

BAG INDEX



Research

II QUARTER 2025

BAG INDEX



**BUSINESS
CLIMATE**



**EMPLOYMENT
BAROMETER**

**II QUARTER
2025**

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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 Q2 of 2025 in the period 13 – 29 May.

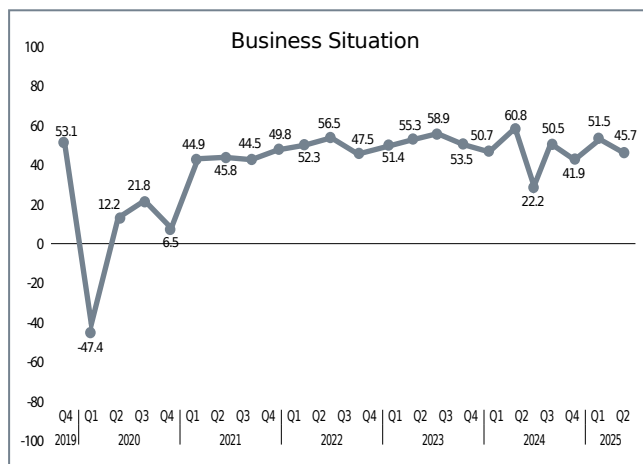
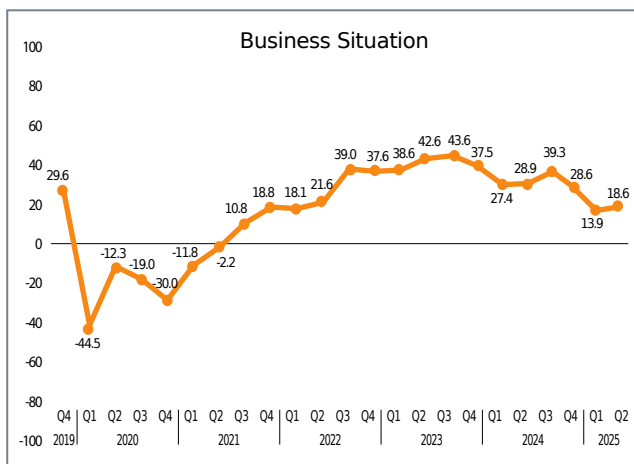
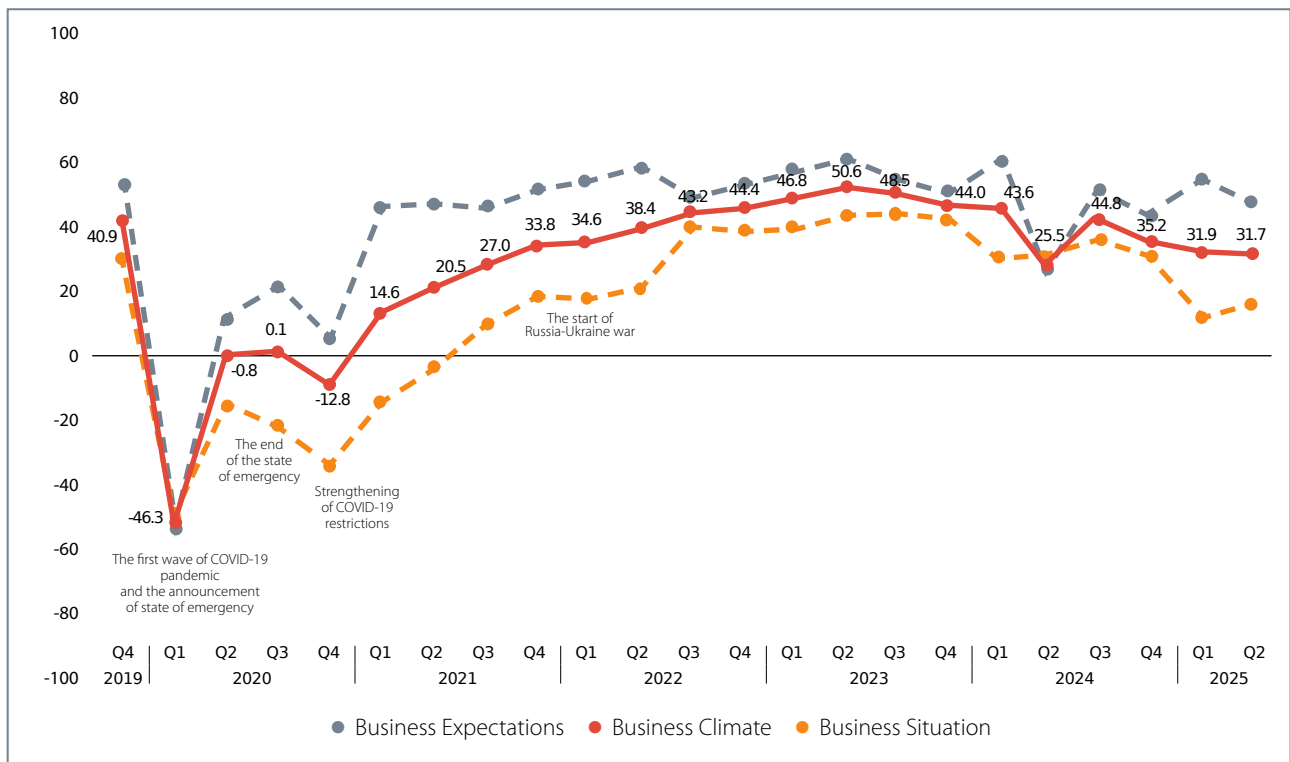
IN Q2 OF 2025, THE SURVEYED BUSINESSES ASSESS THEIR PRESENT BUSINESS SITUATION AND EXPECTATIONS FOR THE NEXT SIX MONTHS **POSITIVELY. THE BAG BUSINESS CLIMATE INDICATOR AMOUNTS TO 31.7 POINTS IN Q2 OF 2025, WITH THE PRESENT BUSINESS SITUATION INDICATOR SITTING AT 18.6, AND THE BUSINESS EXPECTATIONS INDICATOR AT 45.7.**

In Q2 of 2025, compared to Q1 of 2025, the BAG Business Climate slightly decreased by 0.2 points. Moreover, in this period, the assessment of the present business situation improved by 4.6 points, and business expectations worsened by 5.7 points.

The figures for Q2 of 2025 improved compared to Q2 of 2024. The BAG Business Climate indicator increased by 6.2 points. In particular, the present business situation indicator worsened by 10.3 points, while the business expectations indicator improved by 23.5 points (see graph 1).

