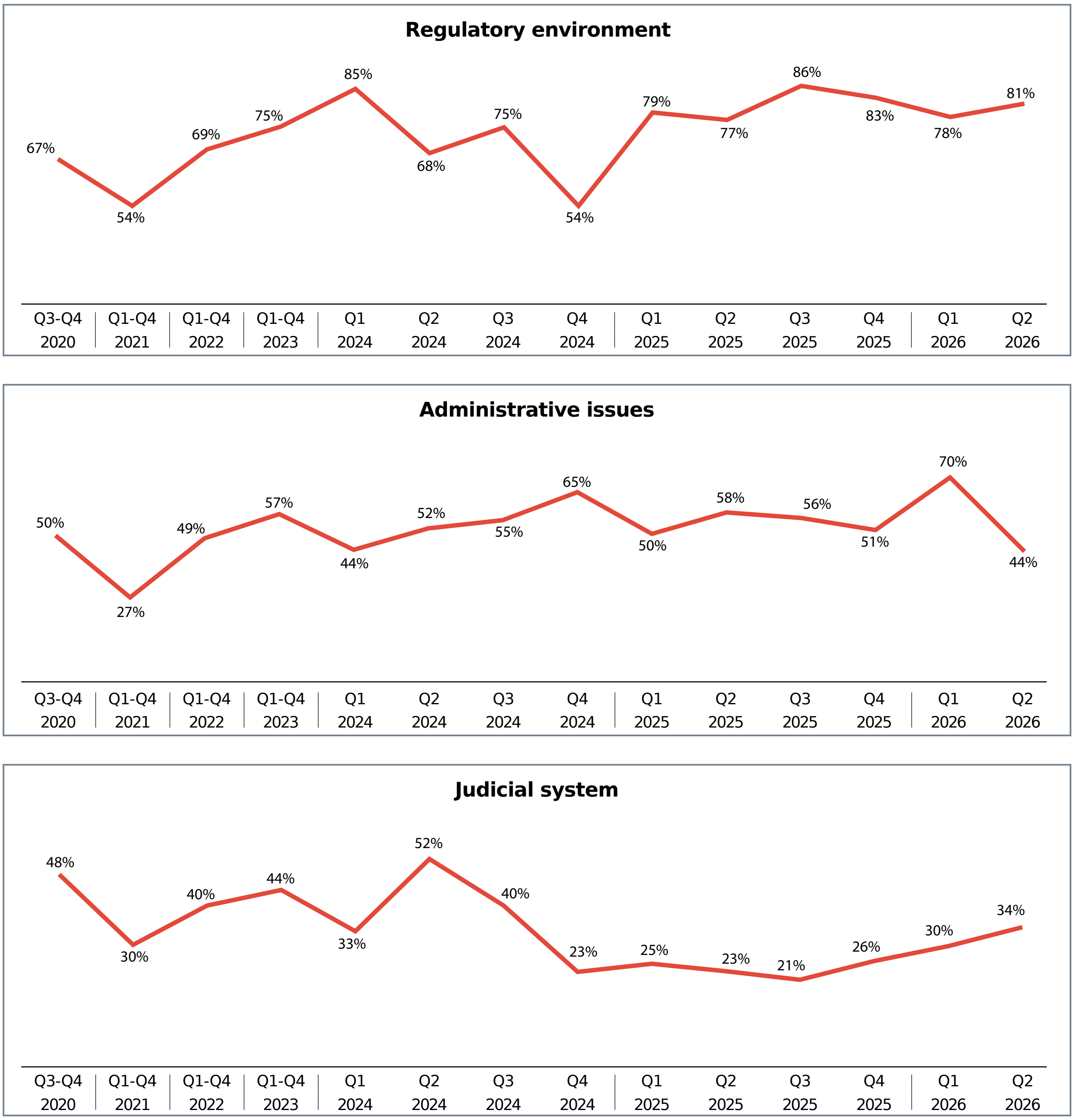
Among **legal and administrative barriers,** administrative issues were the second-most cited hindering factor. This was deemed the most hindering in the manufacturing and trade sectors, while the least hindering for the trade sector.

Meanwhile, the **judicial system** was the most cited as a hindering factor under legal and administrative barriers in the construction sector, while the least hindering in the manufacturing sectors.



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

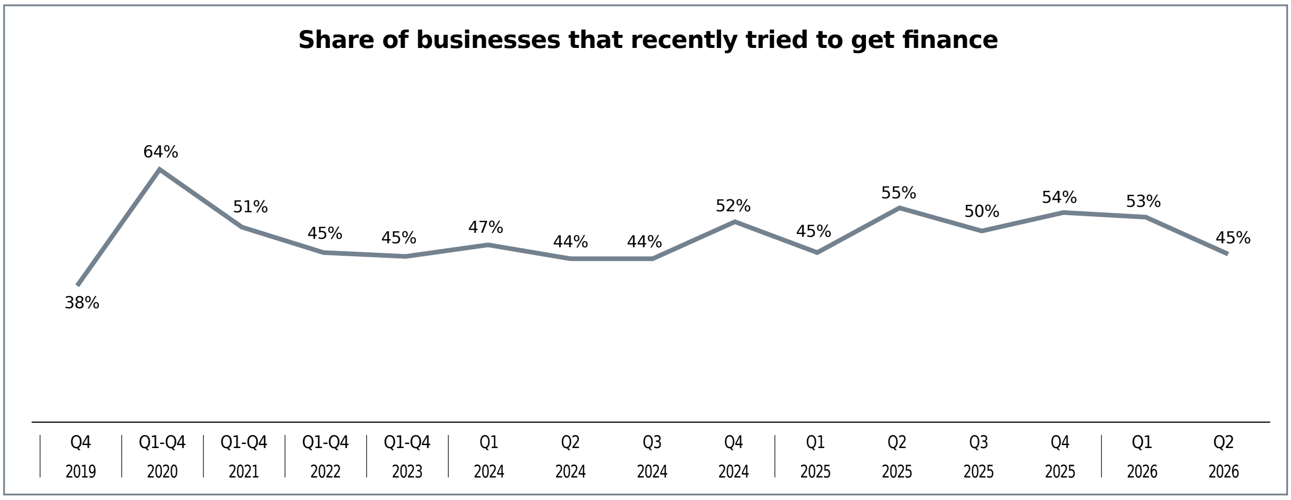
In summary, in Q2 of 2026, compared to the previous quarter, the share of companies to cite judicial system and regulatory environment as hindering factors increased (by 4 and 3 percentage points, respectively). Meanwhile, the share of companies to cite administrative issues as a hindering factor decreased (by 26 percentage points) (see Graph 16).



