



BAG

INDEX



საქართველოს ბიზნეს ასოციაცია
BUSINESS ASSOCIATION OF GEORGIA



Leibniz Institute for Economic Research
at the University of Munich



Research

I QUARTER 2026

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**



**INVESTMENT
SURVEY**

**I QUARTER
2026**

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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 months². 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 Q1 of 2026 in the period 4 – 17 March.

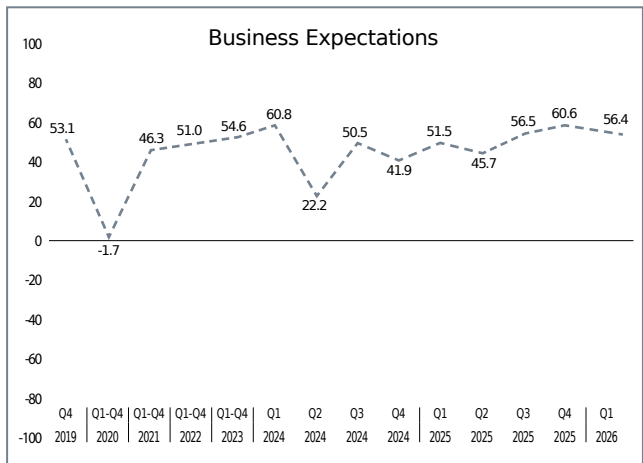
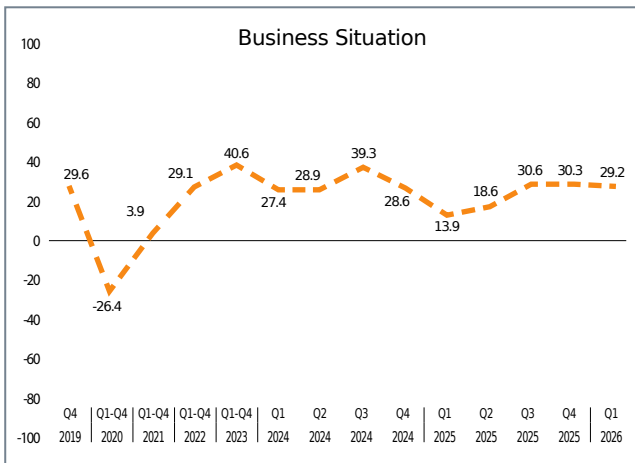
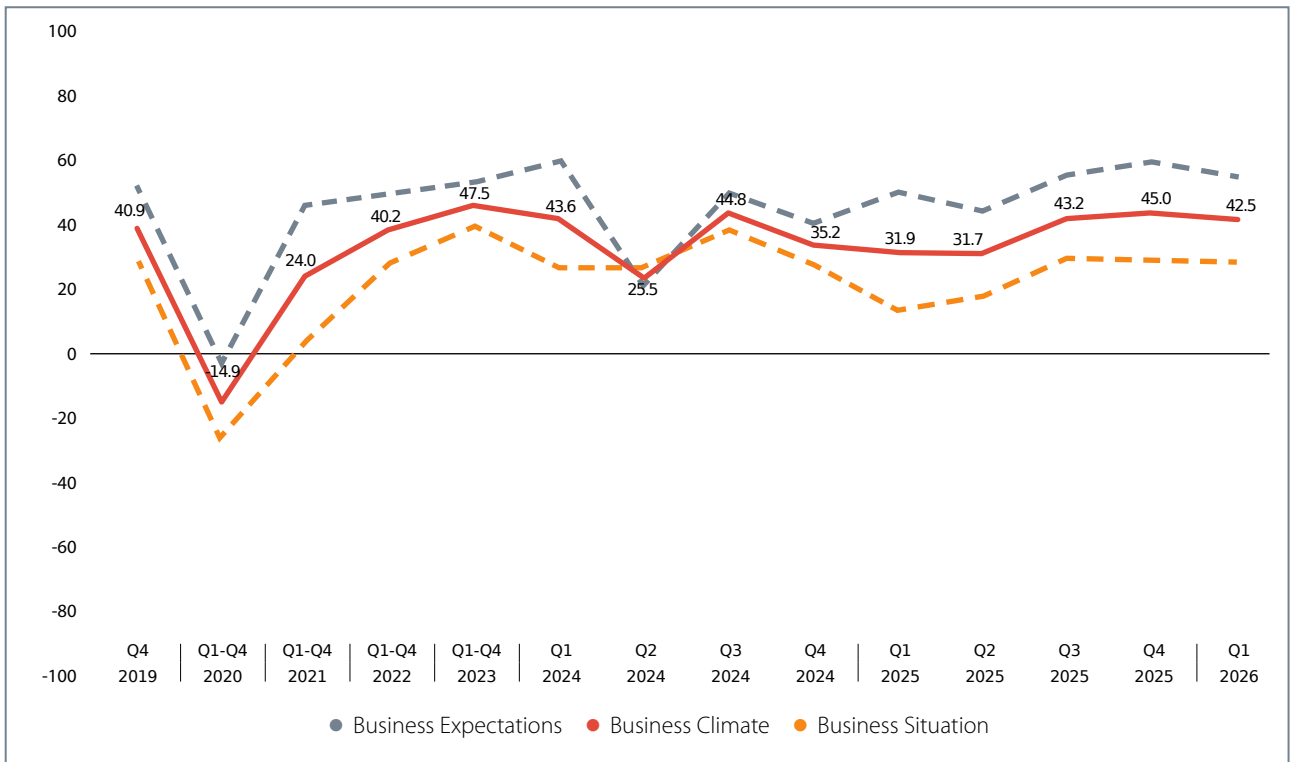
IN Q1 OF 2026, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 42.5 POINTS IN Q1 OF 2026, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 29.2, AND THE BUSINESS EXPECTATIONS INDICATOR AT 56.4.

In Q1 of 2026, compared to Q4 of 2025, the BAG Business Climate worsened by 2.5 points. Moreover, in this period, the assessment of the business expectations, and present business situation decreased by 4.2 and 1.1 points respectively.

The BAG Business Climate indicator improved by 10.5 points for Q1 of 2026 compared to Q1 of 2025. In particular, the present business situation indicator increased by 15.3 points, while the business expectations indicator improved by 5.0 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.

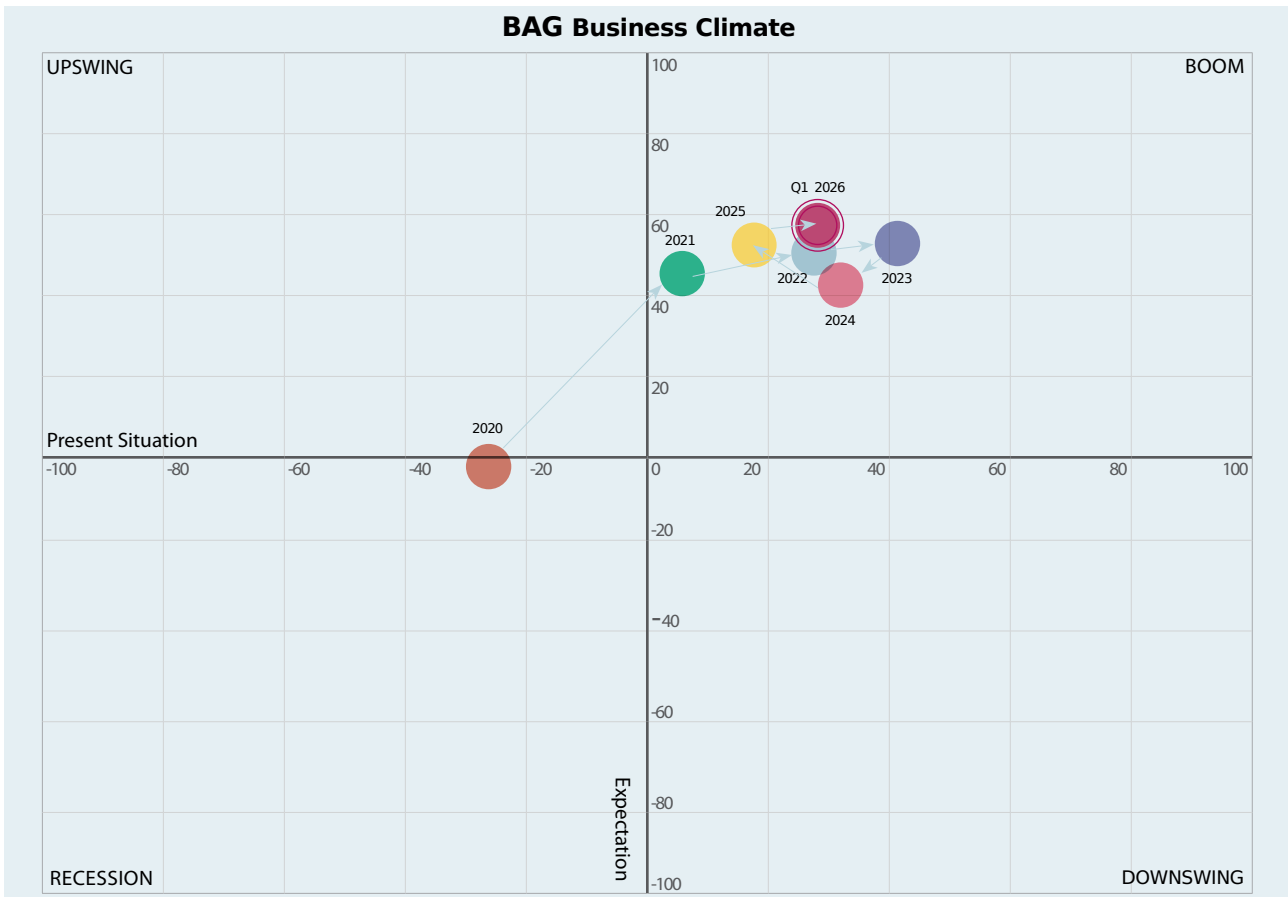
² The balance value for the present business situation is the difference in the percentage shares of the “good” and “bad” responses, and the balance value for the expectations for the next six months is the difference in the percentage shares of the “more favorable” and “less favorable” responses. The 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 Situation³

In Q1 of 2026, the BAG Business Climate Indicator decreased compared to the previous quarter, however, the latter indicator remains in the **boom phase**.

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

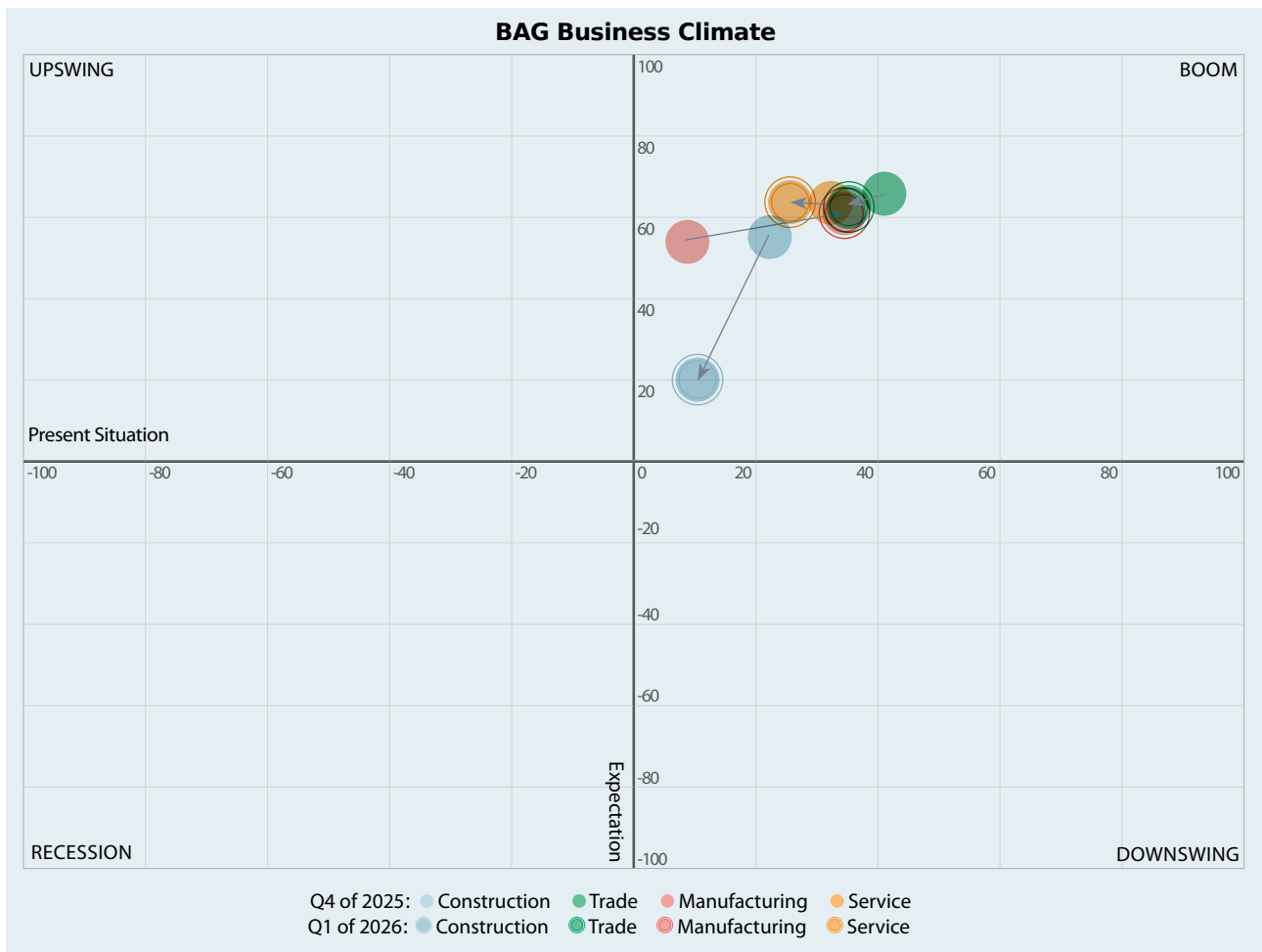


Graph 2: BAG Business Climate⁴

BAG BUSINESS CLIMATE BY SECTORS

In Q1 of 2026, the **business climate** indicator was positive for all sectors. Compared to Q4 of 2025, the indicator deteriorated for all sectors, except the manufacturing sector (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 2020-2024.