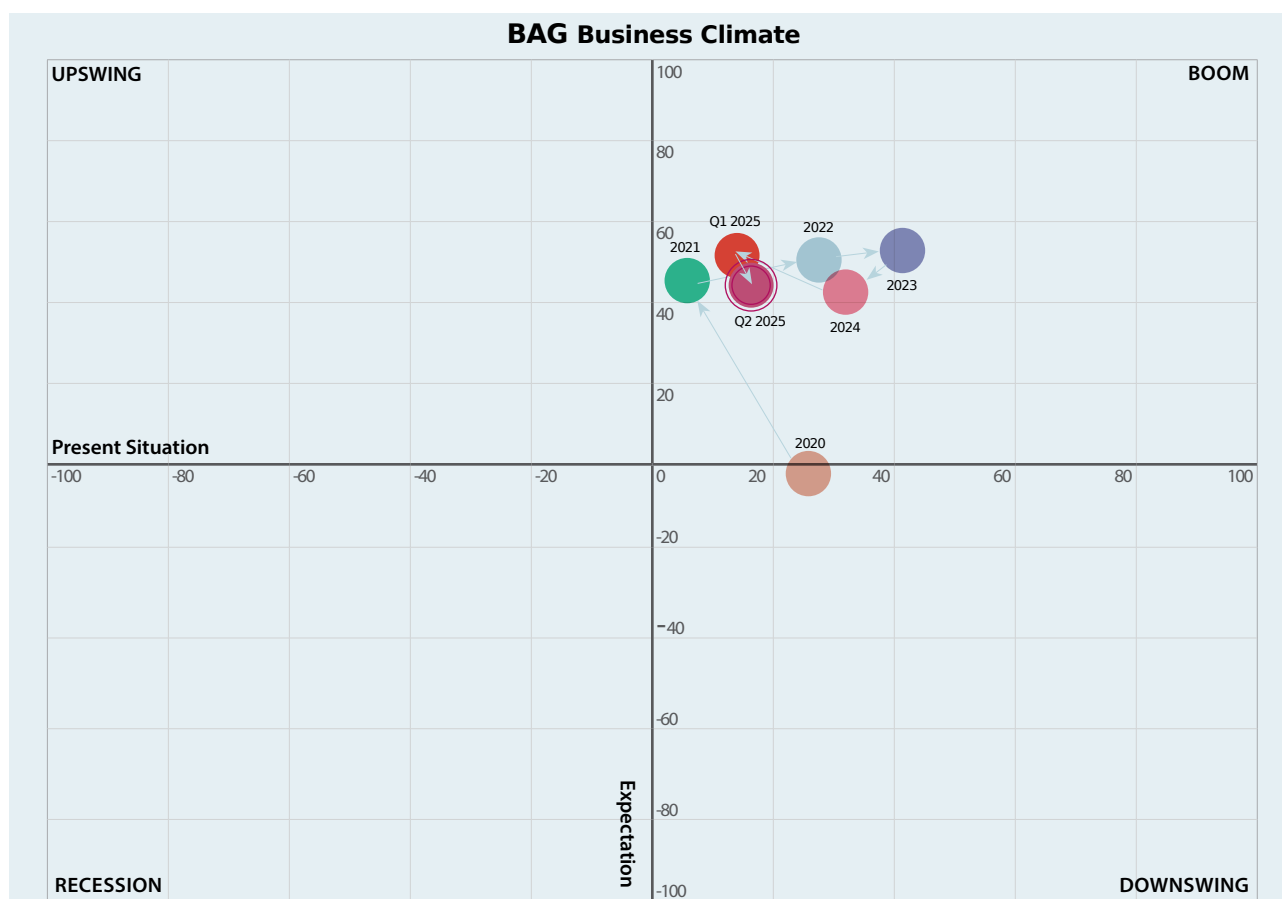
¹ In the first quarter of 2021, a change was made in the methodology of the BAG Index. As a result, the number of companies surveyed increased: enterprises that belong to the corporate group of member companies were added to the existing survey respondents.

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

In Q2 of 2025, despite a slight deterioration compared to the previous quarter, the BAG Business Climate Indicator is in the **boom phase**.

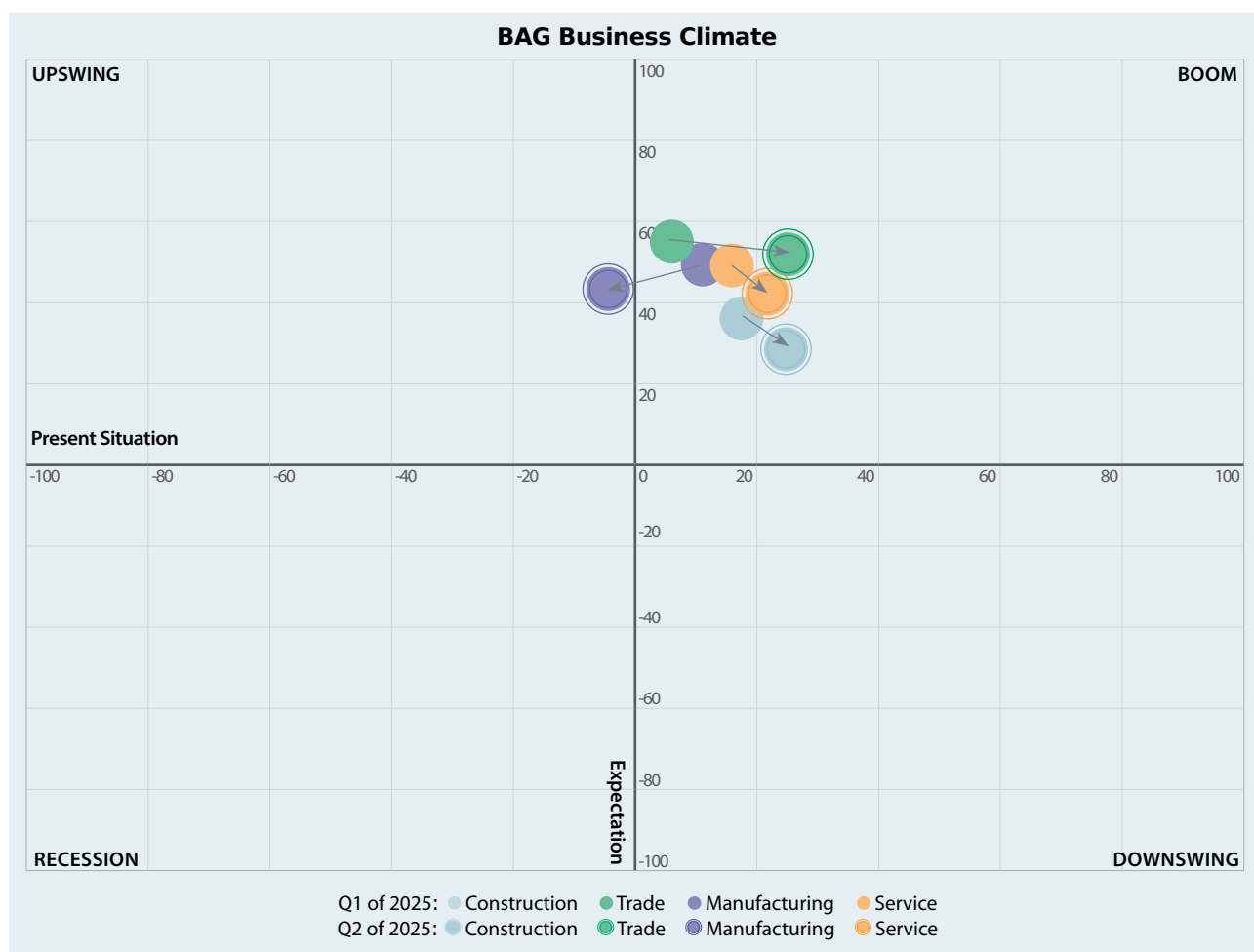


Graph 2: BAG Business Climate³

BAG BUSINESS CLIMATE BY SECTORS

In Q2 of 2025, the **business climate indicator** was positive for all sectors. Compared to Q1 of 2025, the indicator worsened for all sectors, except the trade sector. (see Graph 3).