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

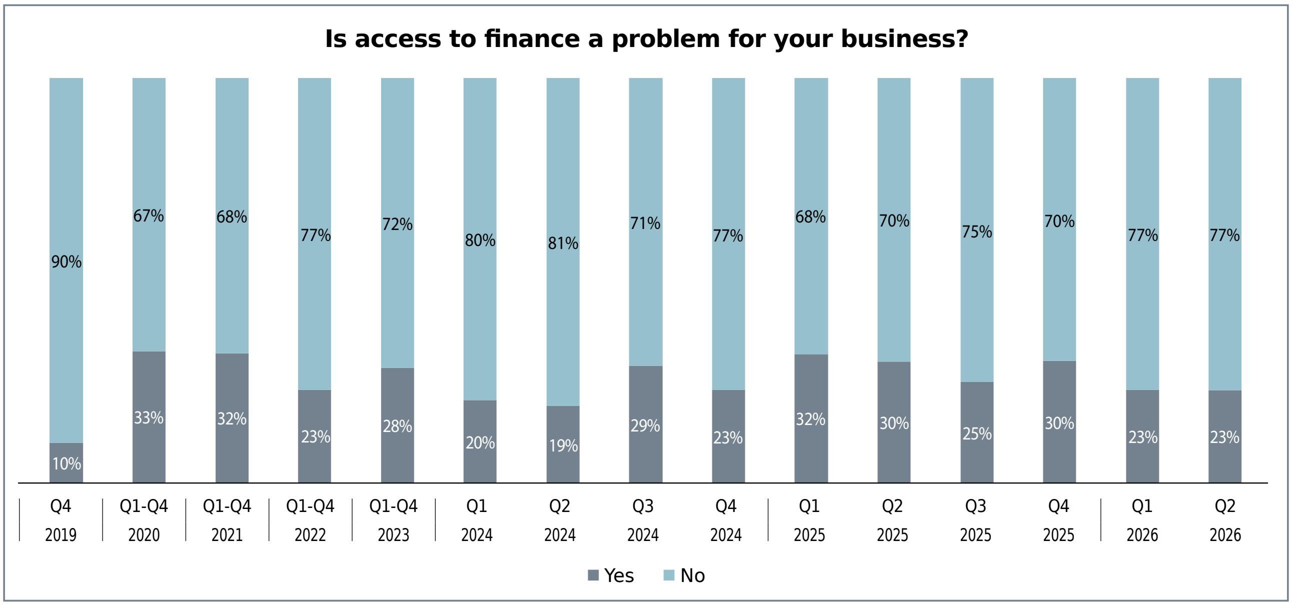
FINANCING

In Q2 of 2026, 45% of surveyed companies claimed to have recently tried to obtain finance, which is 8 percentage points lower than the figure recorded in the previous quarter (see Graph 17). By enterprise size, large-sized enterprises (59%) were relatively more likely to seek financing than small (32%) and medium-sized enterprises (29%).



Graph 17: Businesses that recently tried to get finance

In Q2 of 2026, 23% of those companies that recently tried to access finance also noted that access to finance was a problem for their business. This figure remained unchanged compared with the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in medium enterprises (43% of those that tried to obtain finance) and relatively less in small (33%) and large-sized (16%) enterprises.

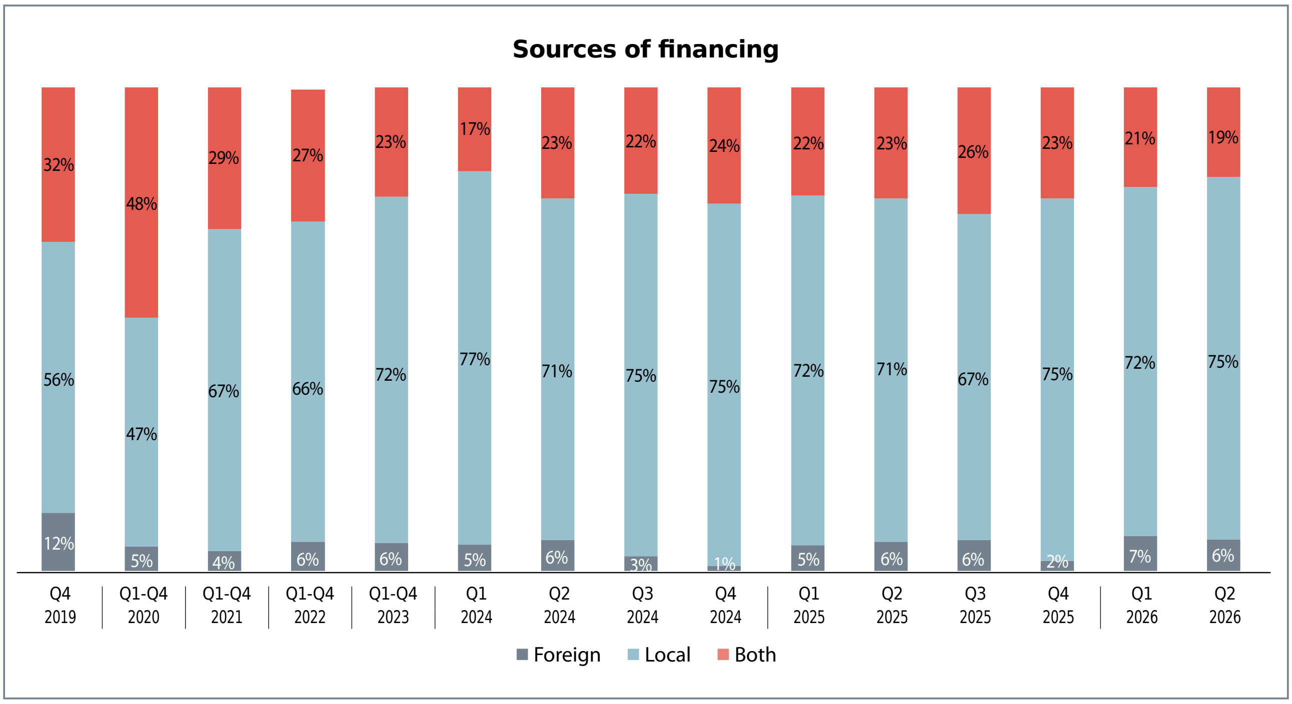


Graph 18: Access to finance[7]

Regarding sources of financing[8], in Q2 of 2026, the majority of surveyed companies stated that they were financed by local sources (75%). The share of companies stating that they were financed by both domestic and foreign sources decreased by 2 percentage points in Q2 of 2026, compared to the previous quarter, and reached 19%..

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

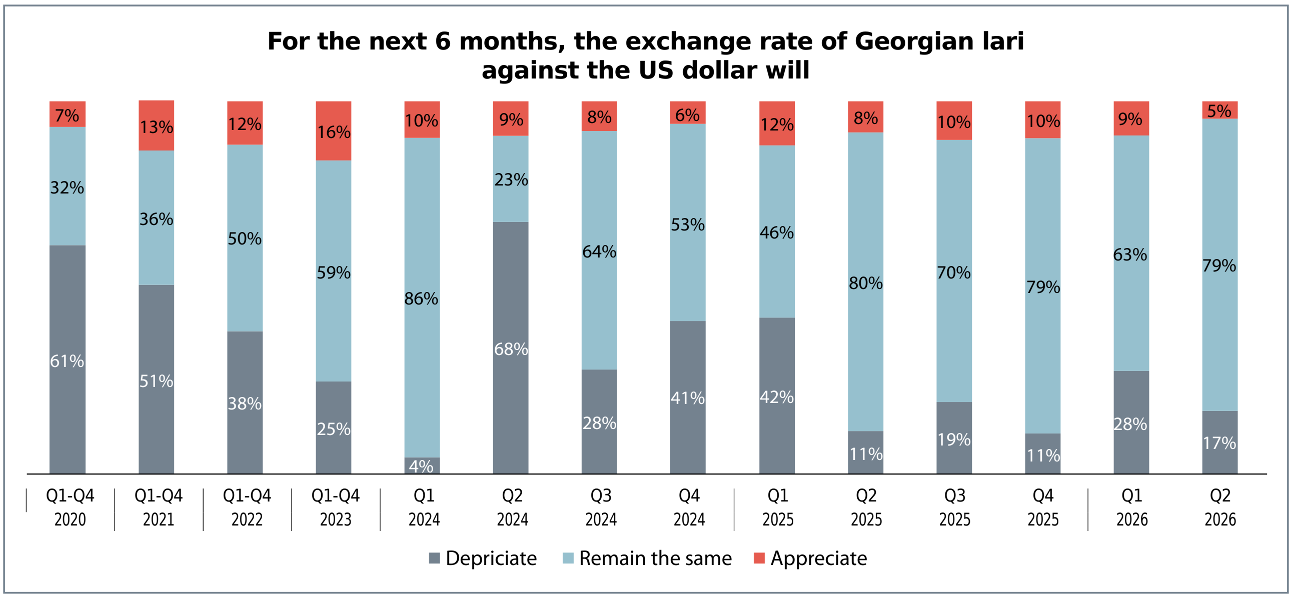
8 The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q2 of 2026, most of the surveyed companies (79%) do not expect any change in the exchange rate of the national currency against the US Dollar over the next 6 months. Meanwhile, 17% of companies expect the national currency to depreciate, and 5% expect it to appreciate. In Q2 of 2026, compared to Q1 of 2026, the share of companies expecting that the national currency exchange rate would remain the same throughout the next 6 months increased (by 16 percentage points), while the share of companies expecting that the national currency would depreciate against the US Dollar decreased by 11 percentage points.