Graph 3: Business climate by sector in Q4 of 2025 and Q1 of 2026

In Q1 of 2026, compared to Q4 of 2025, the **present business situation indicator** improved in the manufacturing sector by 27.0 points. Meanwhile, the indicator declined in the construction sector by 11.4 points, in service sector by 5.8 points, and in the trade sector by 4.2 points. As for the **business expectations indicator**, it increased in the manufacturing sector by 4.2 points, and slightly in the service sector by 0.2 points, while it worsened in the construction sector by 37.1 points and in the trade sector by 1.6 points.

It is worth noting that in Q1 of 2026, the present business situation indicator was highest in the trade sector and lowest in the construction sector. Among the sectors, the most positive business expectations were recorded also in the manufacturing sector, while the most negative expectations were observed in the construction sector (see Table 1).

Table 1: Balance values by sector in Q1 of 2026

| Sector | Business Climate | Present Business Situation | Business Expectation |
|----------------------|------------------|----------------------------|----------------------|
| Trade Sector | 48.2 | 36.4 | 60.6 |
| Service Sector | 43.9 | 27.5 | 61.5 |
| Manufacturing Sector | 48.5 | 35.3 | 62.5 |
| Construction Sector | 14.9 | 10.0 | 20.0 |
| All Sectors | 42.5 | 29.2 | 56.4 |

In Q1 of 2026, compared to Q1 of 2025, the business climate indicator improved in the trade sector by 17.4 points, in the manufacturing sector by 17.1, and in the service sector by 10.3 points. Meanwhile, the business climate indicator decreased in the construction sector by 14.2 points.

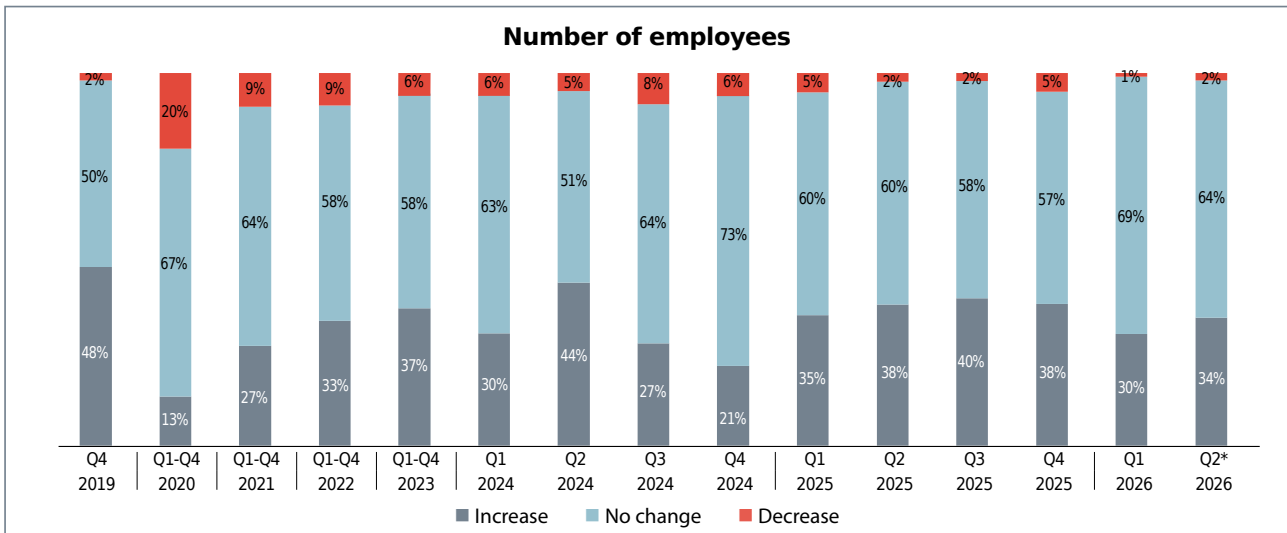


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

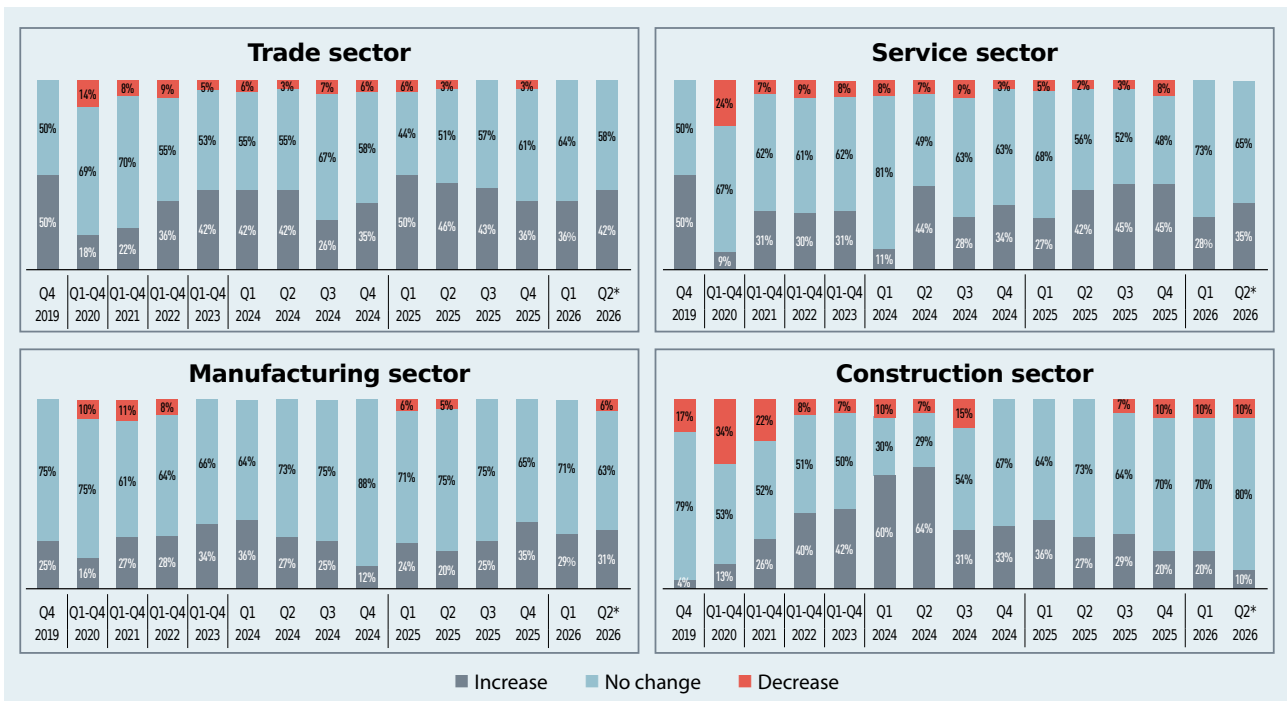
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- ✘ 30% of surveyed companies stated that the number of employees increased in Q1 of 2026. As for the expectations for Q2 of 2026, 34% expect the number of employees to increase, while 64% do not plan to change the number of employees. (see Graph 5).
- ✘ Across the sectors covered, the situation regarding employment in Q1 of 2026 is most positively assessed in the trade sector. Similarly, the expectations for Q2 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 group⁵



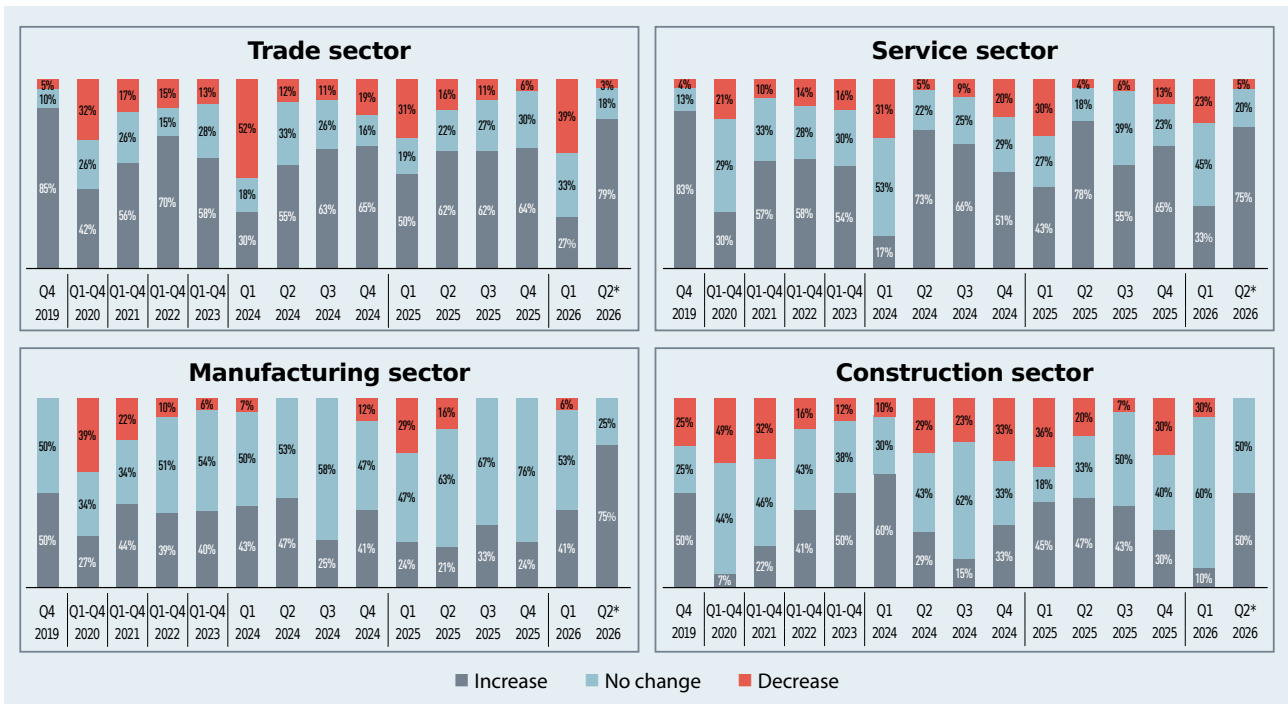
Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- ✘ In Q1 of 2026, 30% of surveyed companies reported an increase in sales, while 26% reported a decrease. As for expectations for Q2 of 2026, 74% of surveyed companies project an increase in demand, while 3% expect a decrease.
- ✘ The situation regarding sales was assessed most positively in the manufacturing sector (41%), while the construction sector received the least positive assessment (10%) in Q1 of 2026. The most positive expectations for Q2 of 2026 are recorded in the trade sector (79%) (see Graph 7).

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

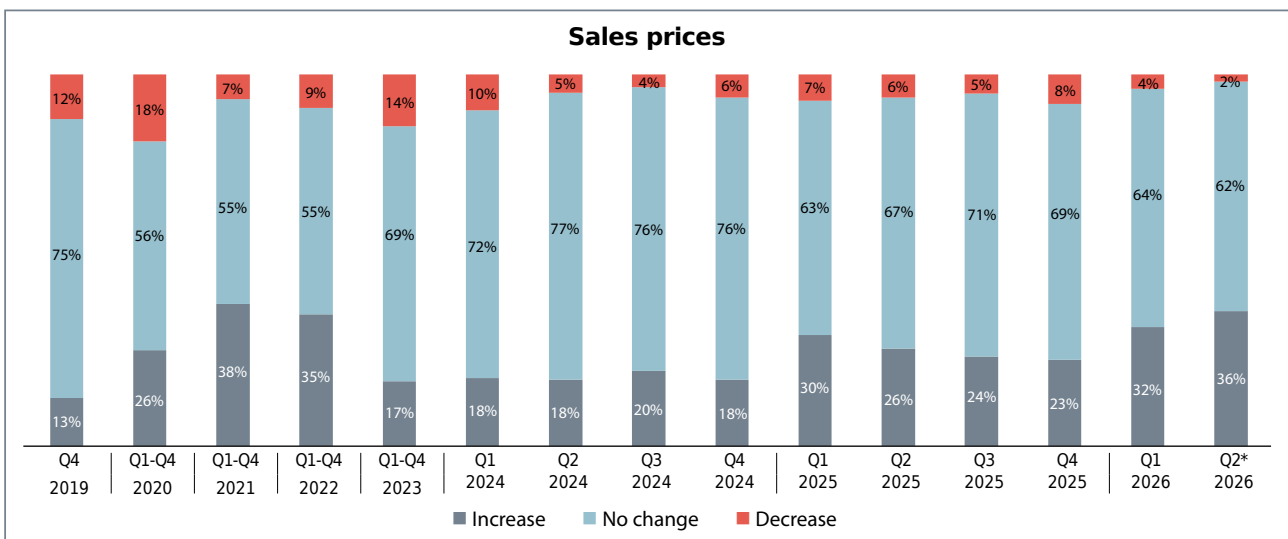
* Expectation.