³ 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 Q1 and Q2 of 2025

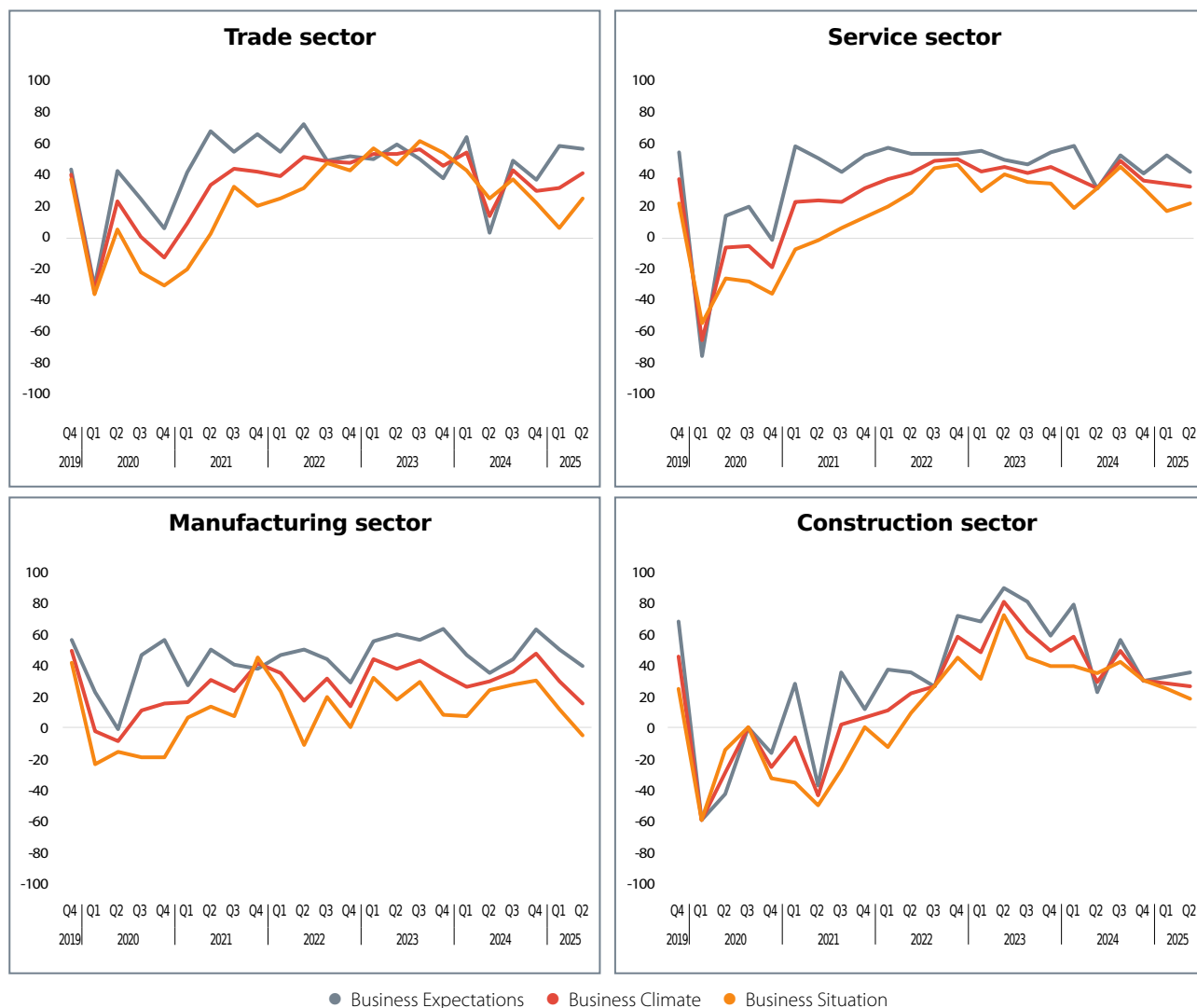
In Q2 of 2025, compared to Q1 of 2025, the **present business situation indicator** worsened in the manufacturing sector by 17.6 points and in the construction sector by 6.8 points. Meanwhile, the indicator improved in the trade sector by 18.5 points, and in the service sector by 5.1 points. As for the **business expectations indicator**, it worsened in the manufacturing sector by 10.8 points, in the services sector by 9.8 points, and in the trade sector by 1.8 points, while it improved in the construction sector by 3.0 points.

It is worth noting that in Q2 of 2025, the present business situation indicator was highest in the trade sector and lowest in the manufacturing sector, where the indicator remained below zero. Among the sectors, the most positive business expectations were recorded in the trade sector, while the most negative expectations were observed in the construction sector (see Table 1).

Table 1: Balance values by sector in Q2 of 2025

Sector	Business Climate	Present Business Situation	Business Expectation
Trade Sector	40.1	25.0	56.3
Service Sector	31.7	22.2	41.6
Manufacturing Sector	16.8	-5.9	42.1
Construction Sector	27.1	18.2	36.4
All Sectors	31.7	18.6	45.7

In Q2 of 2025, compared to Q2 of 2024, the business climate indicator declined in the manufacturing sector by 14.4 points and in the construction sector by 2.2 points. Meanwhile, the business climate indicator increased in the trade sector by 26.3 points, and in the service sector by 0.6 points.

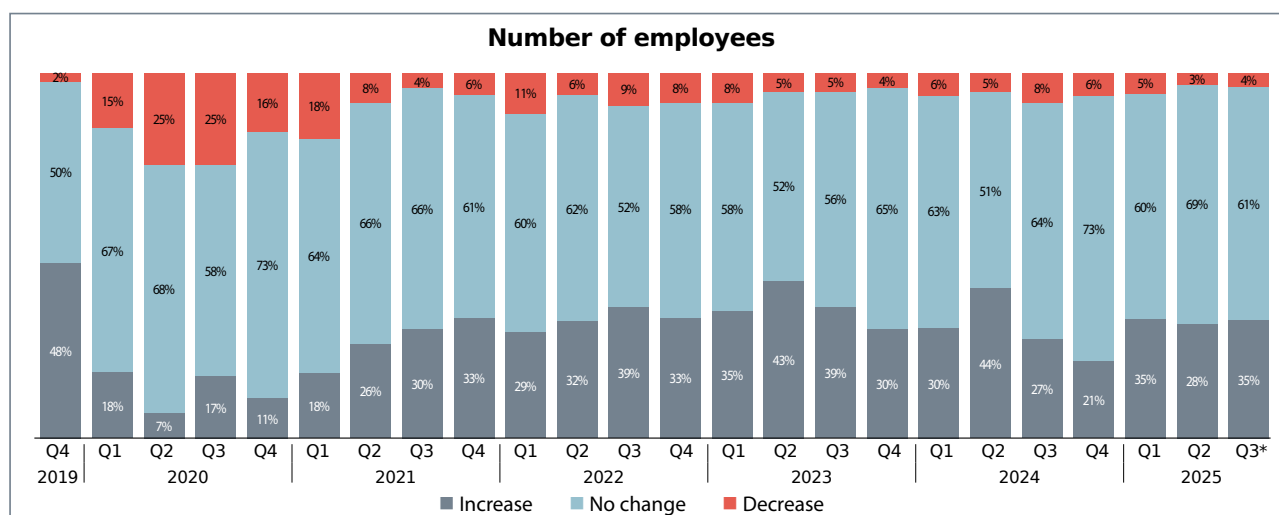


Graph 4: Business Climate, Business Expectation, and Present Business Situation in trade, service, manufacturing and construction sectors