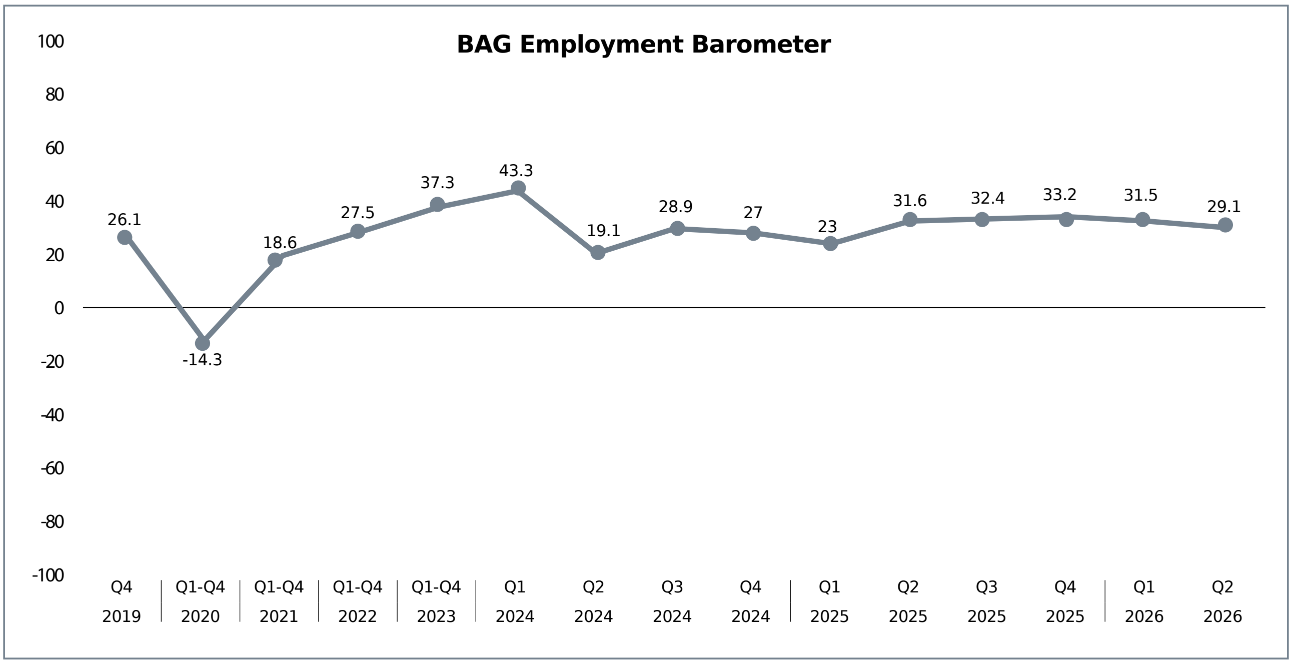


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months.[9]

IN Q2 OF 2026, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 29.1 POINTS, MARKING A DECREASE OF 2.4 POINTS COMPARED TO Q1 OF 2026 AND 2.5 POINTS COMPARED TO Q2 OF 2025.



Graph 21: BAG Employment Barometer[10]

In Q2 of 2026, the BAG Employment Barometer was positive in all four sectors. In Q2 of 2026, compared to Q1 of 2026, the employment barometer indicator increased in the construction (by 16.7 points) and manufacturing (by 2.8 points) sectors, while declined in the service (by 6.8 points), and trade (by 6.5 points) sectors (see graph 22).

9 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.

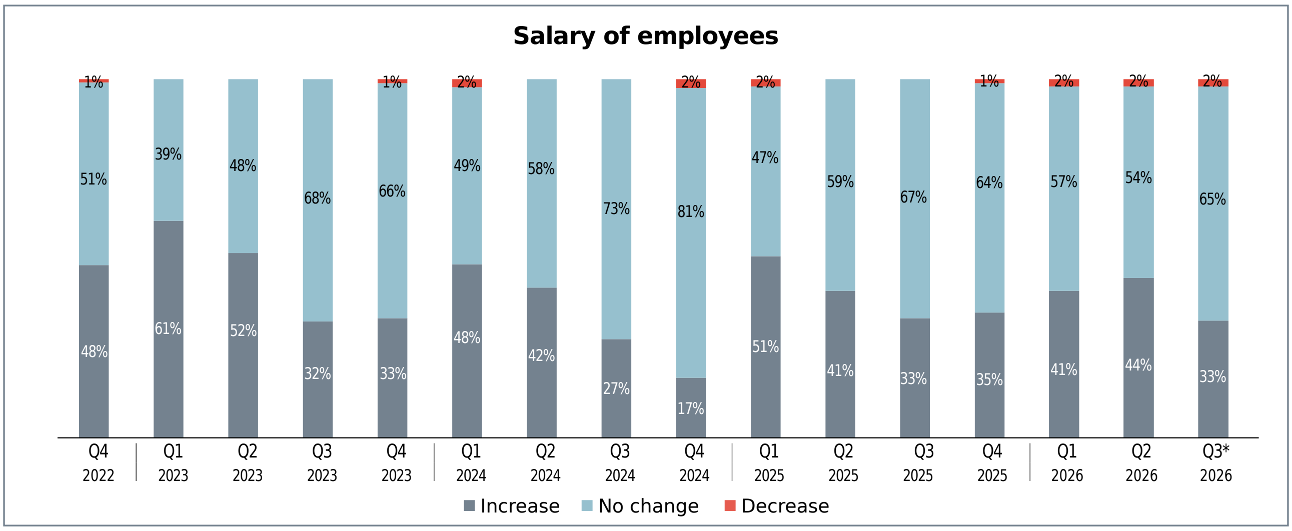
10 For 2019, only fourth quarter data is available, while for 2020-2023, quarterly averages are presented.