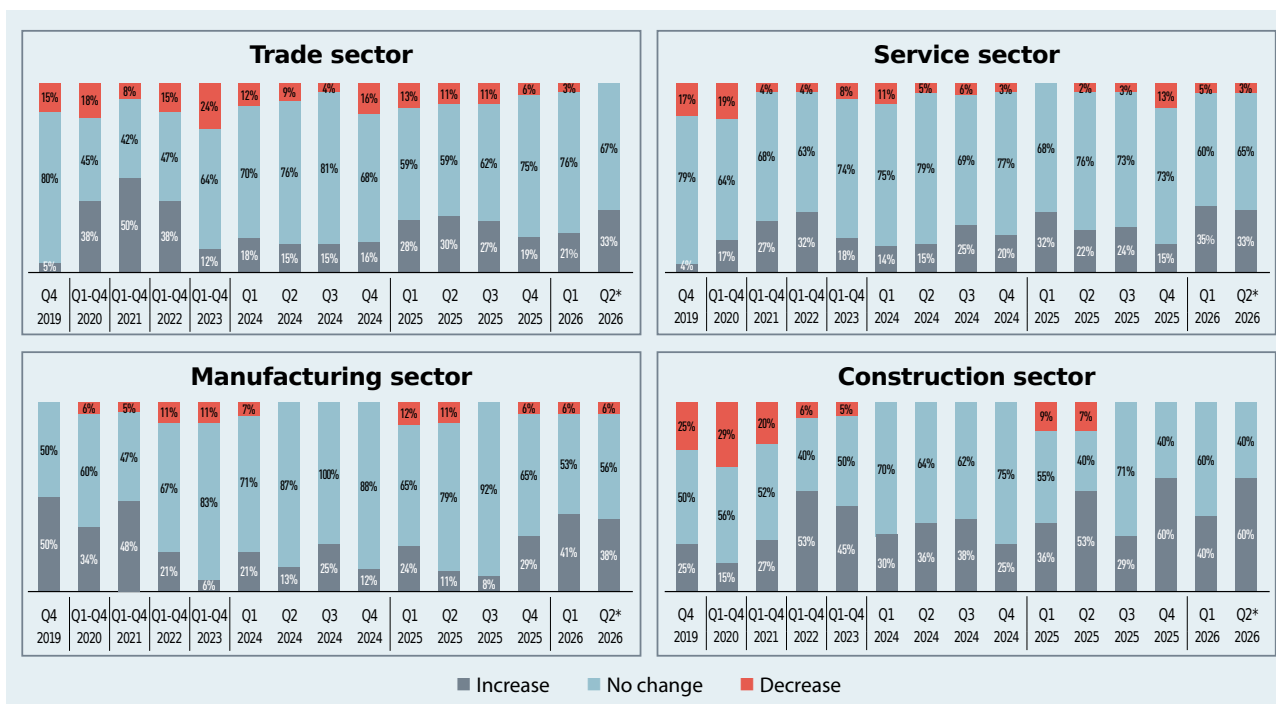
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✘ In Q1 of 2026, 32% of surveyed companies increased sales prices, and 36% of the companies expect the prices to rise in Q2 of 2026 (see Graph 8).
- ✘ Among sectors, in Q1 of 2026, the share of the companies that are increasing sales prices is the highest for the manufacturing (41%) and construction (40%) sectors. As for the expectations for Q2 of 2026, the highest share of companies predicting sales prices to increase was recorded in the construction sector (60%) (see Graph 9).



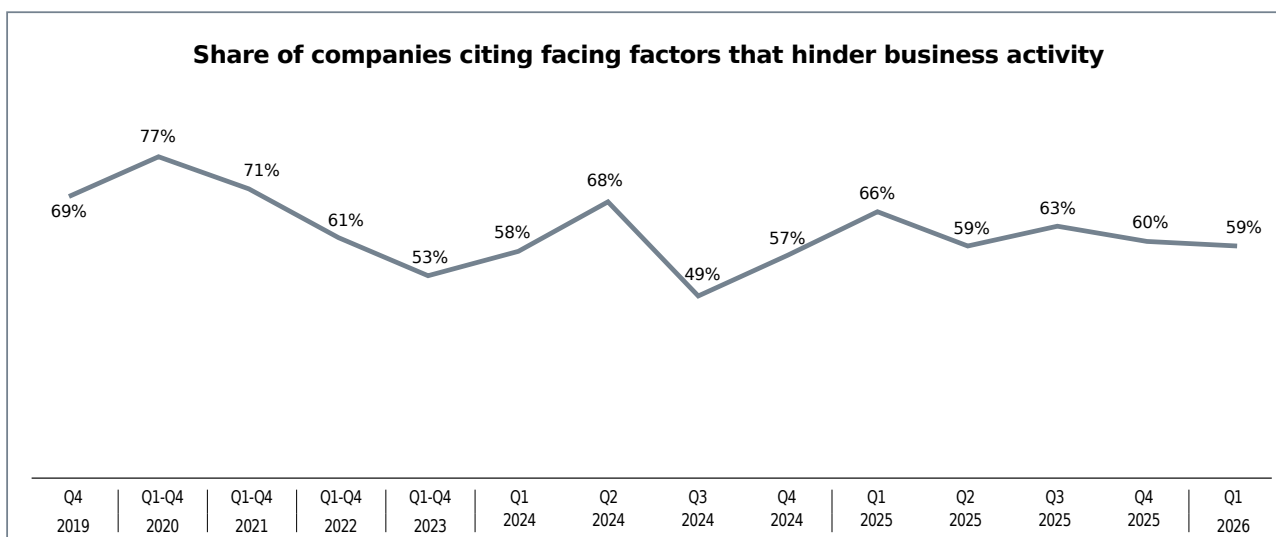
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

FACTORS HINDERING BUSINESS ACTIVITY

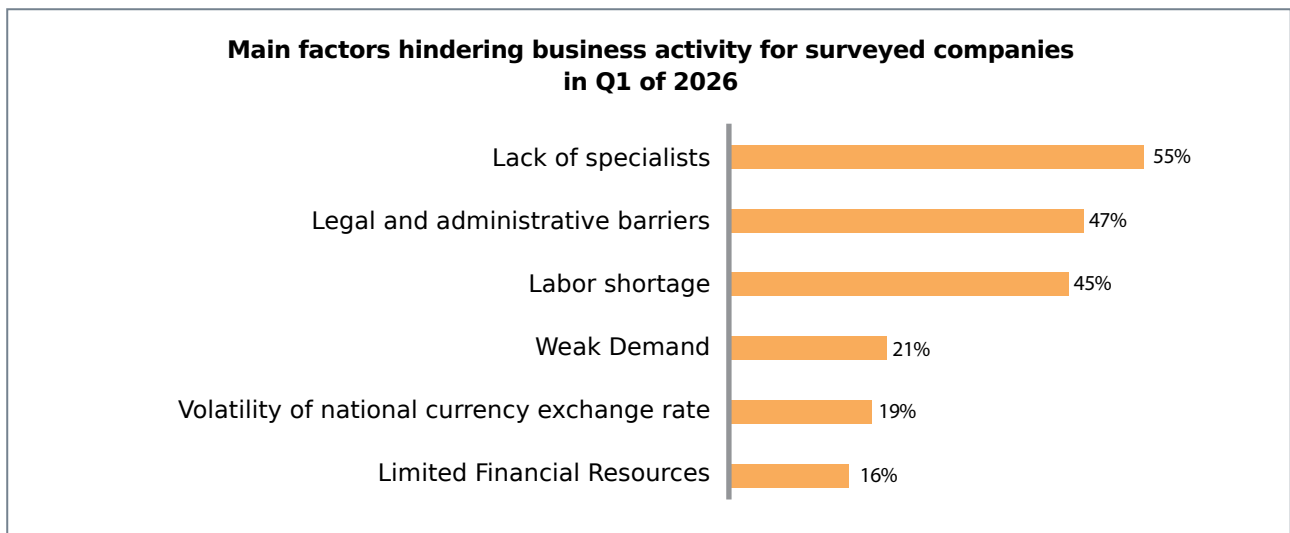
In Q1 of 2026, compared to Q4 of 2025, the share of surveyed companies claiming that there are factors hindering their business activity decreased by 1 percentage points.



Graph 10: Existence of factors hindering business activity

In Q1 of 2026, the following factors were identified as the main hindering for business activity: lack of specialists, legal and administrative barriers and labor shortage (see Graph 11).⁶

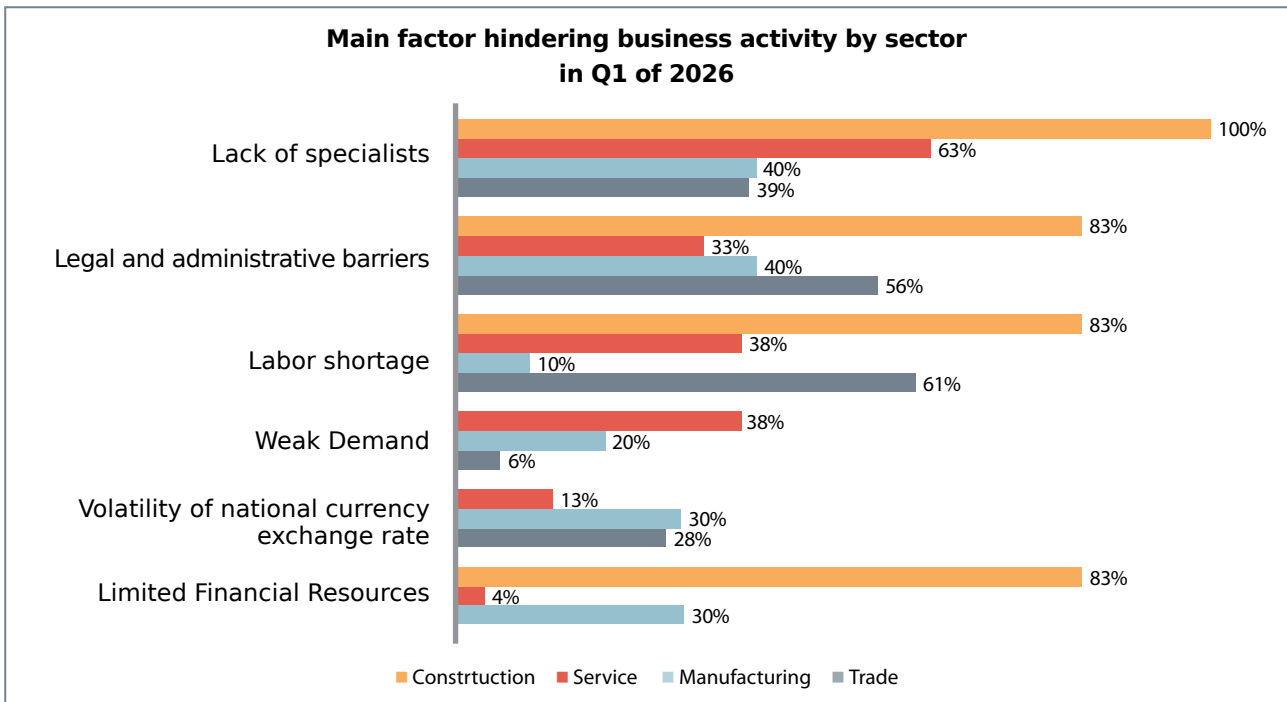
⁶ The instability of the national currency exchange rate, as one of the hindering factors for business, was added to the existing questionnaire on factors hindering business activity in the Q4 2021.