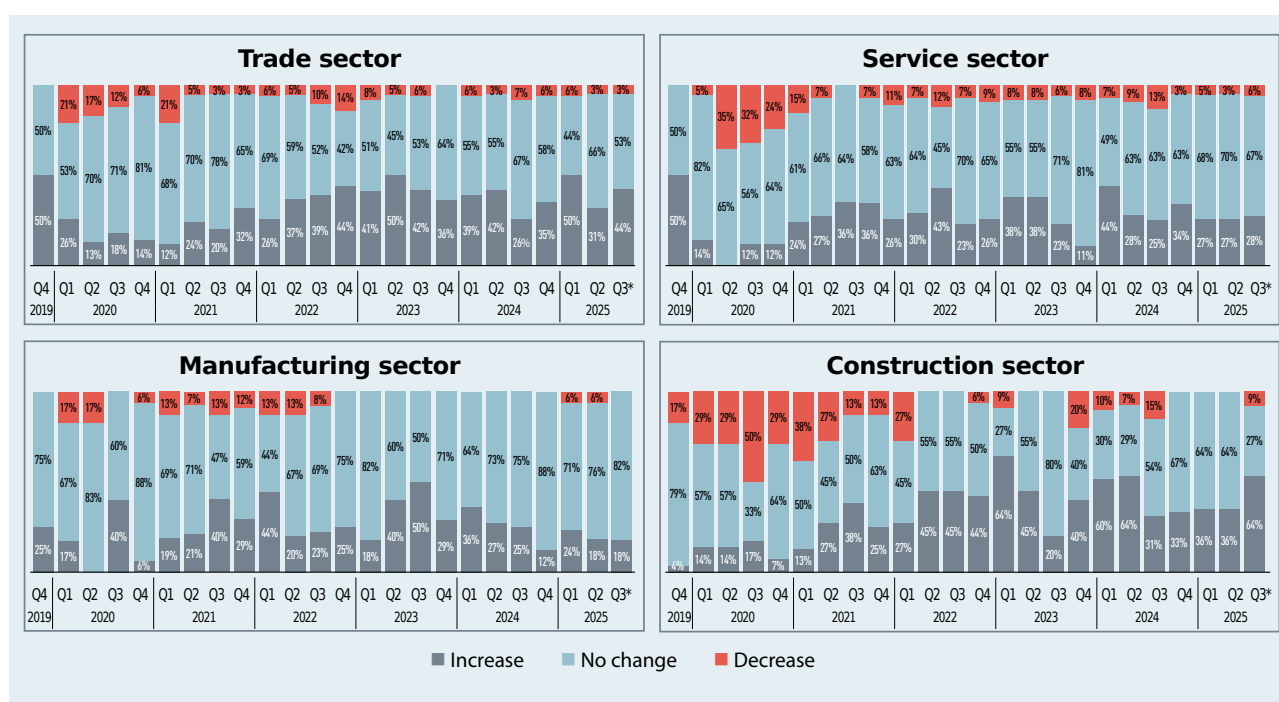
EMPLOYMENT, SALES, AND SALES PRICES BY SECTOR

Employment

- ✖ 28% of surveyed companies stated that the number of employees increased in Q2 of 2025. As for the expectations for Q3 of 2025, 35% 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 Q2 of 2025 is most positively assessed in the construction sector. Similarly, the expectations for Q3 of 2025 are most positively assessed also in the construction sector. (see Graph 6).



Graph 5: Number of employees in BAG member businesses and companies in their corporate group⁴



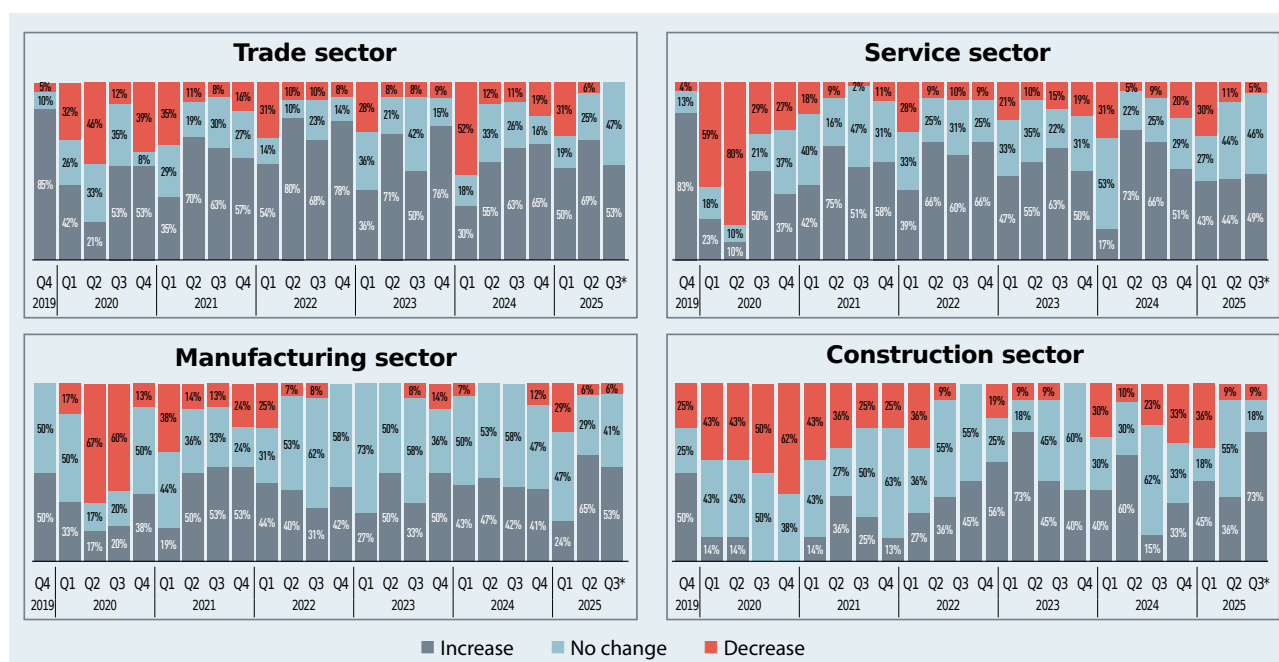
Graph 6: The number of employees in the trade, service, manufacturing and construction sectors

Sales/demand/domestic production

- ✖ The situation in Q2 of 2025 regarding sales was assessed most positively in the trade (69%) and manufacturing sectors (65%). The construction sector received the least positive assessment (36%) in Q2 of 2025. Nevertheless, the most positive expectations for Q3 of 2025 were recorded in the construction sector (73%) (see Graph 7).