Table 2: Employment Barometer. Balance values by sector

Sector	Q4 2019	Q1-Q4 2020	Q1-Q4 2021	Q1-Q4 2022	Q1-Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Trade	33.3	-12.6	16.9	29.0	37.4	45.5	9.4	39.4	34.5	29.0	40.6	43.2	43.2	42.4	**35.9**
Service	14.6	-13.7	15.3	21.7	28.7	38.9	20.5	22.0	18.8	20.0	22.2	32.7	33.3	35.0	**28.2**
Manufacturing	11.1	2.9	23.4	28.1	42.6	28.6	12.5	20.0	30.0	23.5	17.6	20.0	16.7	25.0	**27.8**
Construction	50	-31.9	30.1	44.6	63.5	70.0	47.1	35.7	30.8	16.7	54.5	20.0	28.6	0	**16.7**
BAG	26.1	-14.3	18.6	27.5	37.3	43.3	19.1	28.9	27.0	23.0	31.6	32.4	33.2	31.5	**29.1**

Graph 22: BAG Employment Barometer by sector

When examining employment, it is imperative to analyze the employee compensation dynamics in the process. The survey results revealed that 44% of companies raised employees' salaries in Q2 of 2026, which is higher than in both the previous quarter and the corresponding quarter of the previous year. In Q3 of 2026, 33% of companies plan to increase employees' salaries. (see graph 23).

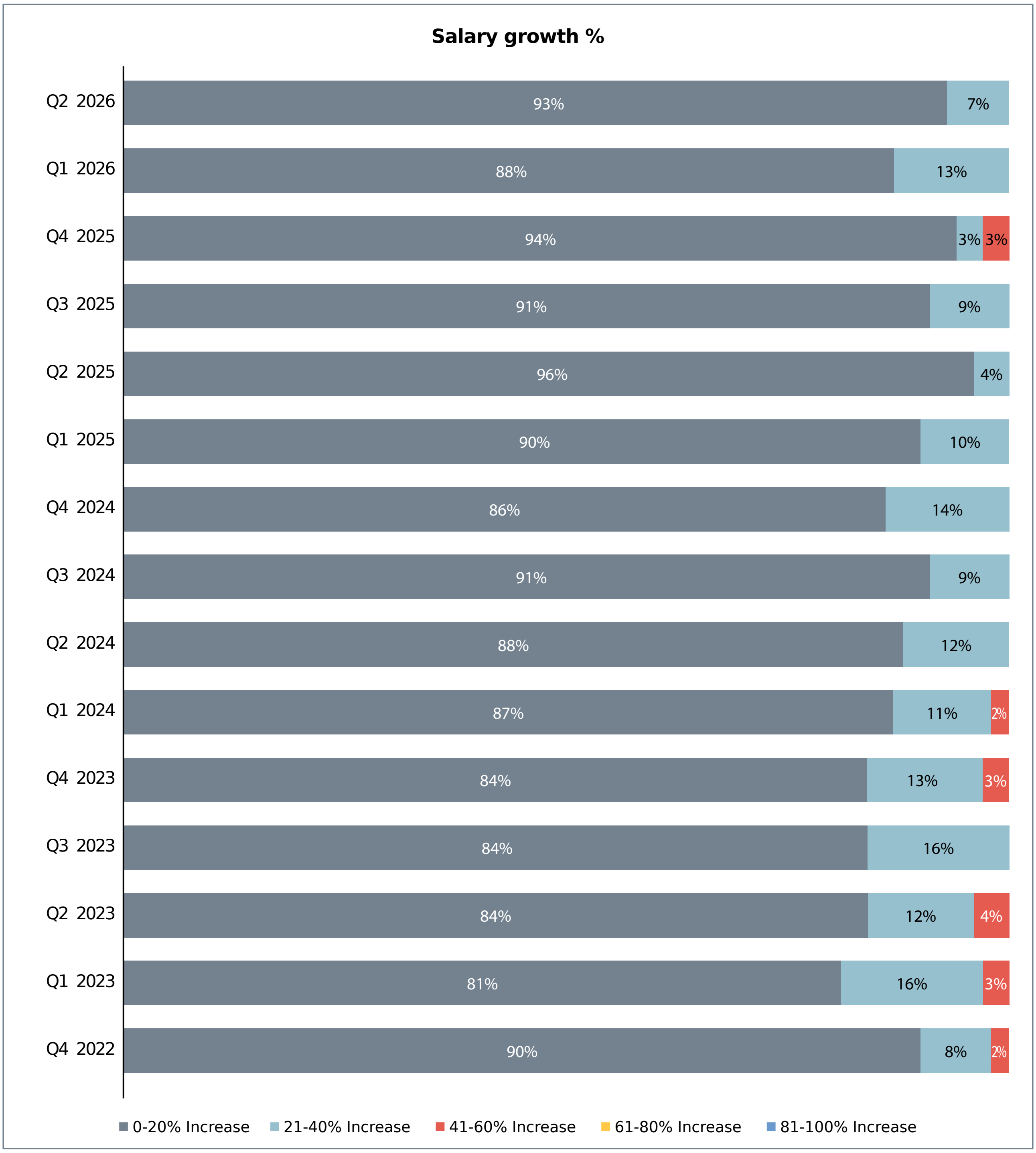


Graph 23: Salary of employees

By sector, in Q2 of 2026, the largest share of companies in the construction sector (50%) increased the salaries of employees. In Q3 of 2026, the largest share of companies planning to increase the wages of employees was recorded once again in the construction sector (58%) (see Graph 24).

Graph 24: Salary of employees in trade, service, manufacturing, and construction sectors

In Q2 of 2026 most surveyed companies (93%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 7% of the surveyed companies increased employee compensation by 21-40%.



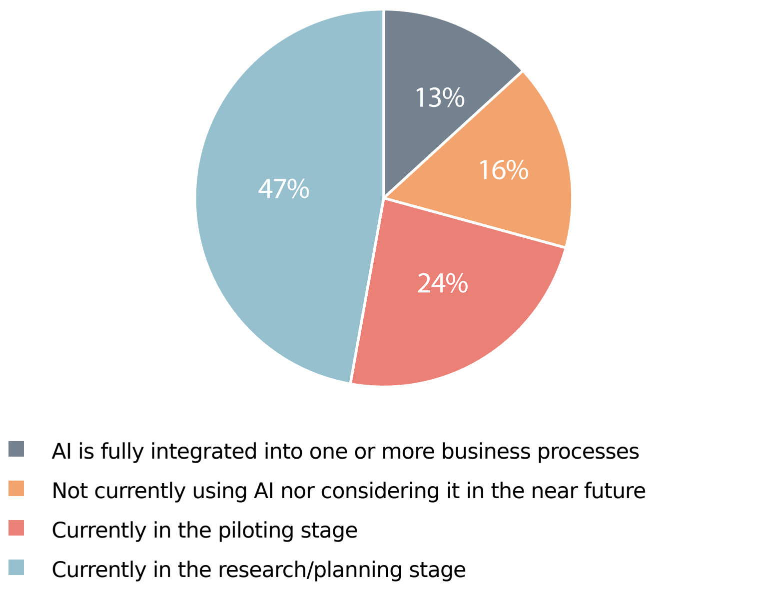
Graph 25: Growth (%) of salary of employees

ARTIFICIAL INTELLIGENCE (AI) SURVEY

In the Q2 2026 survey, additional questions were integrated into the BAG Index questionnaire to assess the adoption of artificial intelligence (AI) in companies and its impact on business processes. For the purposes of this analysis, BAG members and the companies within their corporate groups were classified into four sectors: trade, service, manufacturing, and construction.