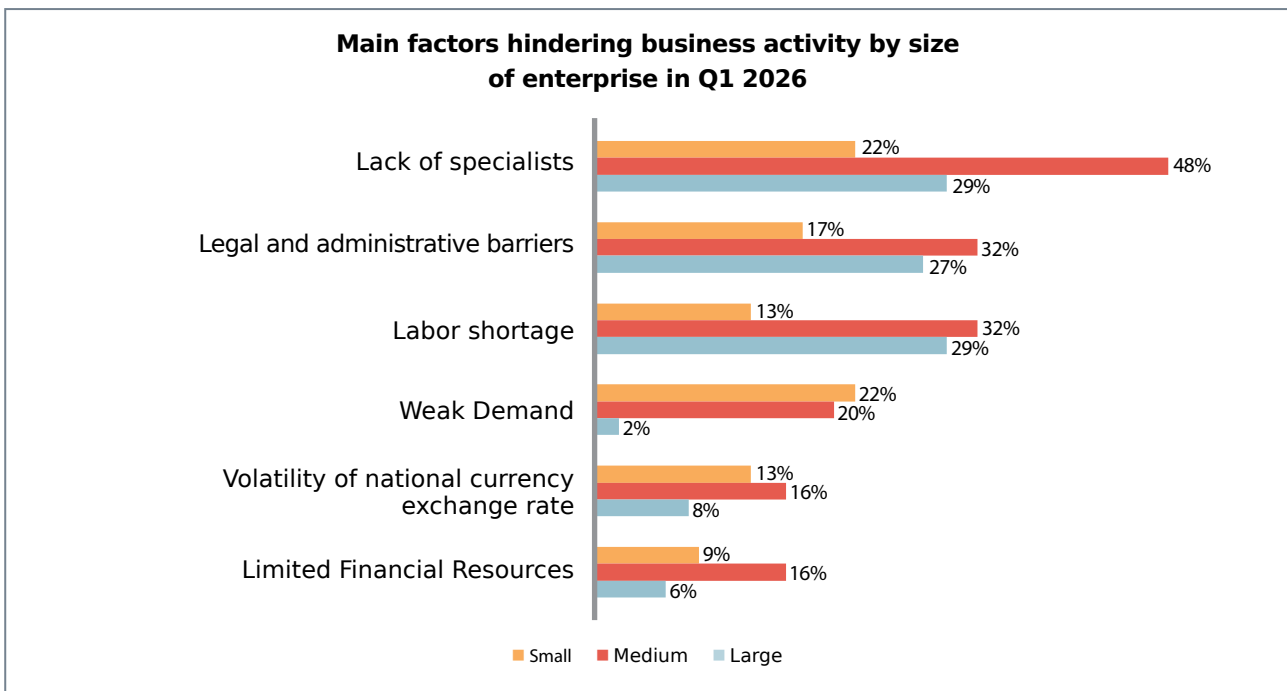
Graph 11: Main factors hindering business activity for surveyed companies in Q1 of 2026

sector and enterprise size, in the Q1 of 2026:

- ✘ **The lack of specialists** is most hindering in the construction sector (100%) and medium-sized enterprises (48%).
- ✘ **Legal and administrative barriers** are most hindering for medium-sized enterprises (32%), with a particularly strong impact in the construction sector (83%).
- ✘ **The lack of labor force** is most hindering in the construction (83%) and trade (61%) sectors and is almost equally problematic for medium (32%) and large-sized (29%) companies.
- ✘ **Weak demand represents** a hindering factor particularly for the service sector (38%), while this problem is not observed at all in the construction sector. By size, it affects small (22%) and medium-sized enterprises almost equally.
- ✘ **The volatility of the national currency exchange rate** is particularly hindering in the manufacturing (30%) and trade (28%) sectors and affects small (16%) and medium-sized businesses almost equally.
- ✘ **Limited financial resources** are a major constraining factor most notably for the construction sector (83%), while this problem is not observed in the trade sector. By size, this issue is most prevalent among medium-sized enterprises (16%).



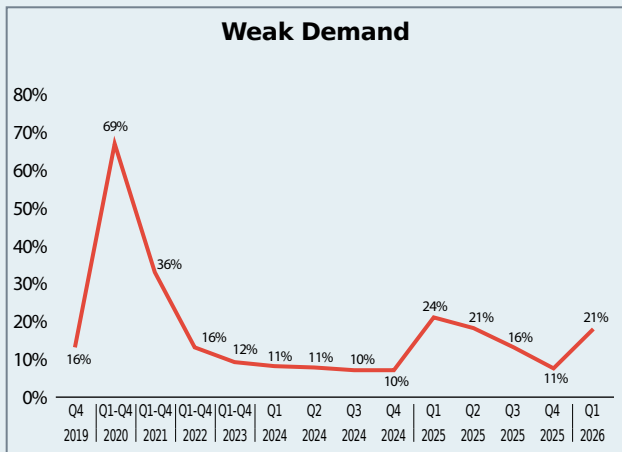
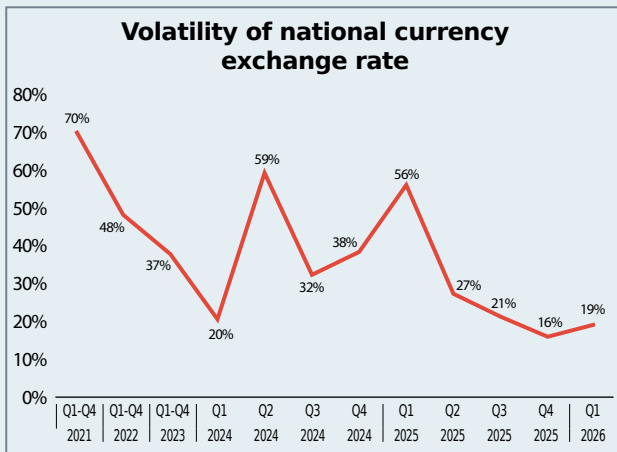
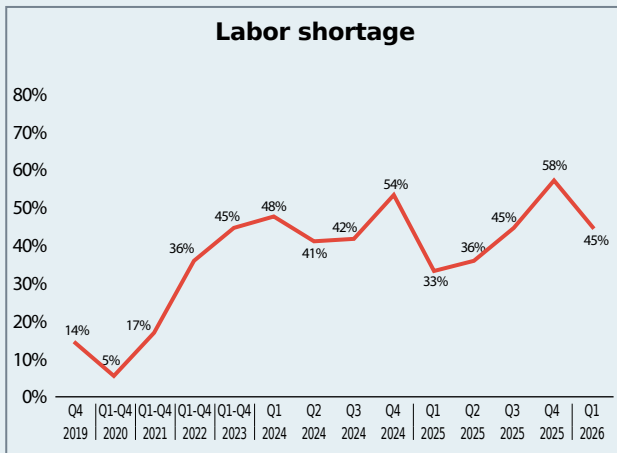
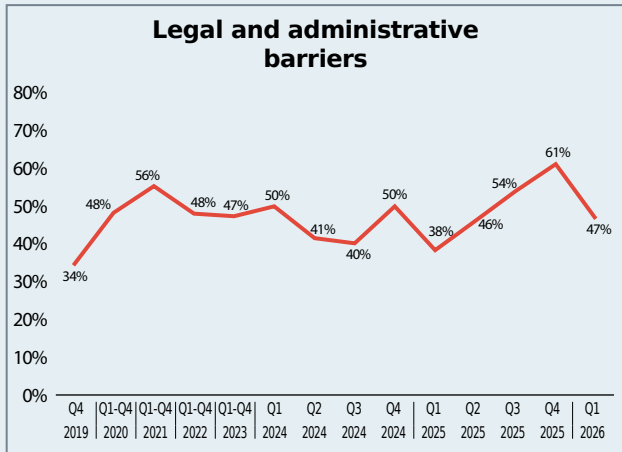
Graph 12: Main factors hindering business activity by sectors in Q1 of 2026



Graph 13: Main factors hindering business activity by the size of the enterprise in Q1 of 2026

In Q1 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 10 percentage points). Meanwhile, the share of companies citing the legal and administrative barriers decreased the most (by 14 percentage points) (See Graph 14).

Hindering factors for business activity Q4 2019 - Q1 2026



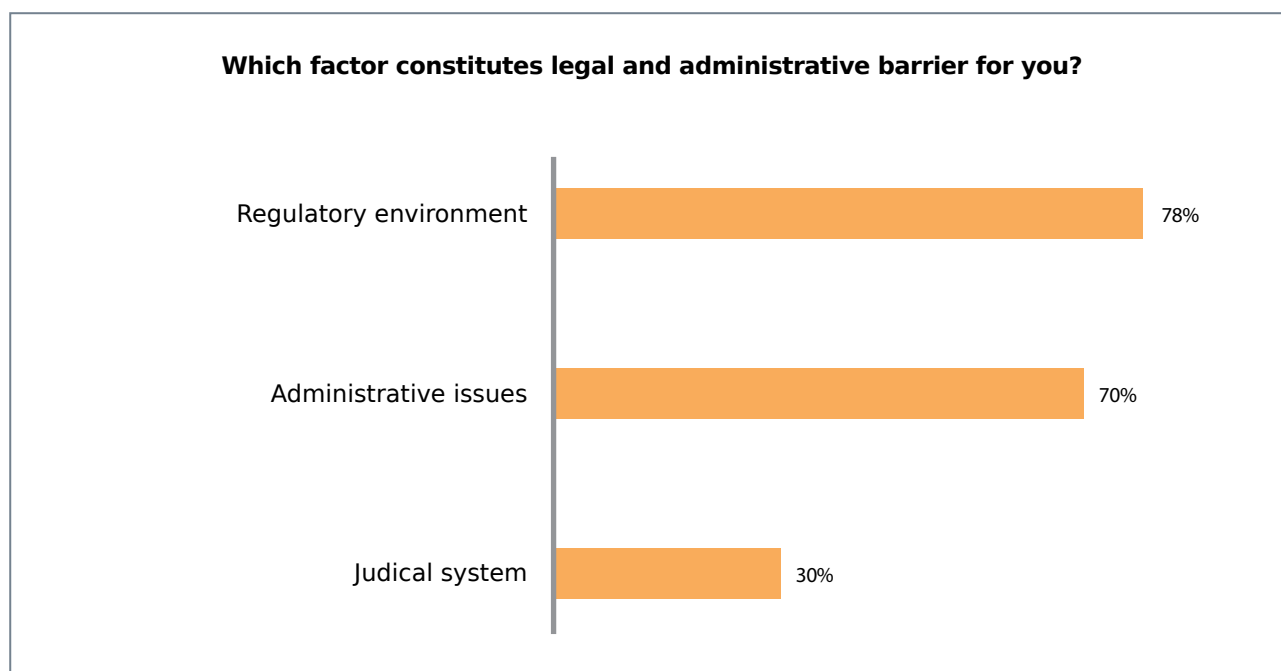
Graph 14: Main hindering factors for surveyed companies

The main factors determining legal and administrative barriers for business

In Q1 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 the most cited as a hindering factor in the service sector, and least cited in the manufacturing sector.

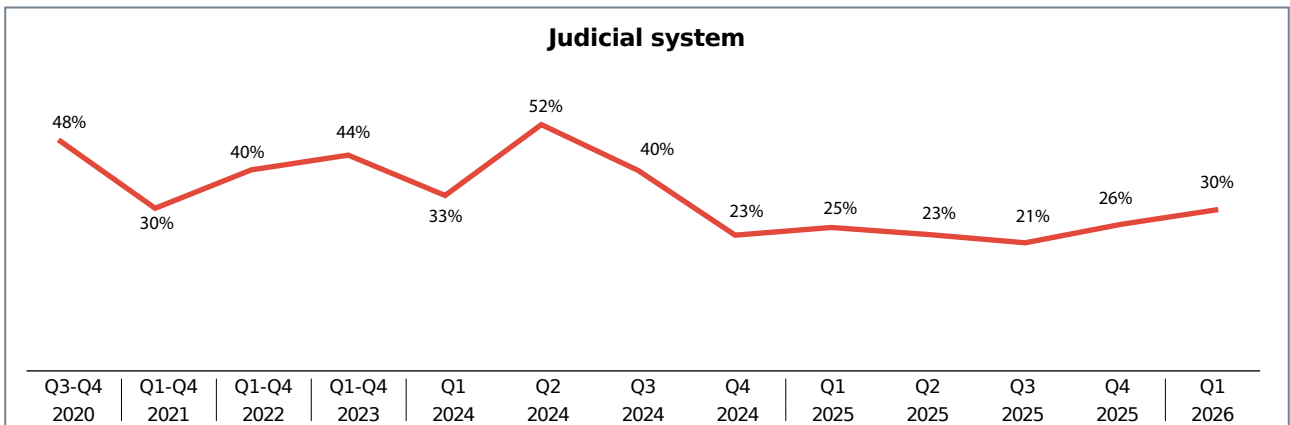
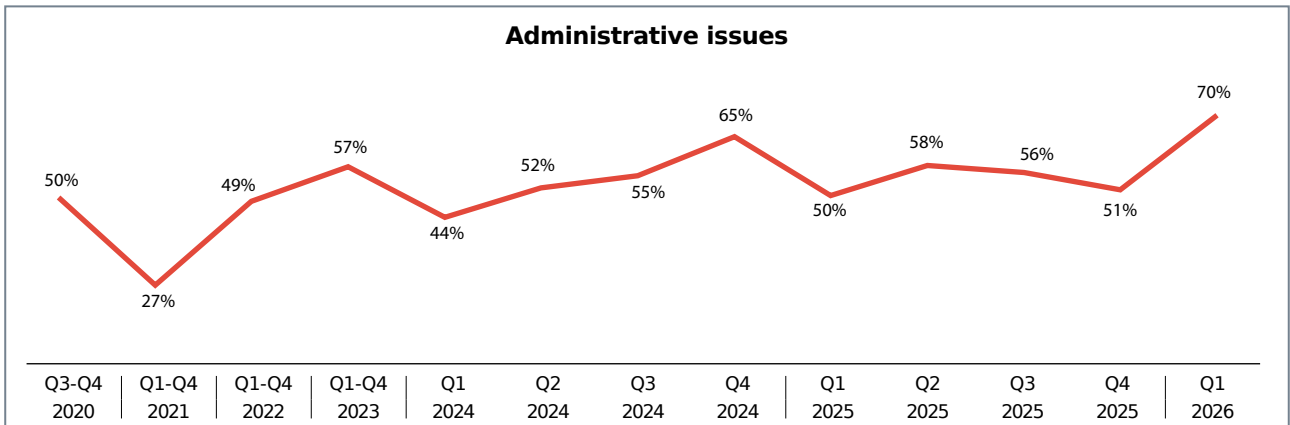
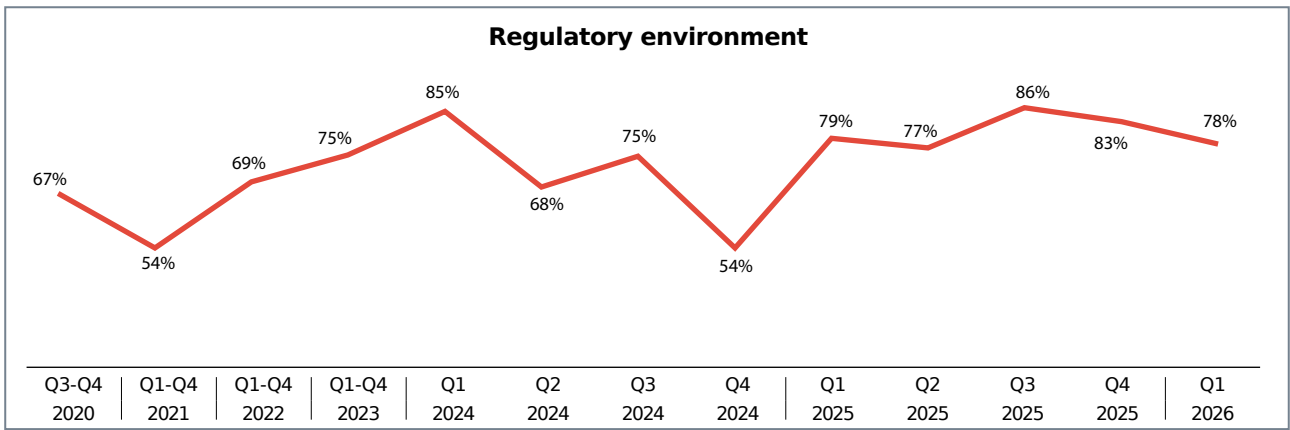
Among legal and administrative barriers, **administrative issues** were the second-most cited hindering factor. This was deemed the most hindering in the construction and trade sectors, while the least hindering for the manufacturing sector.