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

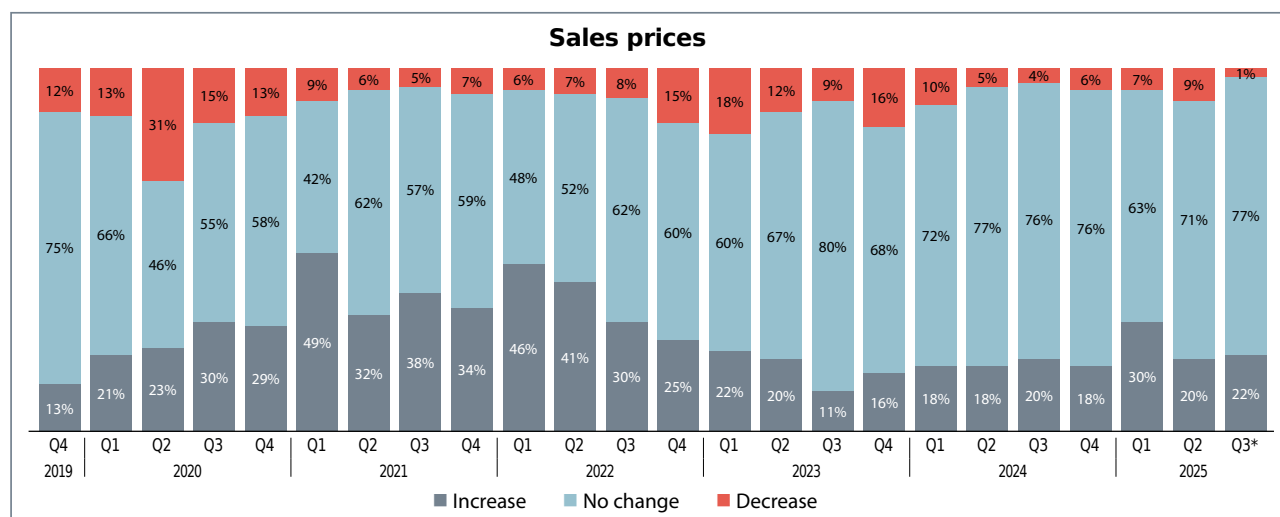
* Expectation.



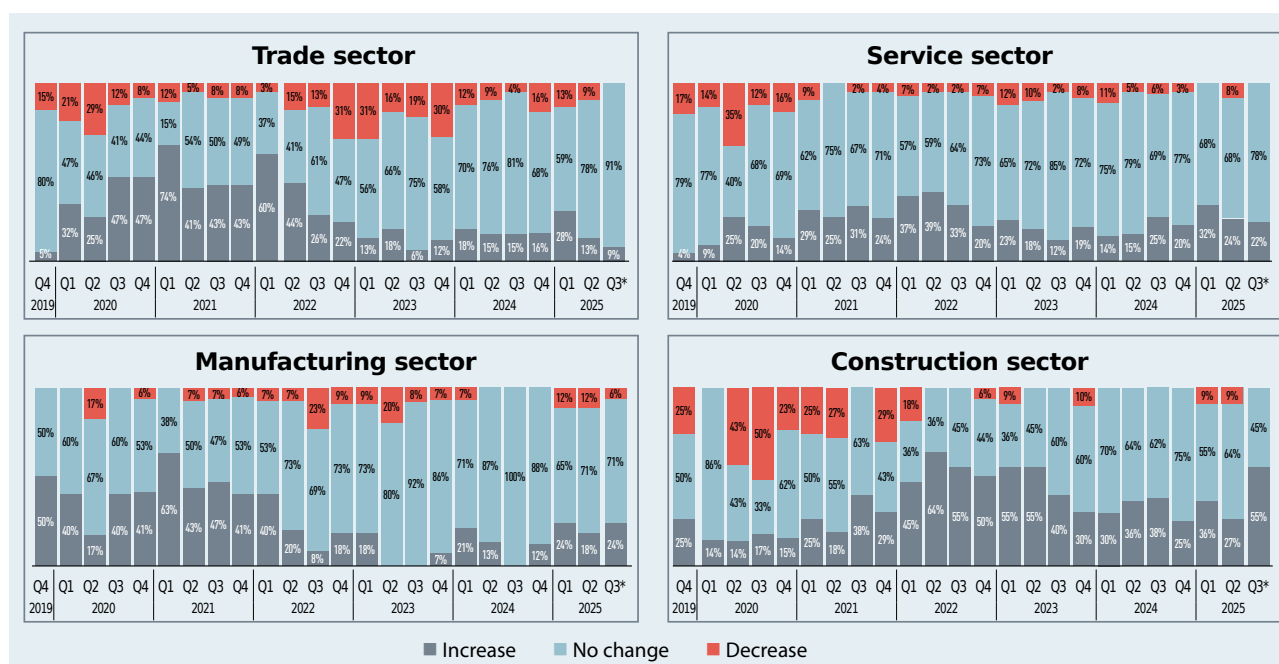
Graph 7: Sales, demand and domestic production in trade, service, manufacturing, and construction sectors

Sales Prices

- ✗ In Q2 of 2025, 20% of surveyed companies increased sales prices, and 22% of the companies expect the prices to rise in Q3 of 2025 (see Graph 8).
- ✗ Among sectors, in Q2 of 2025, the share of the companies that are increasing sales prices is the highest for the construction sector. Similarly, as for the expectations for Q3 of 2025, the highest share of companies predicting sales prices to increase was recorded also in the construction sector (see Graph 9).



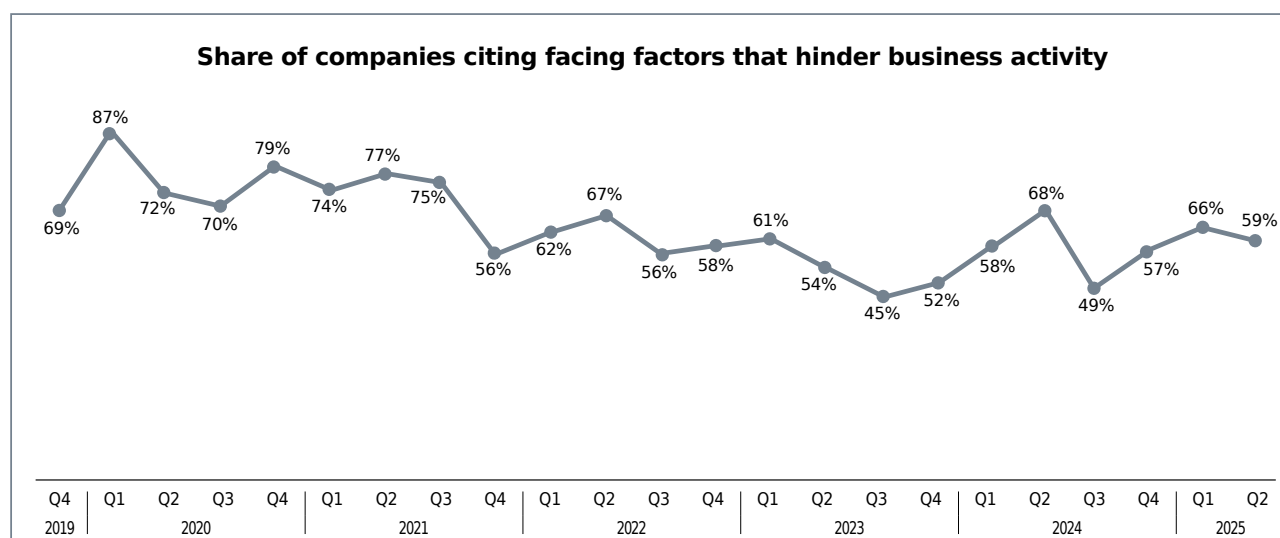
Graph 8: Sales prices in BAG member businesses and companies in their corporate group