In Q2 of 2026, 47% of surveyed companies reported that they are currently in the planning or research stage of AI adoption (see Graph 26).

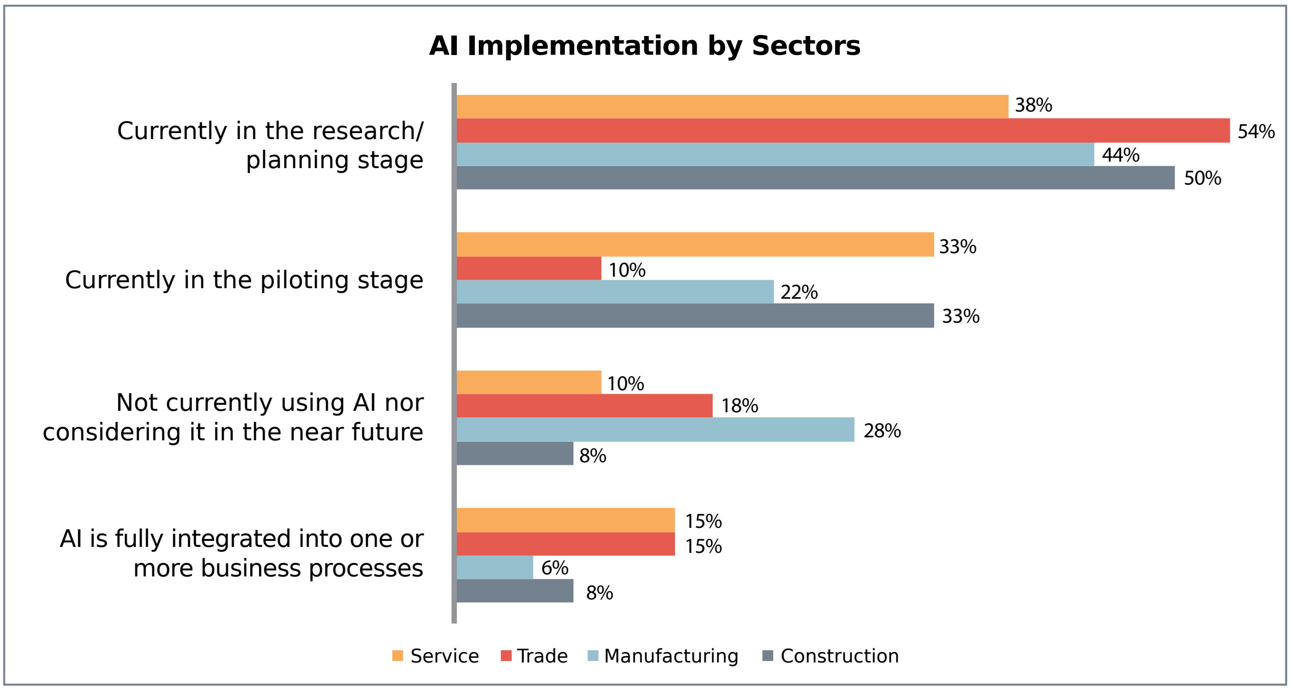
At what stage of your company's operations is AI integration currently?



Graph 26: Stages of Artificial Intelligence (AI) Adoption, Q2 of 2026

By sector, in Q2 of 2026:

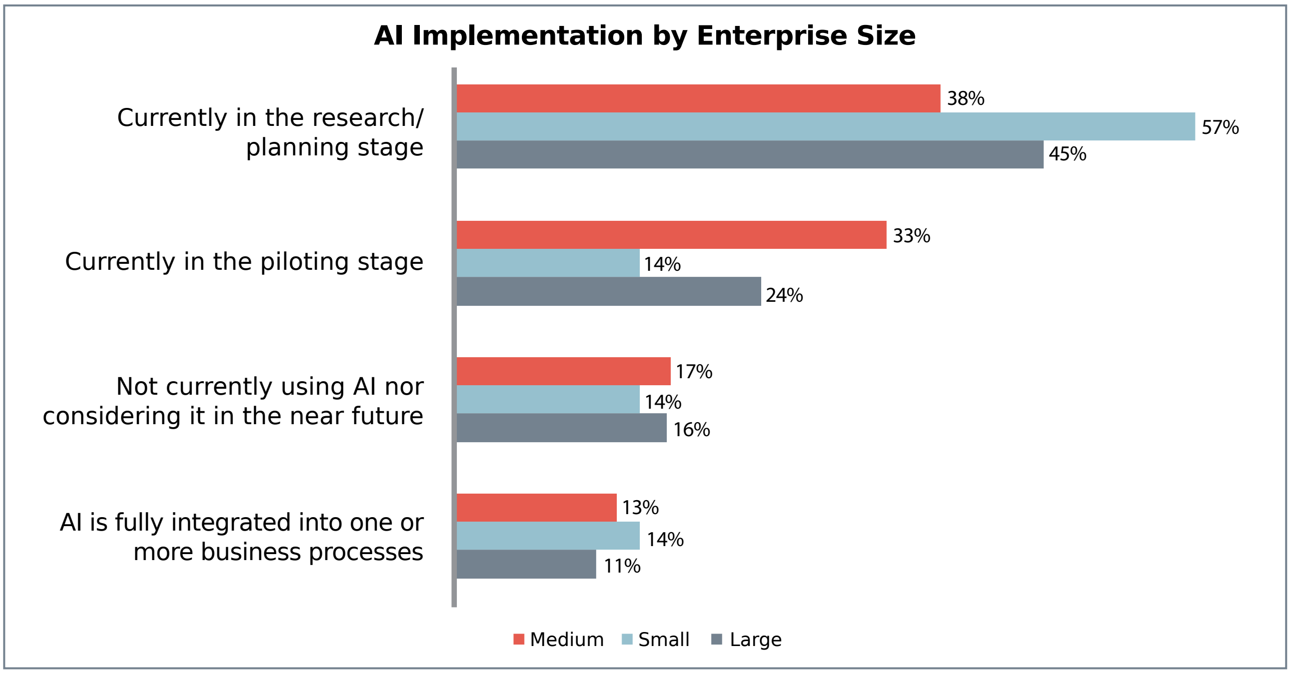
- The share of companies in the ***AI planning/research stage*** was highest in the trade (54%) and construction (50%) sectors.
- The highest share of companies in the ***pilot stage*** was recorded in the service and construction sectors (33% each).
- Companies that neither ***use nor plan to adopt AI*** were most prevalent in the manufacturing sector (28%).
- The highest share of companies with ***fully integrated AI*** was observed in the service and trade sectors (15% each) (see Graph 27).