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 construction and manufacturing sectors.



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

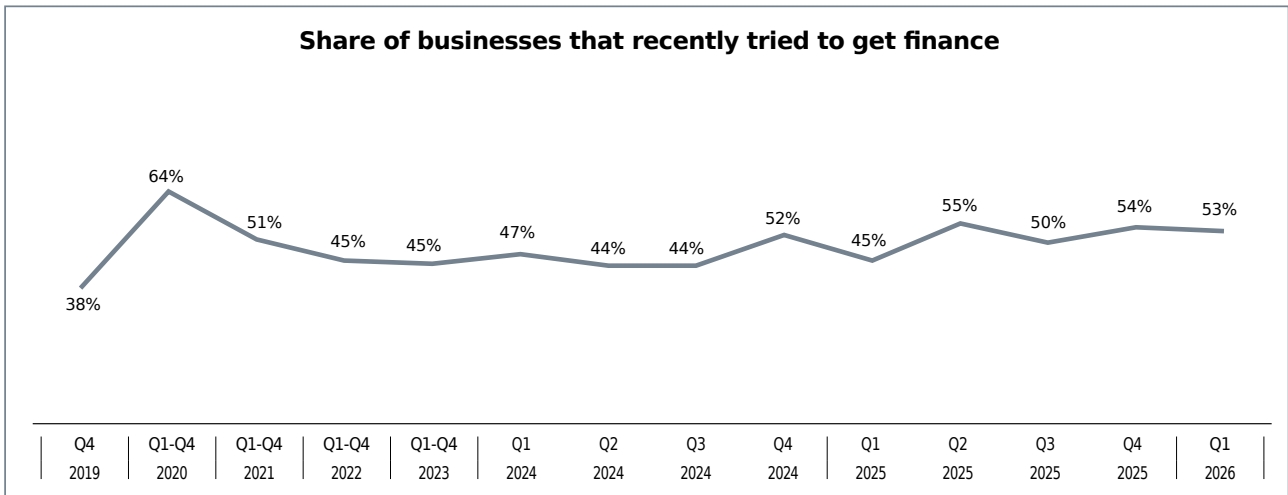
In summary, in Q1 of 2026, compared to the previous quarter, the share of companies to cite administrative issues and judicial system as hindering factors increased (by 19 and 4 percentage points, respectively). Meanwhile, the share of companies to cite regulatory environment as a hindering factor decreased (by 5 percentage points).



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

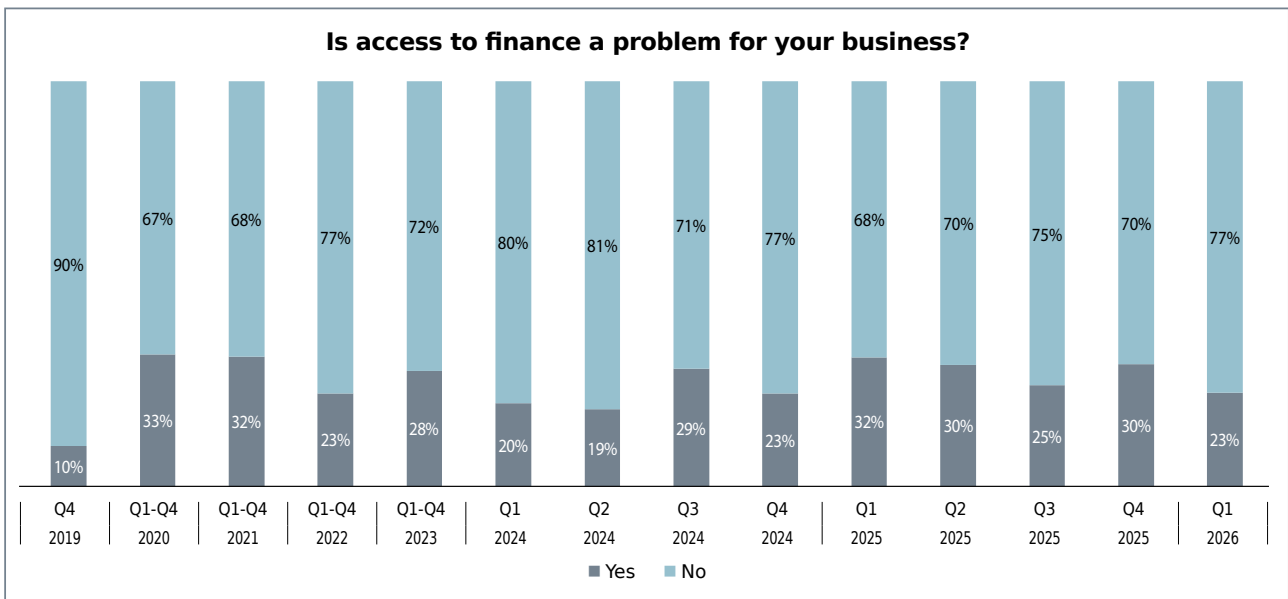
FINANCING

In Q1 of 2026, 53% of surveyed companies claimed to have recently tried to obtain finance, which is 1 percentage points lower than the figure recorded in the previous quarter (see Graph 17). By enterprise size, large (55%) and small-sized (52%) enterprises were relatively more likely to seek financing than medium-sized enterprises (48%).



Graph 17: Businesses that recently tried to get finance

In Q1 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 is lower (by 7 percentage points) than that of the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in small enterprises (55% of those that tried to obtain finance) and relatively less in large-sized (17%) and medium-sized (14%) enterprises.

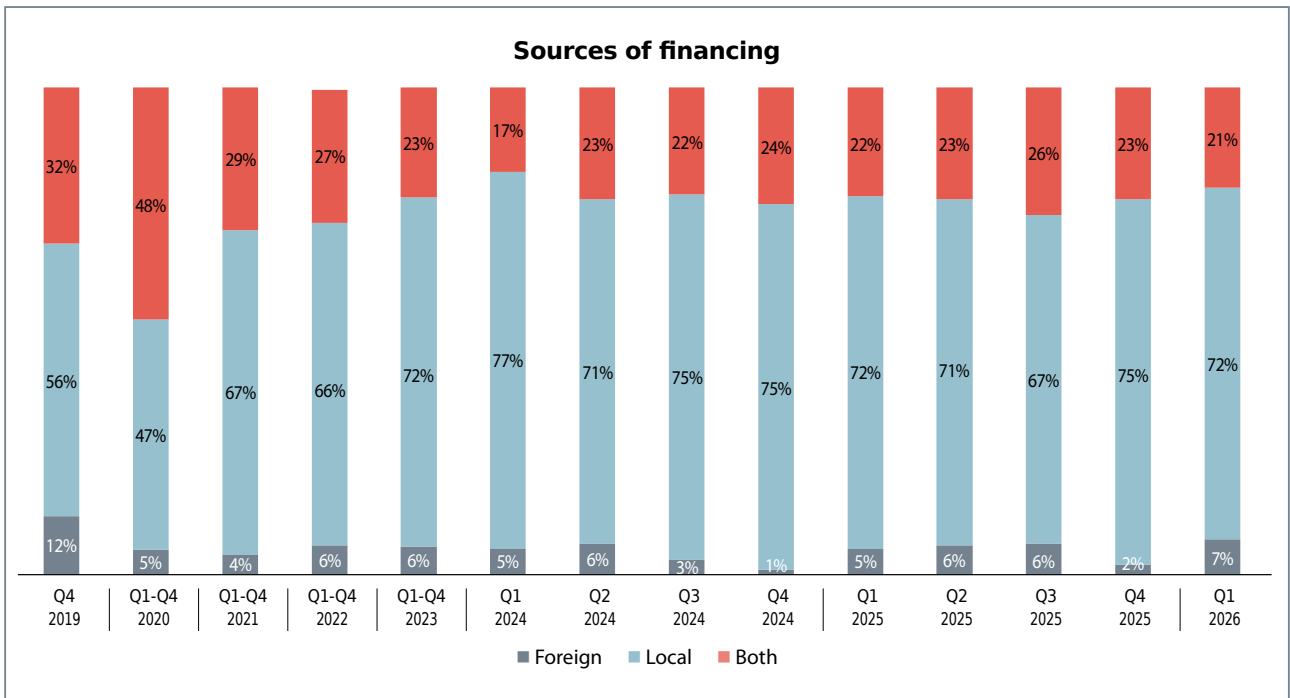


Graph 18: Access to finance⁷

Regarding sources of financing⁸, in Q1 of 2026, the majority of surveyed companies stated that they were financed by local sources (72%). The share of companies stating that they were financed by both domestic and foreign sources decreased by 2 percentage points in Q1 of 2026, compared to the previous quarter, and reached 21%.

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

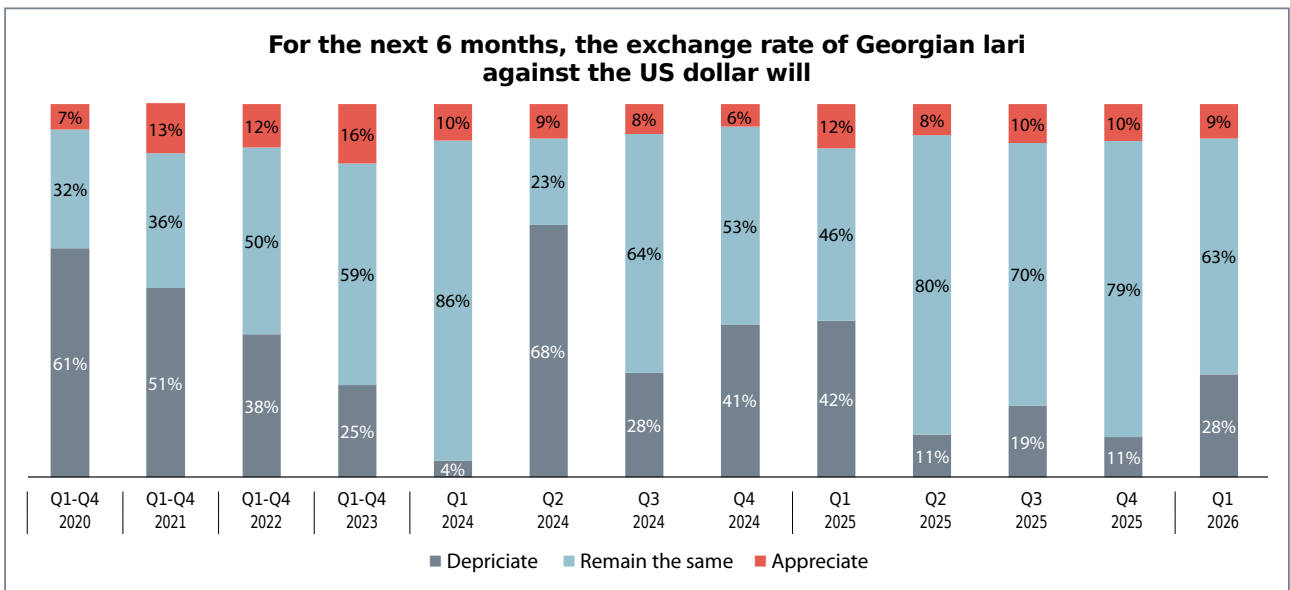
⁸ The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q1 of 2026, most of the surveyed companies (63%) do not expect any change in the exchange rate of the national currency against the US Dollar over the next 6 months. Meanwhile, 28% of companies expect the national currency to depreciate, and 9% expect it to appreciate. In Q1 of 2026, compared to Q4 of 2025, the share of companies expecting that the national currency exchange rate would remain the same throughout the next 6 months decreased (by 16 percentage points), while the share of companies expecting that the national currency would depreciate against the US Dollar increased by 17 percentage points.