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

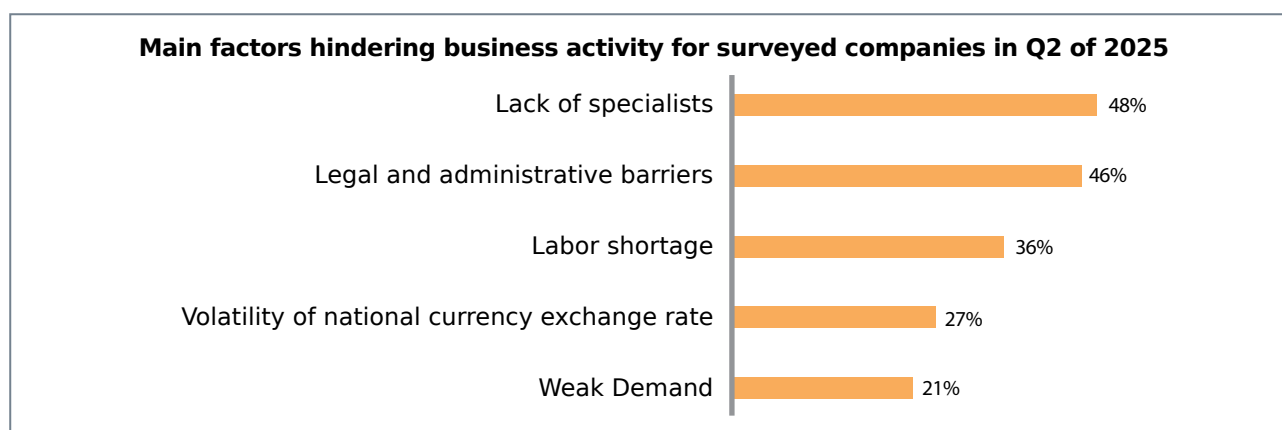
FACTORS HINDERING BUSINESS ACTIVITY

In Q2 of 2025, compared to Q1 of 2025, the share of surveyed companies claiming that there are factors hindering their business activity decreased by 7 percentage points.



Graph 10: Existence of factors hindering business activity

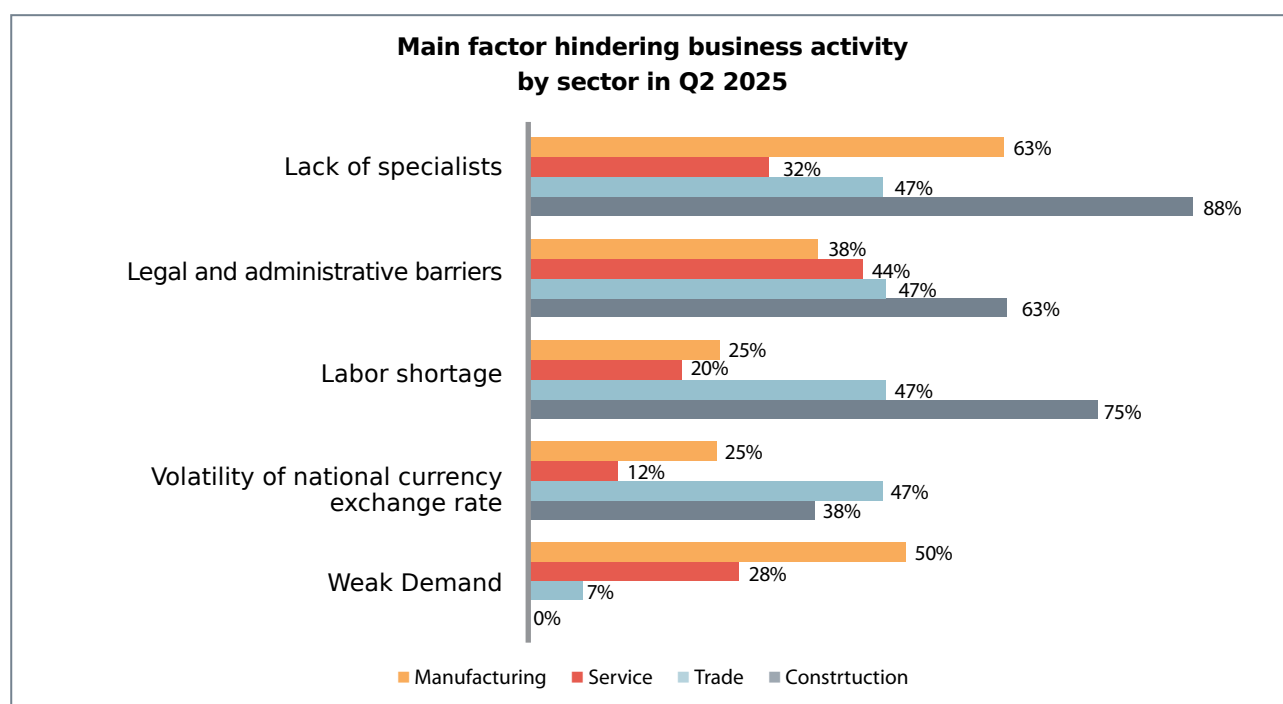
In Q2 of 2025, the following five factors were emphasized as the most hindering for business activity: lack of specialist, legal and administrative barriers, labor shortage, volatility of national currency exchange rate, and weak demand (see Graph 11).



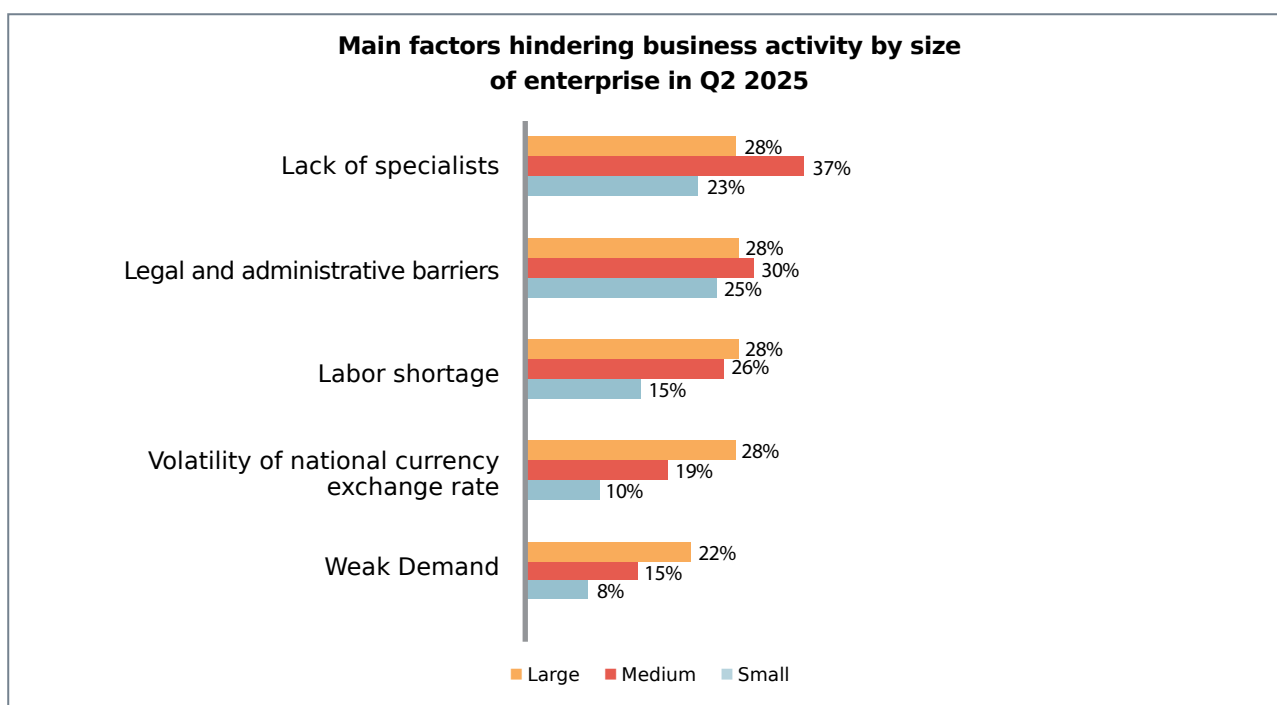
Graph 11: Main factors hindering business activity for surveyed companies in Q2 2025