Graph 27: Stages of Artificial Intelligence (AI) Adoption by Sector, Q2 of 2026

By enterprise size, in Q2 of 2026:

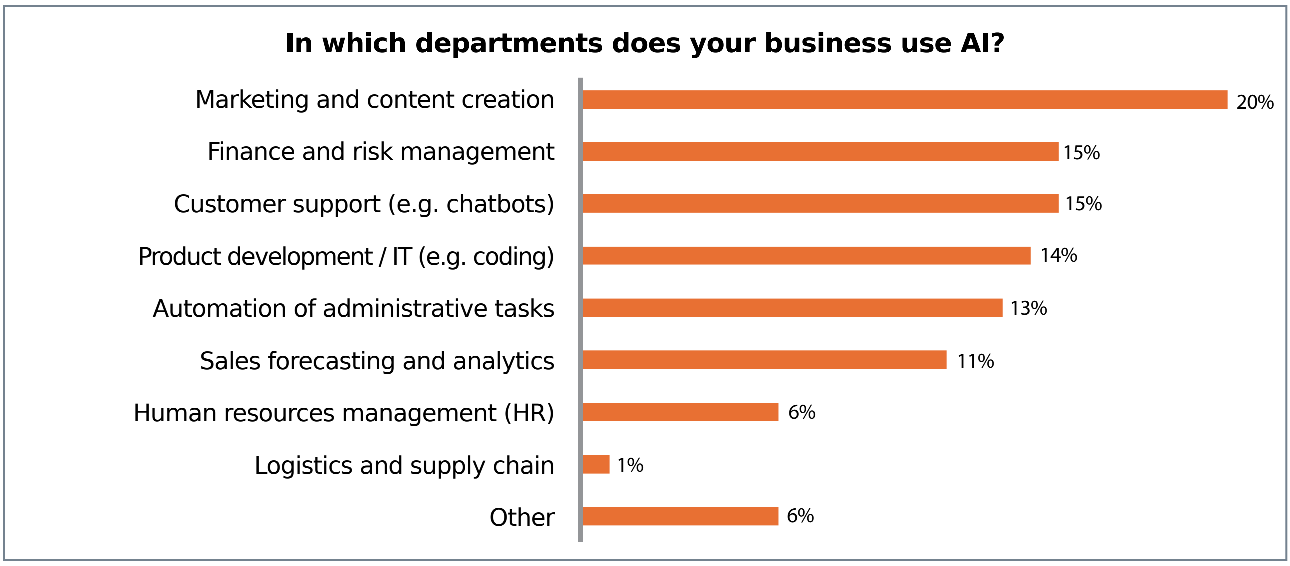
- The highest share of companies in the ***AI planning/research stage*** was recorded among small enterprises (57%).
- Companies in the ***pilot stage*** were most prevalent among medium-sized enterprises (33%).
- The share of companies that neither ***use nor plan to adopt AI*** was almost identical across small, medium-sized, and large enterprises.
- Likewise, the share of companies with ***fully integrated AI*** was almost identical across small, medium-sized, and large enterprises (see Graph 28).



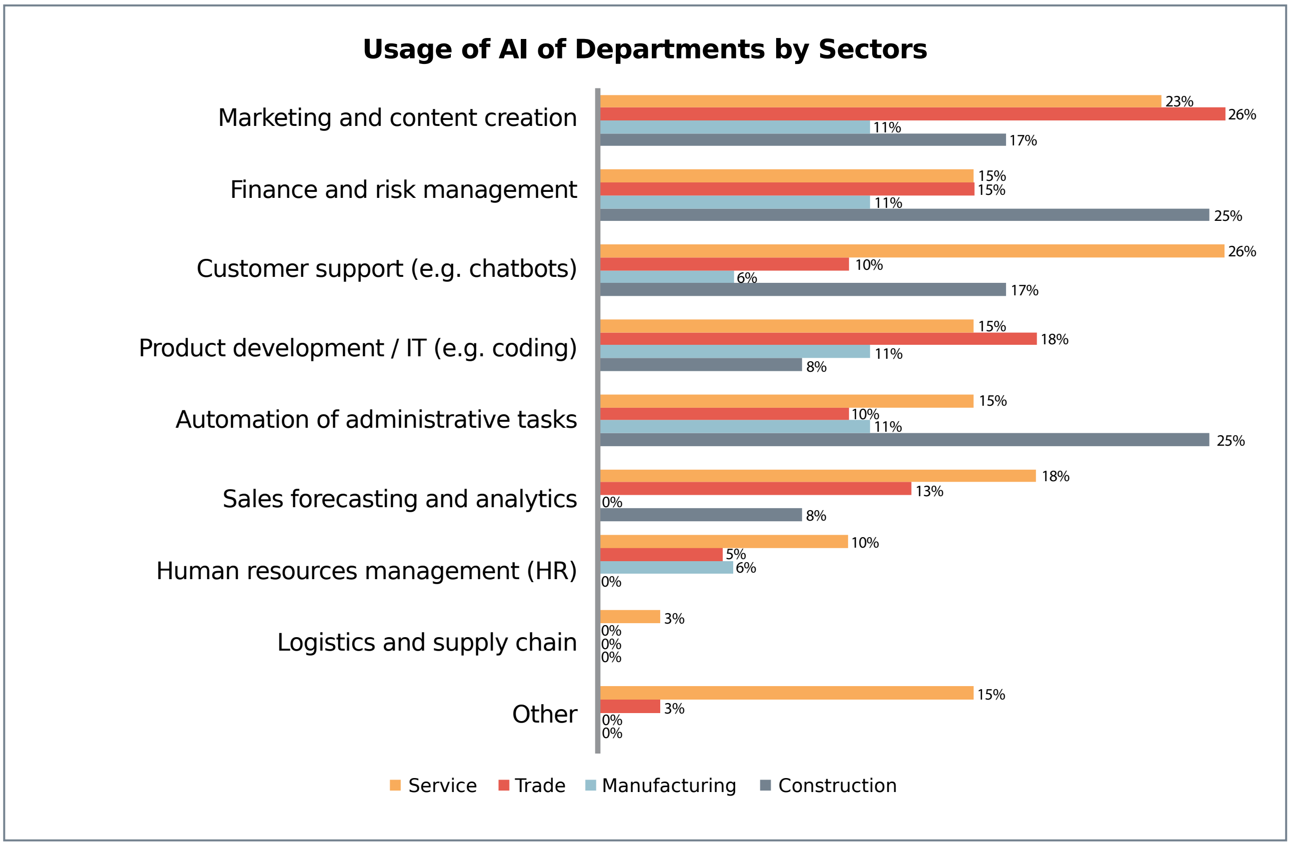
Graph 28: Stages of Artificial Intelligence (AI) Adoption by Enterprise Size, Q2 of 2026

Surveyed companies most frequently use AI for marketing and content creation (20%). This was followed by finance and risk management (15%) and customer support services (15%), both cited with equal frequency (see Graph 29).

By sector, the use of AI for marketing and content creation was most widespread in the trade (26%) and service (23%) sectors. AI for finance and risk management was most frequently used in the construction sector (25%), while AI for customer support services was most common in the service sector (26%) (see Graph 30).