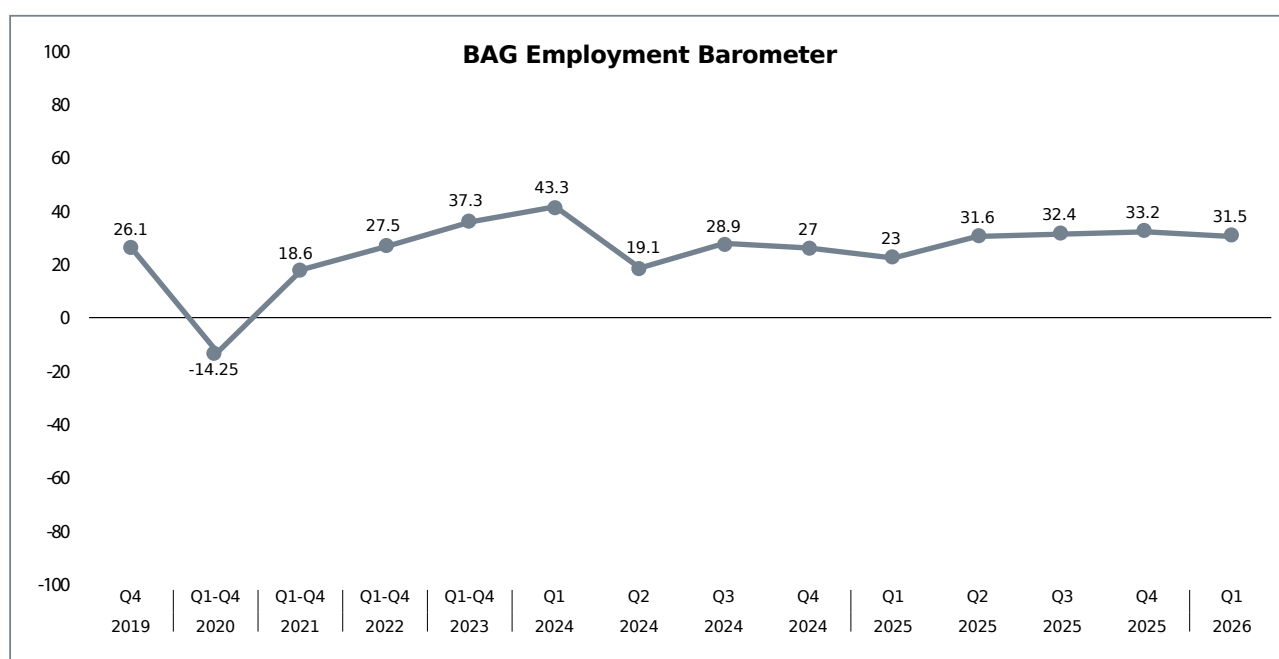


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

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

IN Q1 OF 2026, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 31.5 POINTS, MARKING A DECREASE OF 1.7 POINTS COMPARED TO Q4 OF 2025 AND 8.5 POINTS COMPARED TO Q1 OF 2025.



Graph 21: BAG Employment Barometer¹⁰

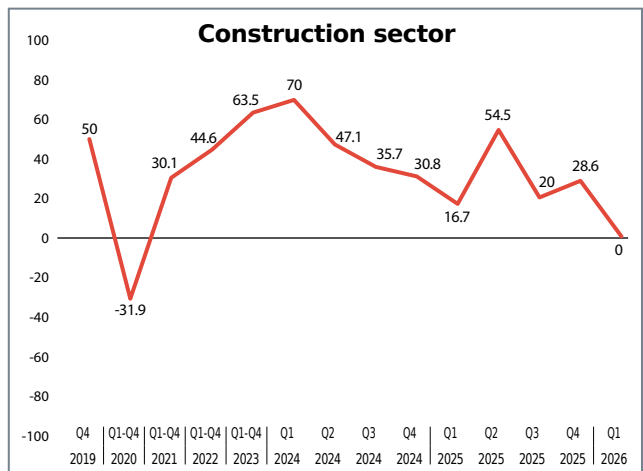
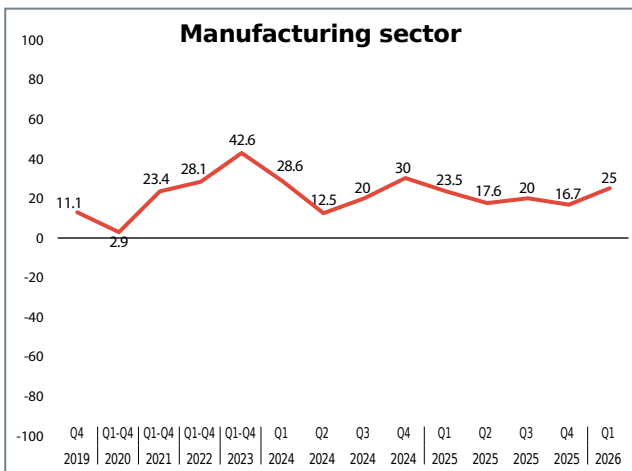
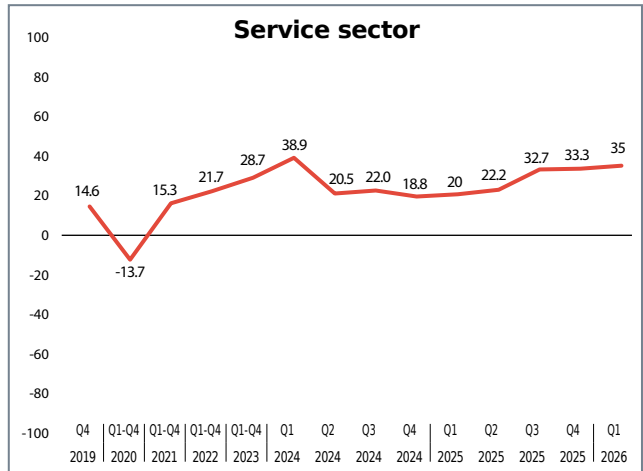
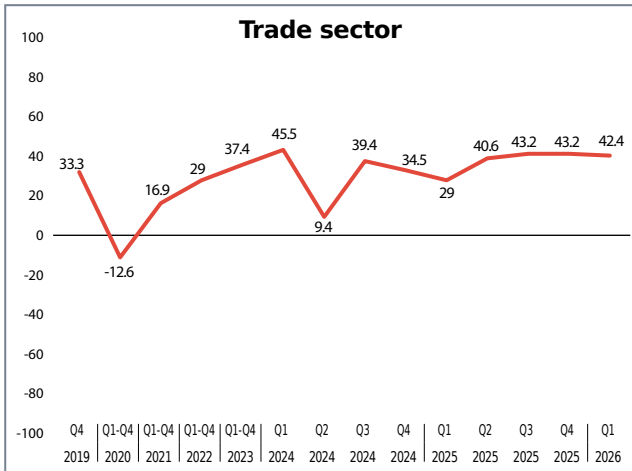
In Q1 of 2026, the BAG Employment Barometer was positive in the trade, services, and manufacturing sectors, while it amounts to zero in the construction sector. In Q1 of 2026, compared to Q4 of 2025, the employment barometer indicator increased in the manufacturing (by 8.3 points) and service (by 1.7 points) sectors, while declined in the construction sector (by 28.6 points), and trade (by 0.8 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.

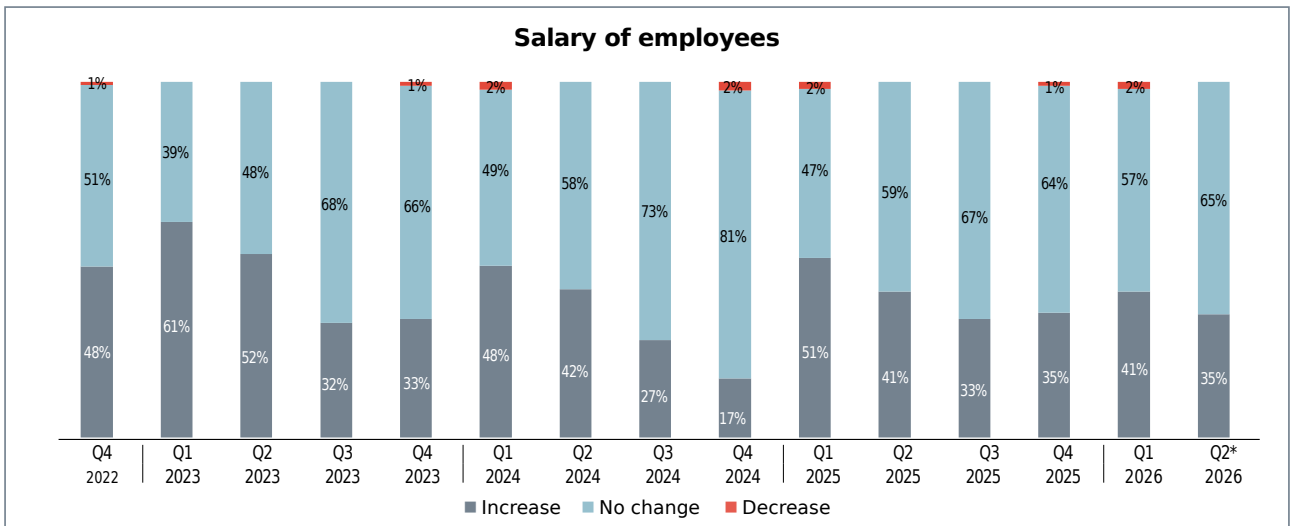
Table 2: Employment Barometer. Balance values by sector

| 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 |
|---------------|---------|------------|------------|------------|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 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 |
| 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 |
| 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 |
| 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 |
| BAG | 26.1 | -14.3 | 18.6 | 27.4 | 37.3 | 43.3 | 19.1 | 28.9 | 27.0 | 23.0 | 31.6 | 32.4 | 33.2 | 31.5 |



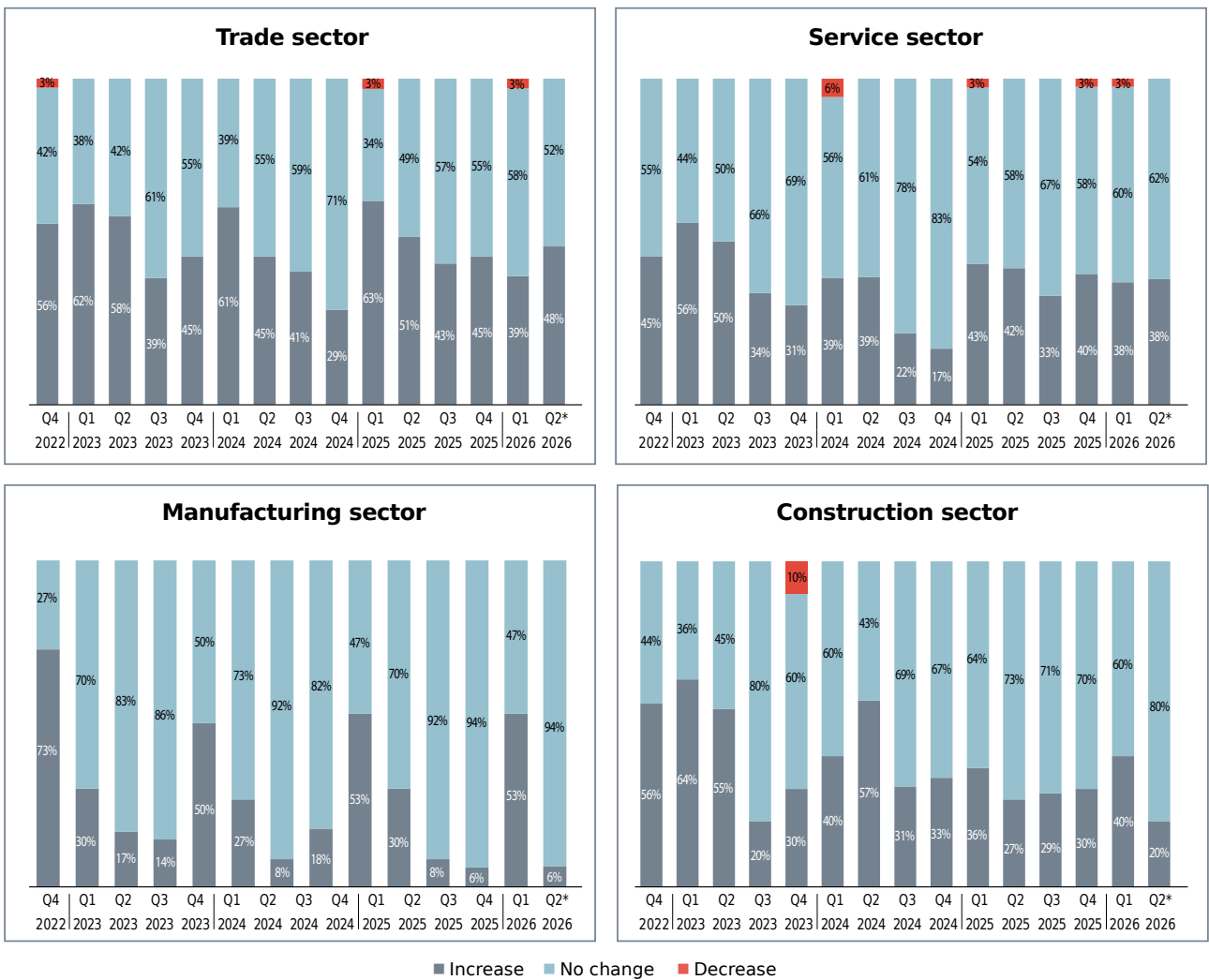
Graph 22: BAG Employment Barometer by sector

When examining employment, it is imperative to analyze the employee compensation dynamics in the process. The survey results revealed that 41% of companies raised employees' salaries in Q1 of 2026, which is higher compared to the previous quarter, however lower than in the same quarter of the previous year. In Q2 of 2026, 35% of companies plan to increase employees' salaries. (see graph 23).