By sector and enterprise size, in the second quarter of 2025:

- ✖ **The lack of specialists** is most hindering in the construction sector (88%) and medium-sized companies (37%).
- ✖ **Legal and administrative barriers** almost equally affect companies of all sizes, especially the construction sector (63%).
- ✖ **The lack of labor force** is most acute in the construction sector (75%), and is equally problematic for small and medium companies (26-28%).
- ✖ **The volatility of the national currency exchange rate** is especially problematic in the trade sector (47%) and for small businesses (28%).
- ✖ **The lack of demand** is most hindering in the manufacturing sector (50%), although this problem is not observed at all in the construction sector.



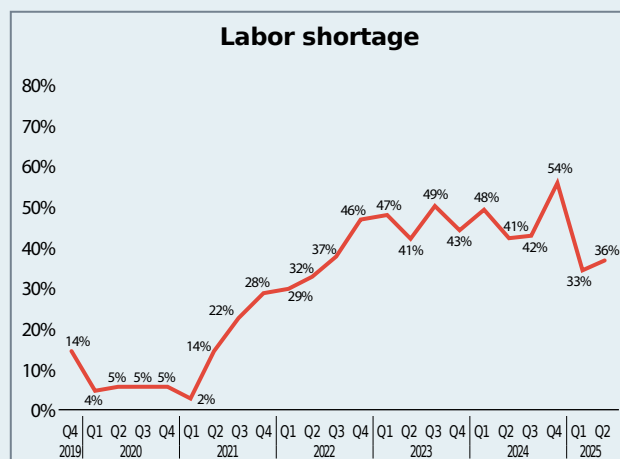
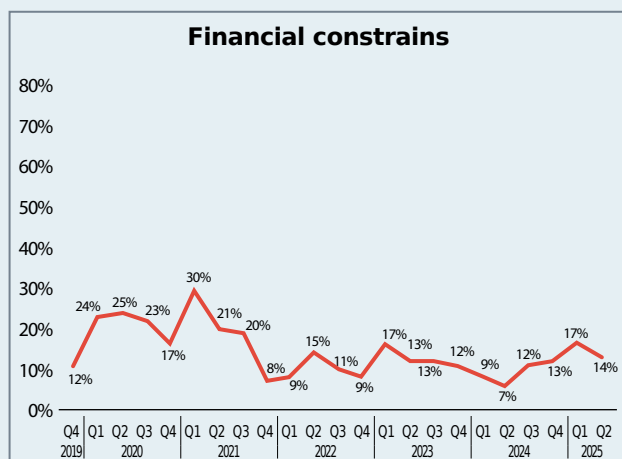
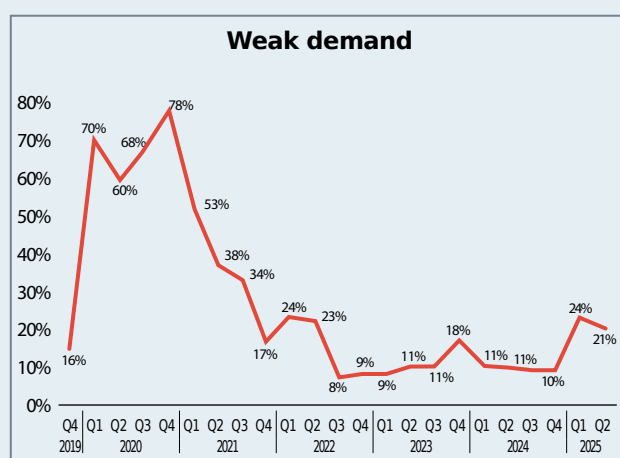
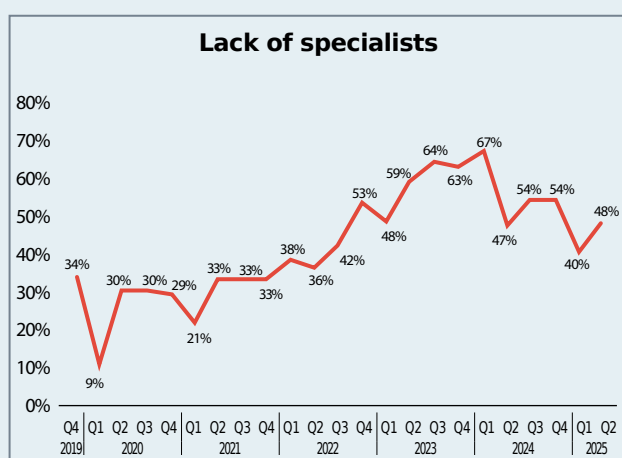
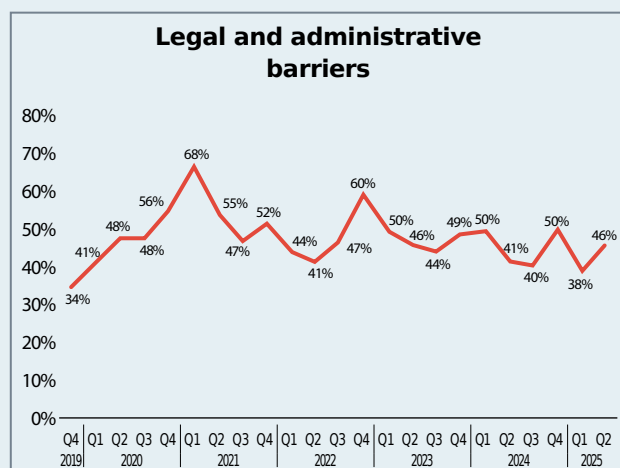
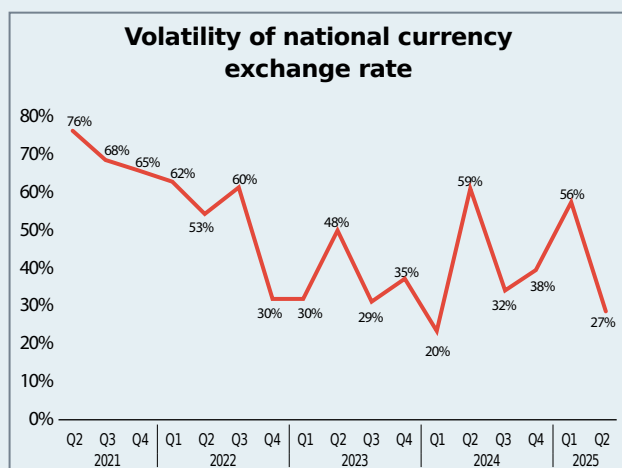
Graph 12: Main factors hindering business activity by sectors in Q2 2025



Graph 13: Main factors hindering business activity by the size of the enterprise in Q2 2025

In Q2 of 2025, compared to the previous quarter, among the factors hindering business activity, the share of companies citing the lack of specialists and the legal and administrative barriers increased the most (by 8 percentage points). Meanwhile, the share of companies citing the volatility of national currency exchange rate decreased the most (by 29 percentage points) (See Graph 14).