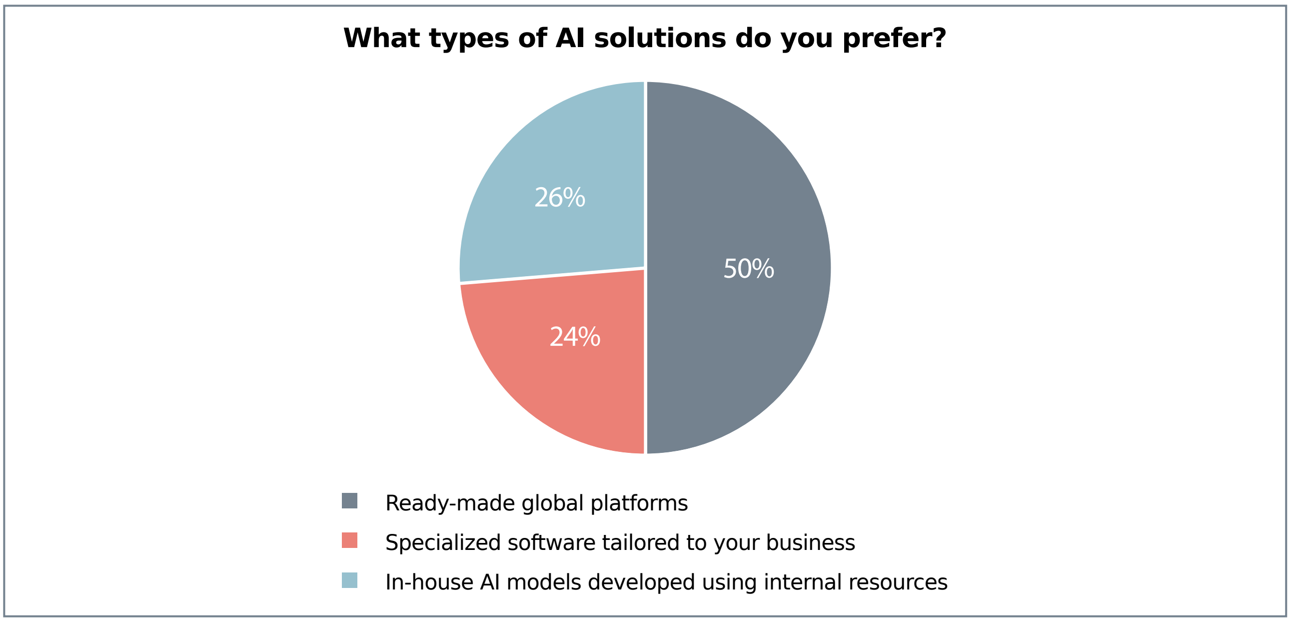


Graph 29: Use of Artificial Intelligence (AI) by Business Function, Q2 of 2026



Graph 30: Use of Artificial Intelligence (AI) by Business Function and Sector, Q2 of 2026

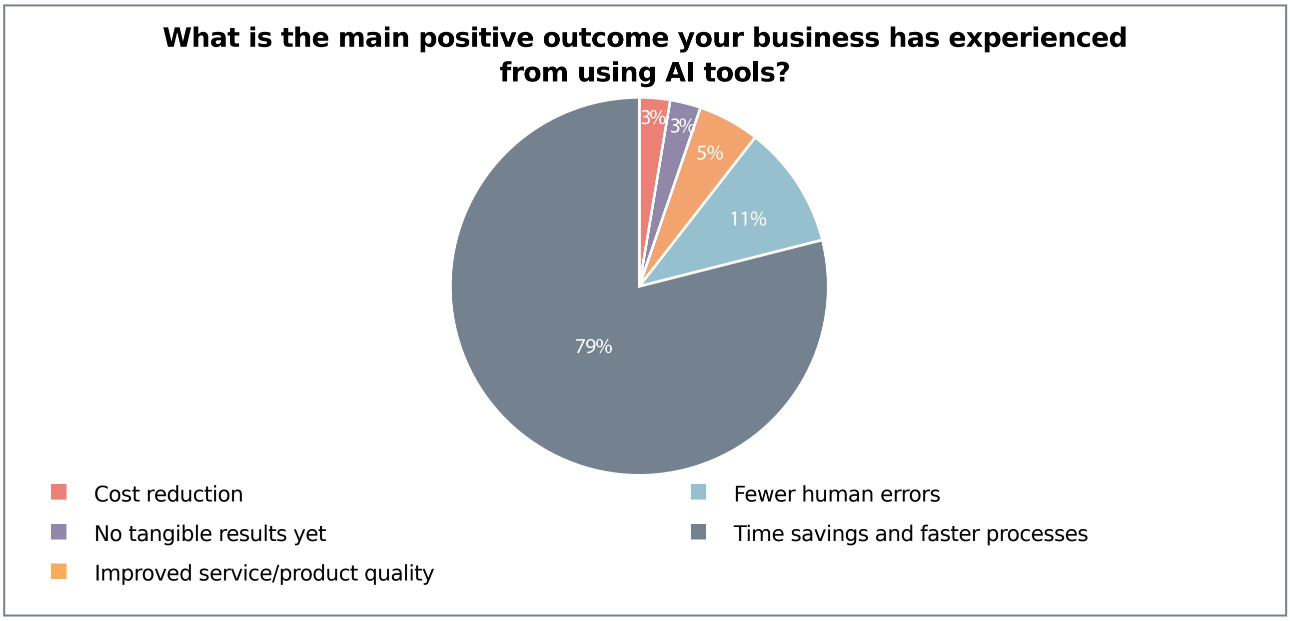
Regarding AI solutions, 50% of surveyed companies use ready-made global platforms, 26% use proprietary AI models trained using internal resources, while 24% use specialized software solutions (see Graph 31).



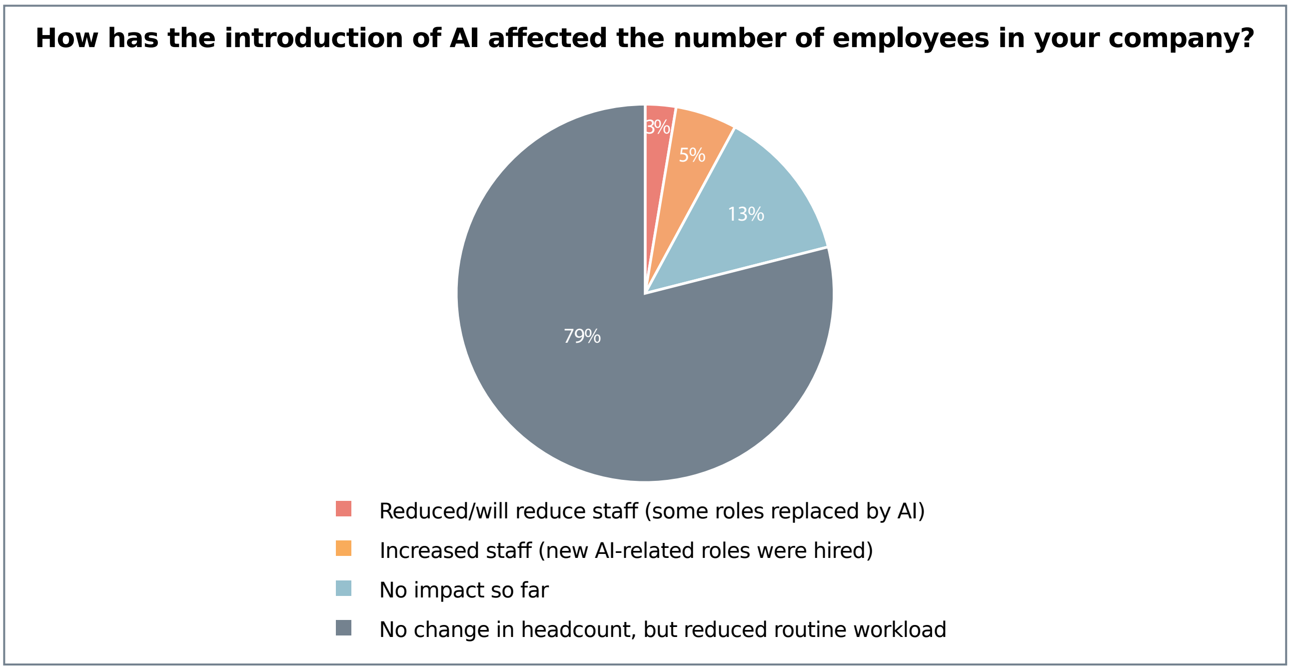
Graph 31: Artificial Intelligence (AI) Solutions Used by Companies, Q2 of 2026

Surveyed companies also assessed the impact of AI on their business operations. For the majority of respondents, the main positive outcome was time savings and faster business processes (79%). According to 11% of respondents, AI adoption reduced human error, while 5% reported improvements in the quality of products and/or services (see Graph 32).