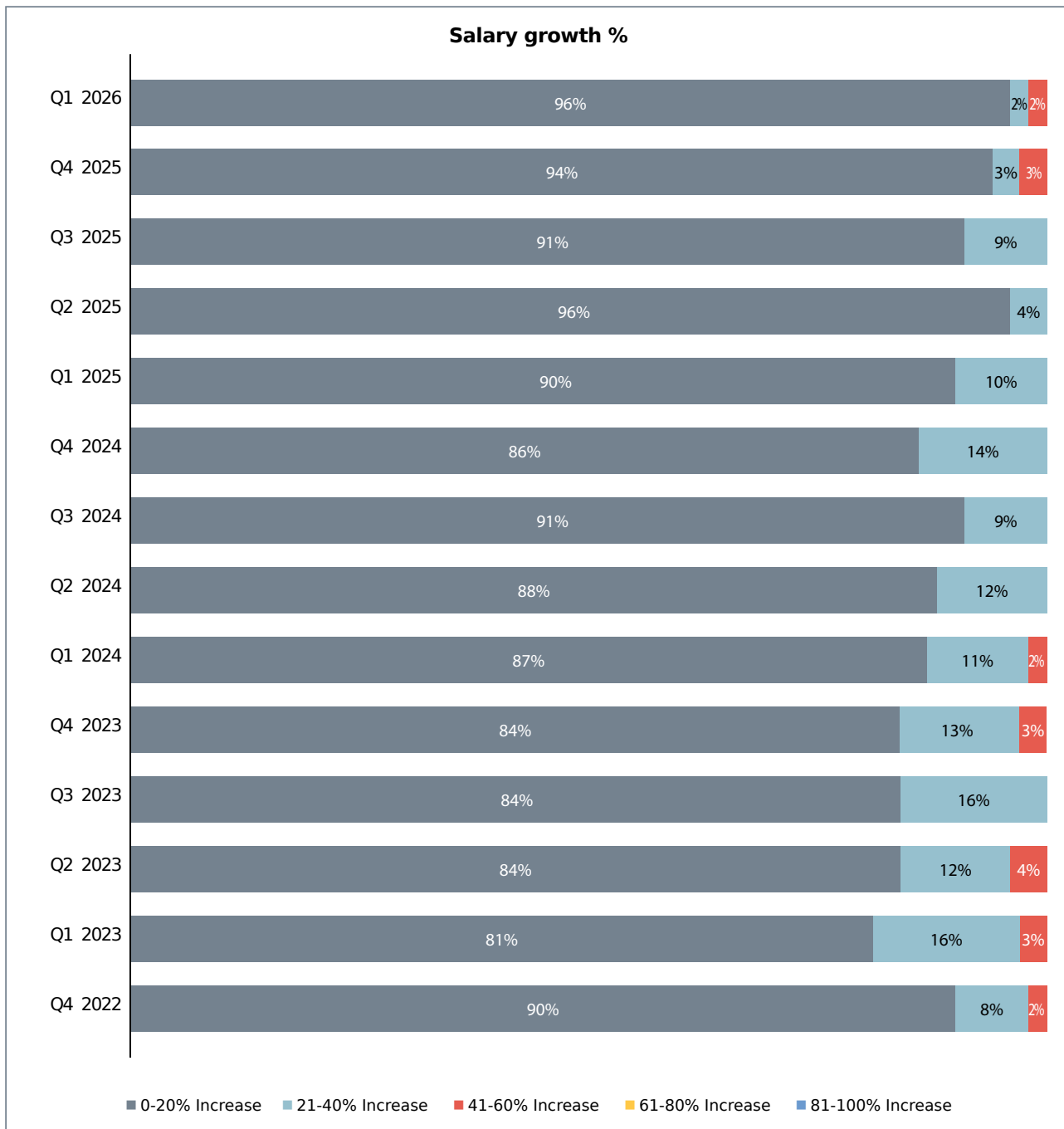
Graph 23: Salary of employees

By sector, in Q1 of 2026, the largest share of companies in the manufacturing sector (53%) increased the salaries of employees. In Q2 of 2026, the largest share of companies planning to increase the wages of employees was recorded in the trade sector (48%) (see Graph 24).



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

In Q1 of 2026 most surveyed companies (95%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 2-2% of the remaining surveyed companies increased employee compensation by 21-40% and 41-60%.



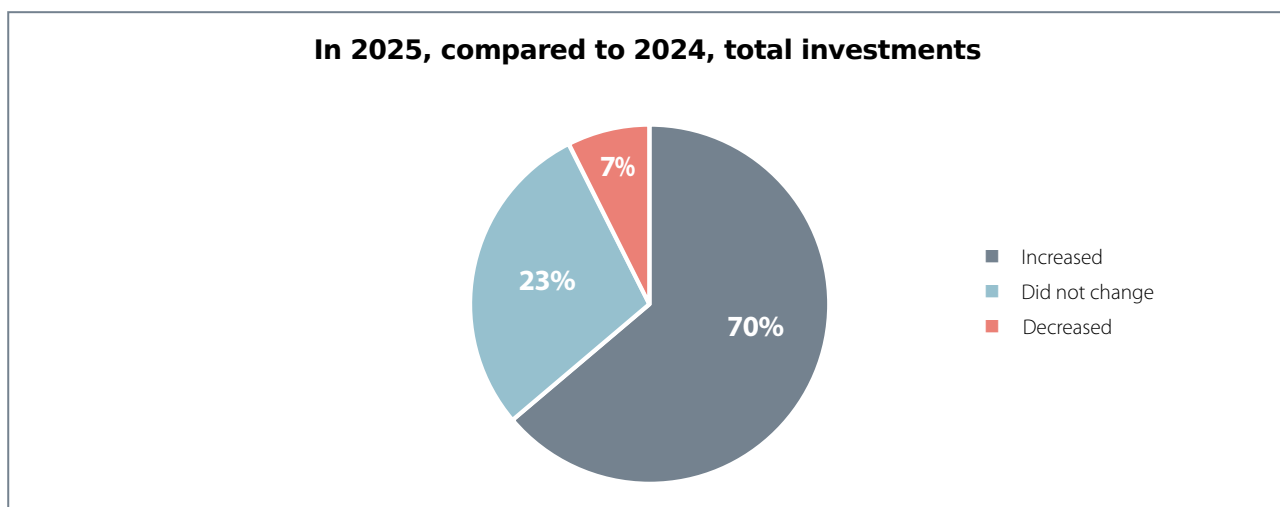
Graph 25: Growth (%) of salary of employees

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): trade, service, manufacturing and construction. The survey conducted in the first quarter of 2026 covered investments made by surveyed businesses in 2025 and their plans for 2026.

INVESTMENT ENVIRONMENT IN 2025

Overall, 70% of the surveyed businesses stated that their total investments had increased in 2025, compared to 2024. Meanwhile, 23% of the surveyed companies claimed their total investments were unchanged and 7% stated their investments had decreased over the same period.



Graph 26: Investment environment in 2025

It must be mentioned that 88% of the companies in the manufacturing sector reported an increase in total investments in 2025, compared to 2024. In the given period, 70% of companies reported an increase in total investment in the construction sector, 67% in the trade sector, and 63% in the service sector.

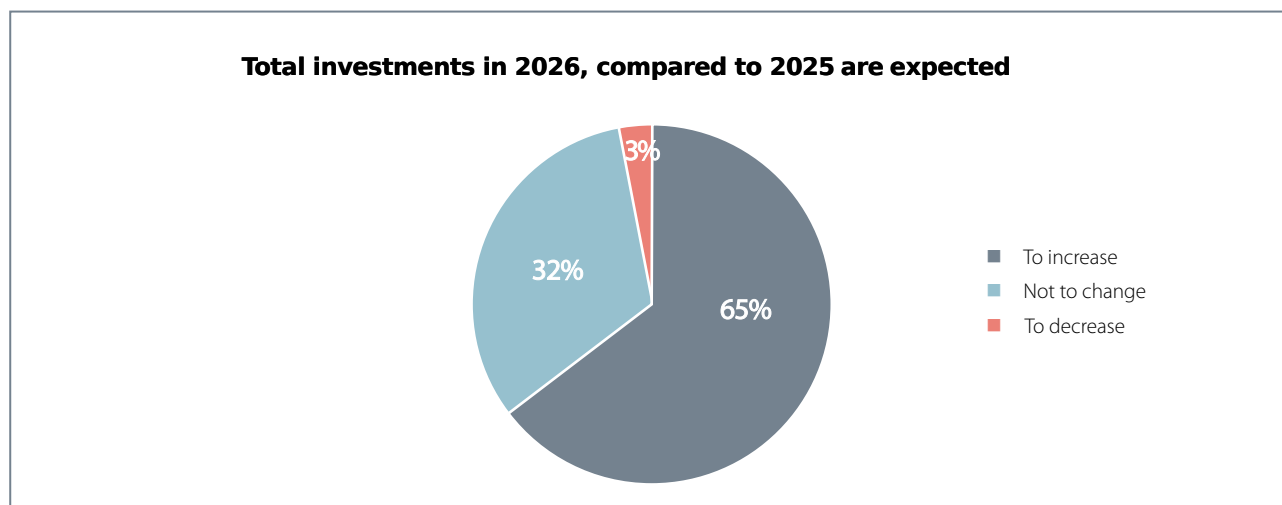
Furthermore, 30% of respondents in the construction sector stated that total investments decreased in 2025, compared to 2024. At the same time, 6% of surveyed companies in the manufacturing sector recorded a decrease in total investments in this timeframe, for the service sector this figure was 5%, while for trade sector – 3% (for detailed information see graphs 28, 29, 30 and 31).

In 2025, the majority of companies recorded an increase in their total investments in equipment (70%). The increase in investments in software and databases (61%) and plants (56%) was recorded in a relatively smaller share of the surveyed companies.

By sector, the manufacturing sector recorded the highest percentage share of companies stating an increase in equipment (87%). Notably, the manufacturing sector also stood out along with service sector (62-62%) for the growth of investments in software/databases, while the trade sector was first in investments in plants (70%).

INVESTMENT PLANS FOR 2026

In Q1 of 2026, 65% of surveyed businesses claimed they will increase their total investments in 2026, compared to 2025. At the same time, 32% of the surveyed companies expect no change in their total investments, while 3% expect a decrease in total investments.