Regarding the impact of AI on employment, 79% of companies stated that the number of employees had remained unchanged, although the amount of routine work performed by employees had decreased. According to 13% of companies, AI had no impact on either employment or work tasks, while 5% reported an increase in staff numbers and 3% reported a reduction (see Graph 33).

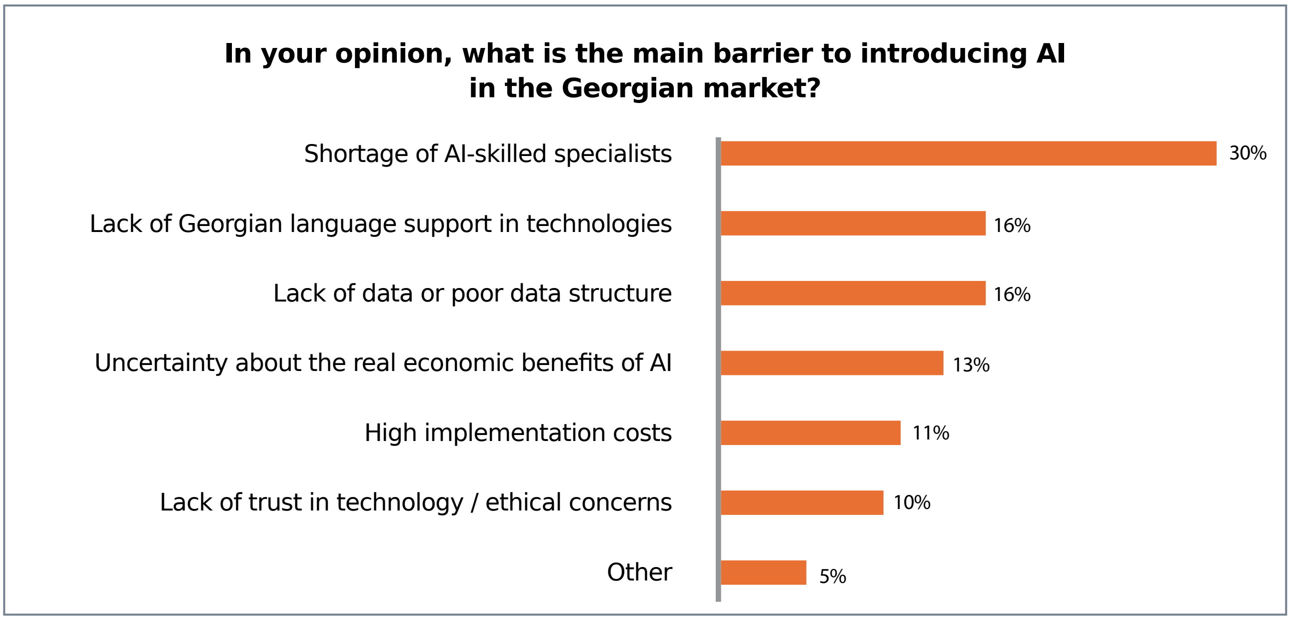


Graph 32: Main Positive Outcome of Artificial Intelligence (AI) Adoption, Q2 2026



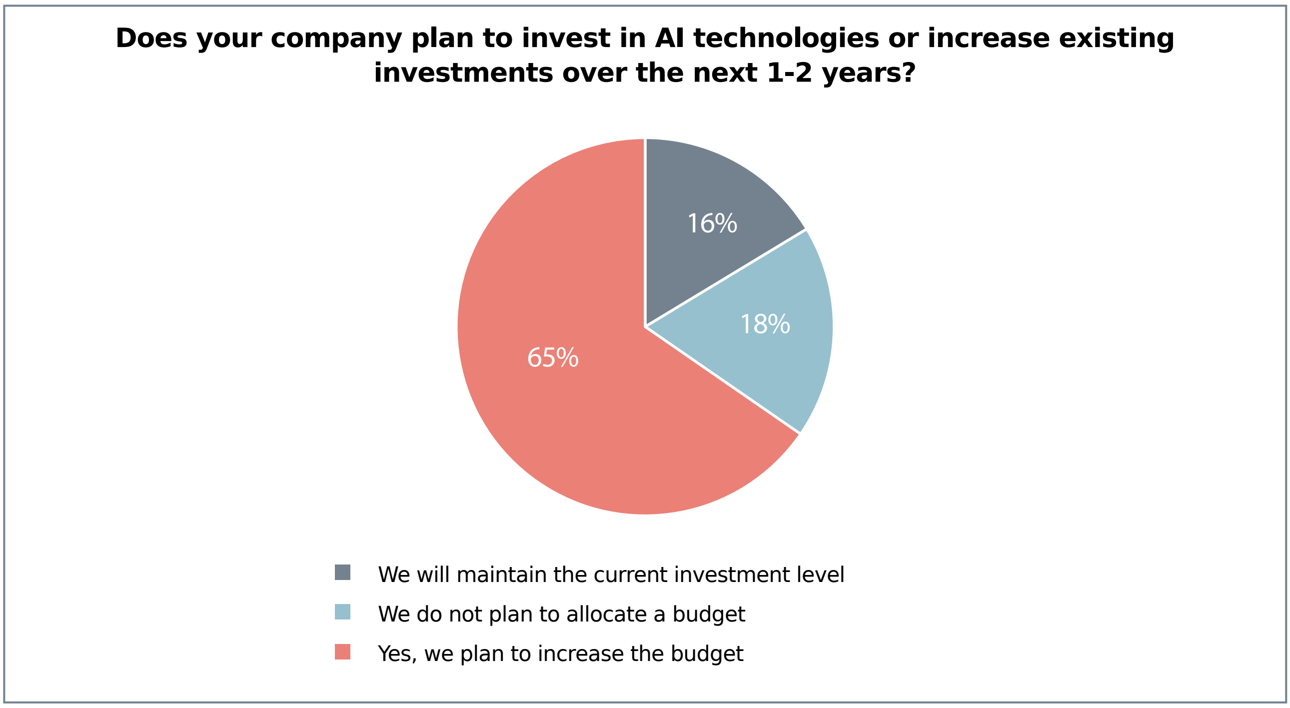
Graph 33: Impact of Artificial Intelligence (AI) Adoption on Employment, Q2 of 2026

According to surveyed companies, the main obstacle to AI adoption in the Georgian market is the shortage of qualified specialists (30%). This was followed, with equal shares, by limited support for the Georgian language in AI technologies (16%) and the lack of sufficient or well-structured data (16%) (see Graph 34).



Graph 34: Main Obstacle to Artificial Intelligence (AI) Adoption in the Georgian Market, Q2 of 2026

As for companies' future plans, 65% of surveyed companies intend to increase investment in AI technologies over the next one to two years. Meanwhile, 18% do not plan to allocate a budget for AI investments, while 16% intend to maintain investment at its current level.



Graph 35: Companies' Investment Plans for Artificial Intelligence (AI) Technologies over the Next One to Two Years, Q2 of 2026

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