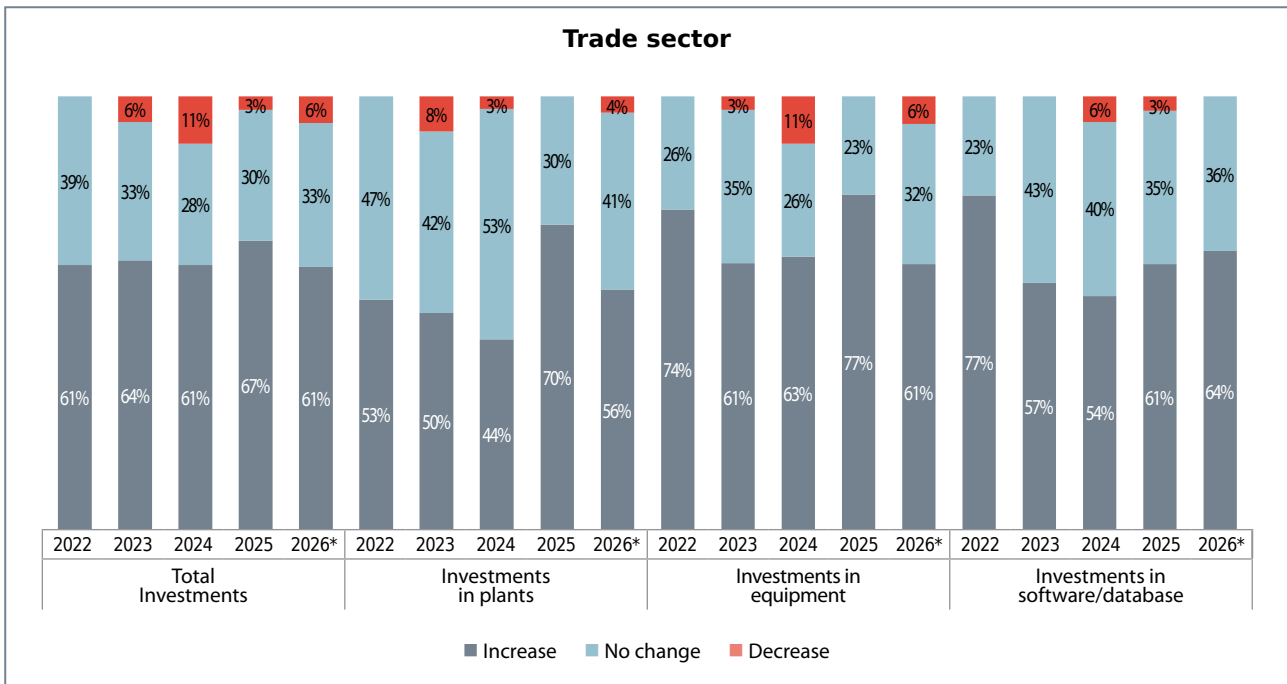


Graph 27: Investment plans of companies for 2026

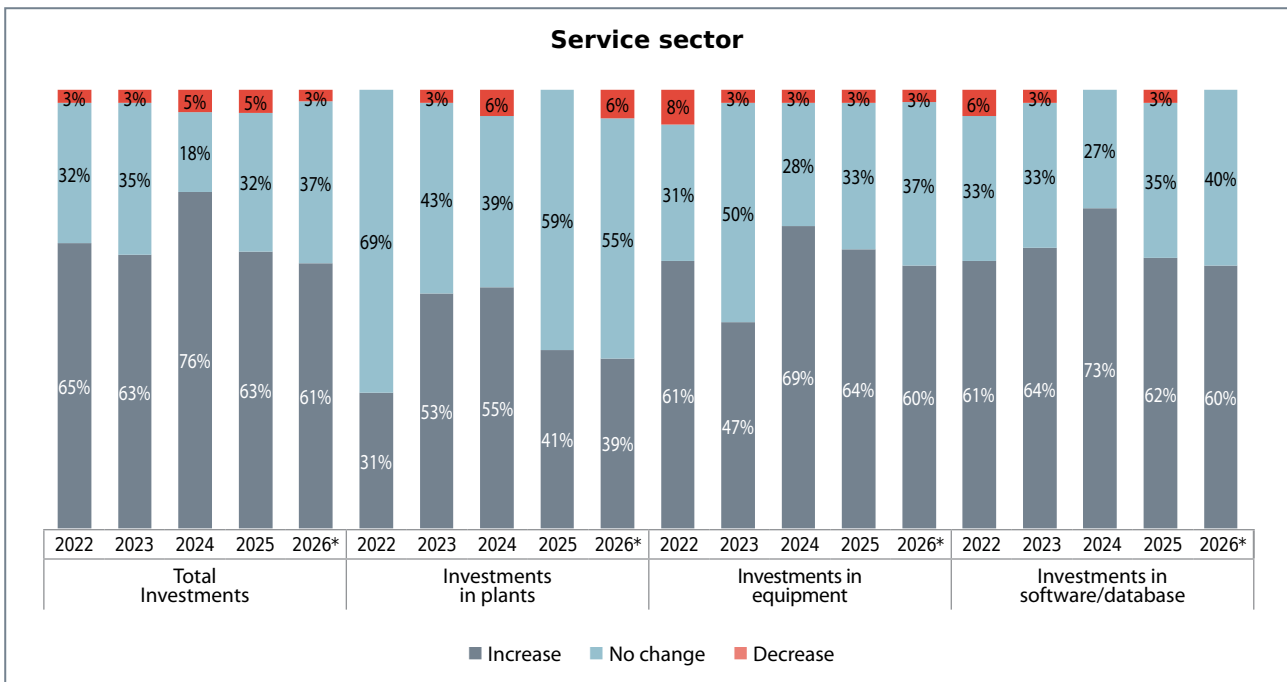
Amongst all four sectors, the manufacturing sector again conveyed the most optimistic expectations in direction of investment for 2026. Mainly, 81% of companies in the manufacturing sector expect an increase in total investments. Moreover, 61%-61% of companies in the service and trade sectors report similar expectations, while 60% of companies in the construction sector plan to increase their total investments in 2026, compared to 2025.

In 2026, more positive expectations with regard to investments were recorded in equipment, while less positive expectations were recorded with regard to investments in plants and software/databases. 60% of the surveyed companies expect to increase their investments in equipment in 2026, compared to 2025, while 58% of businesses have the same expectation for investments in software and databases. Moreover, 50% claim that their investments in plants will increase in 2026, compared to 2025.

It must be noted that, among the covered sectors, the most positive expectations regarding investments in equipment and software/databases are conveyed in manufacturing sector, where 75% of the companies plan to increase investment in equipment. Regarding the investment in plants are recorded in the manufacturing and trade sectors (57% and 56%, respectively), while the most positive expectations for growth in investments in software/databases are recorded in the trade sector (64%).

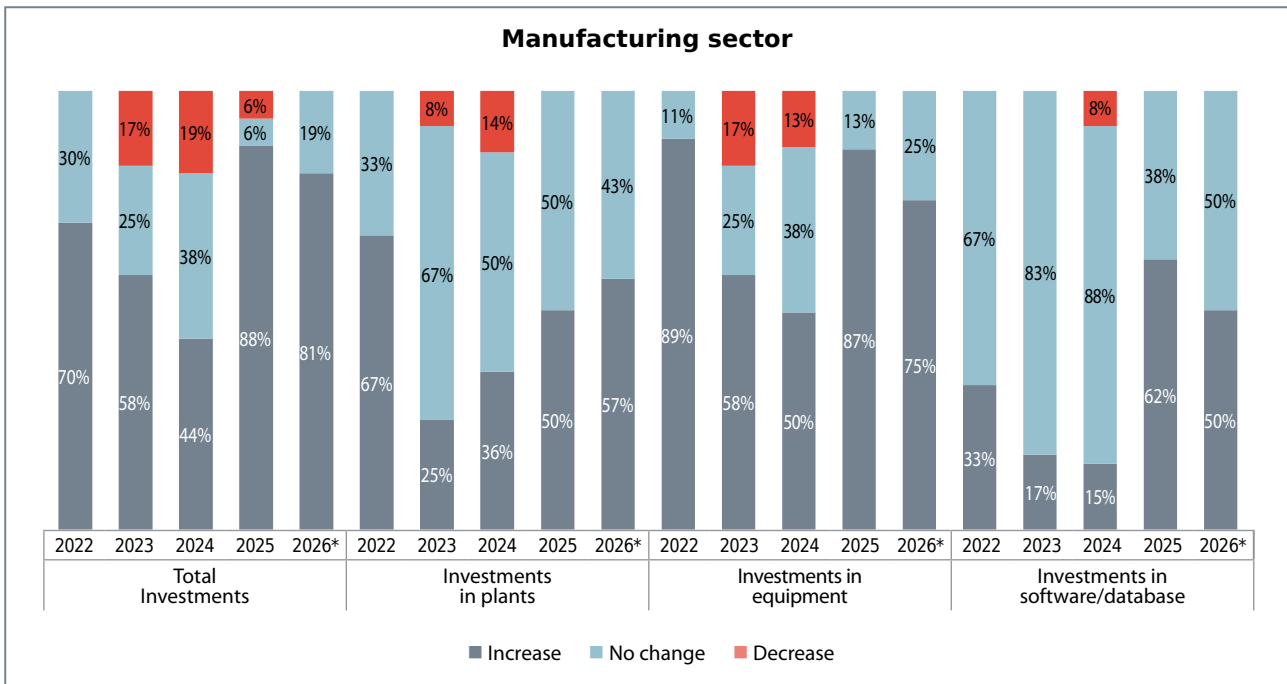


Graph 28: Investment environment in 2022-2025 and investment plans for 2026 in the trade sector (change compared to the previous year)¹¹

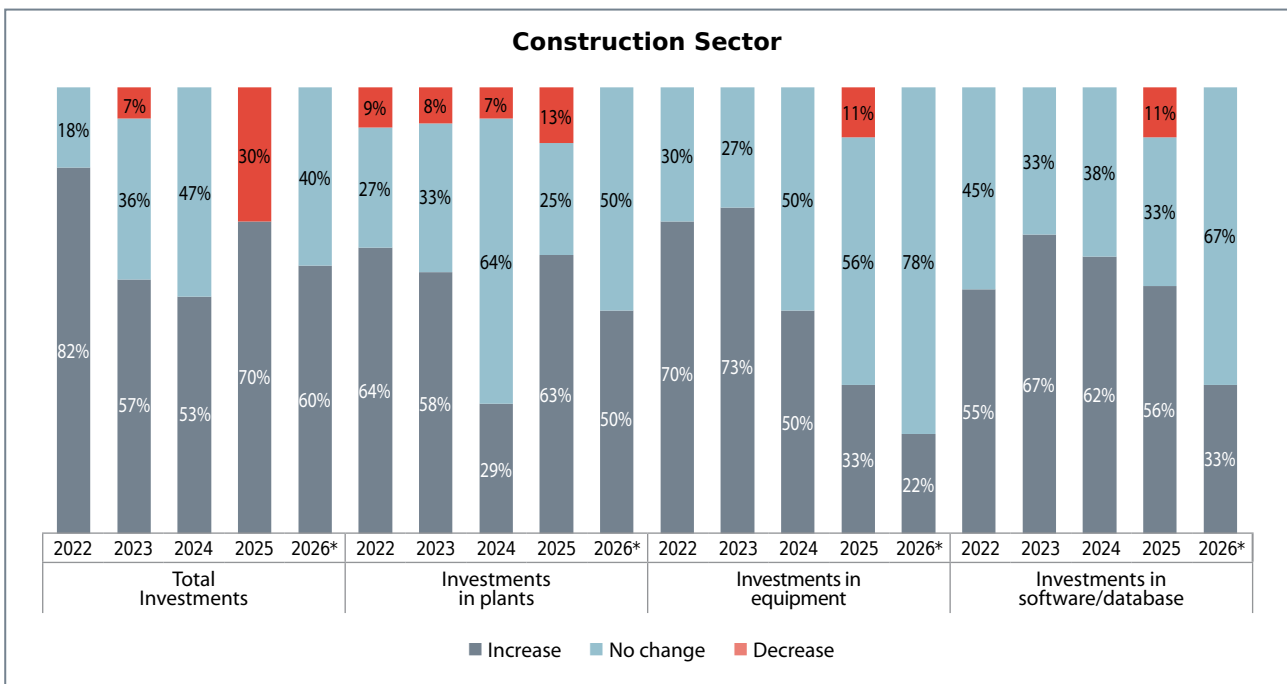


Graph 29: Investment environment in 2022-2025 and investment plans for 2026 in the service sector (change compared to the previous year)

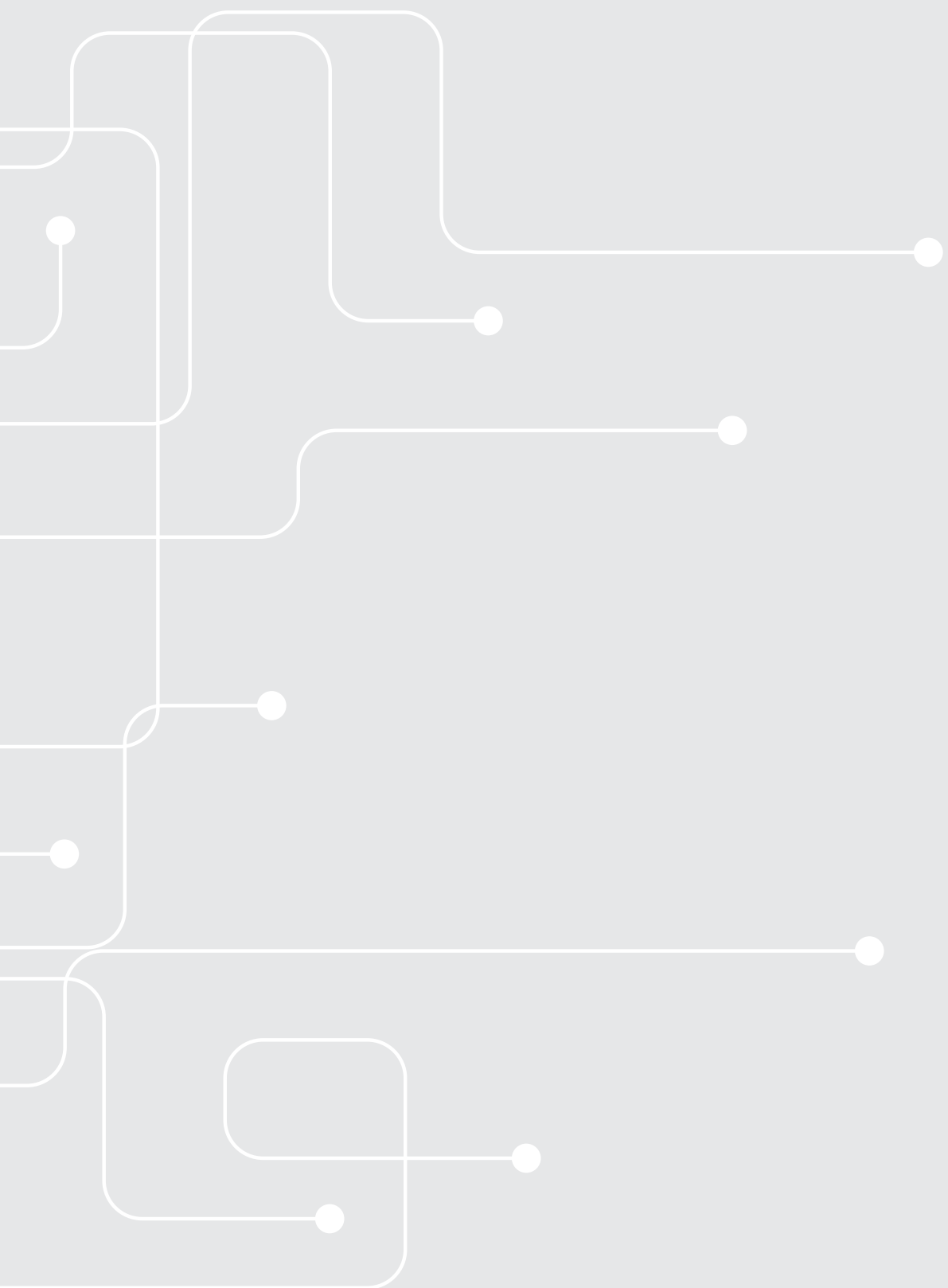
¹¹ Due to the rounding of number, in some graphs the sum of the data does not always equal 100%.
 * Expectation.



Graph 30: Investment environment in 2022-2025 and investment plans for 2026 in the manufacturing sector (change compared to the previous year)



Graph 31: Investment environment in 2022-2025 and investment plans for 2026 in the construction sector (change compared to the previous year)



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