Hindering factors for business activity Q4 2019-Q2 2025



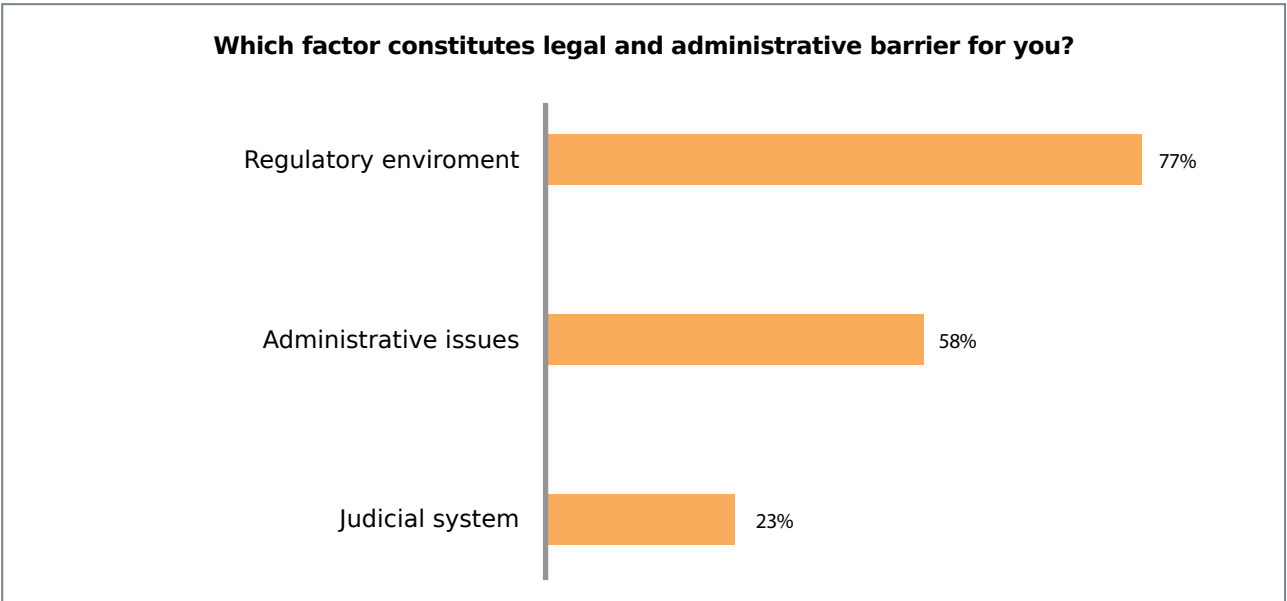
Graph 14: Main hindering factors for surveyed companies

The main factors determining legal and administrative barriers for business

In Q2 of 2025, 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 most cited as a hindering factor in the manufacturing sector, and least cited in the construction.

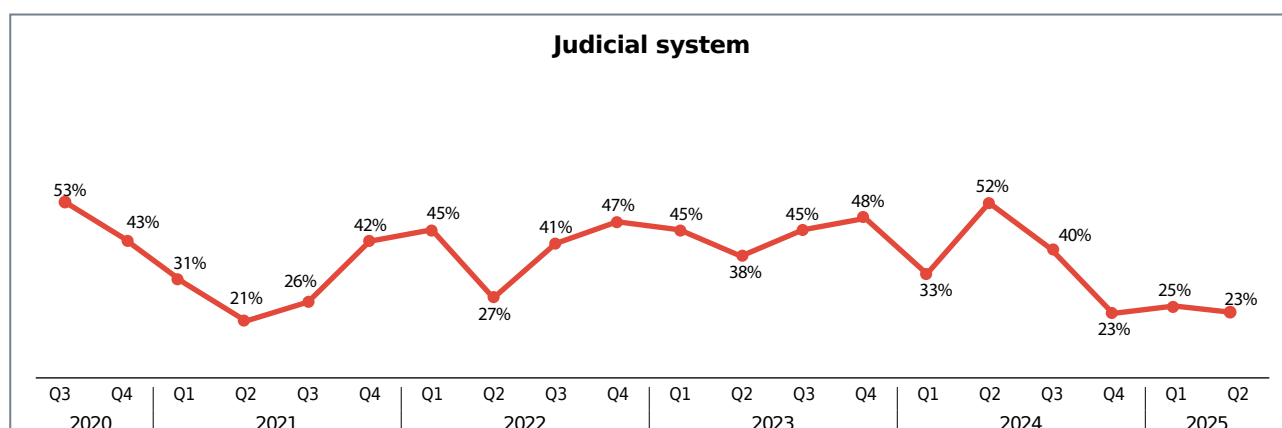
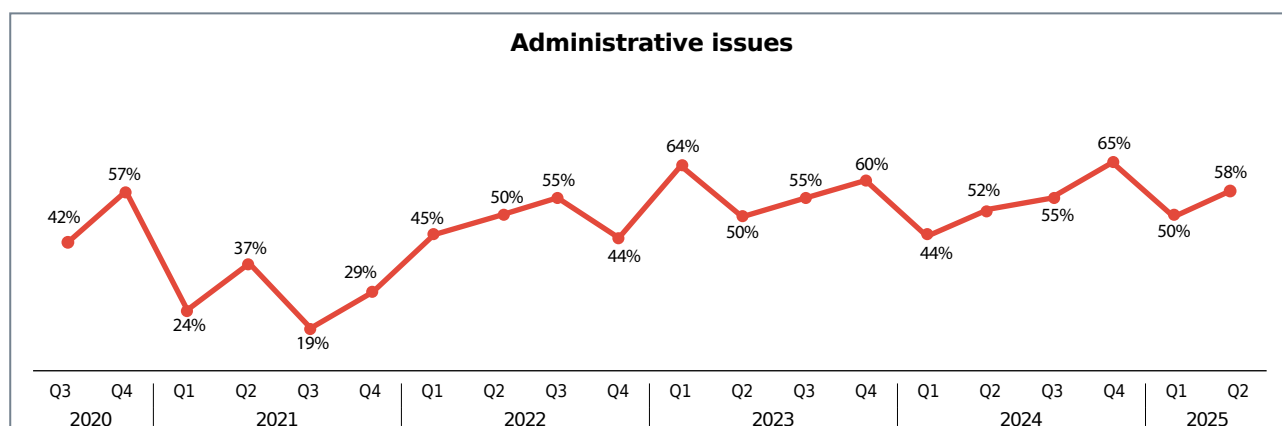
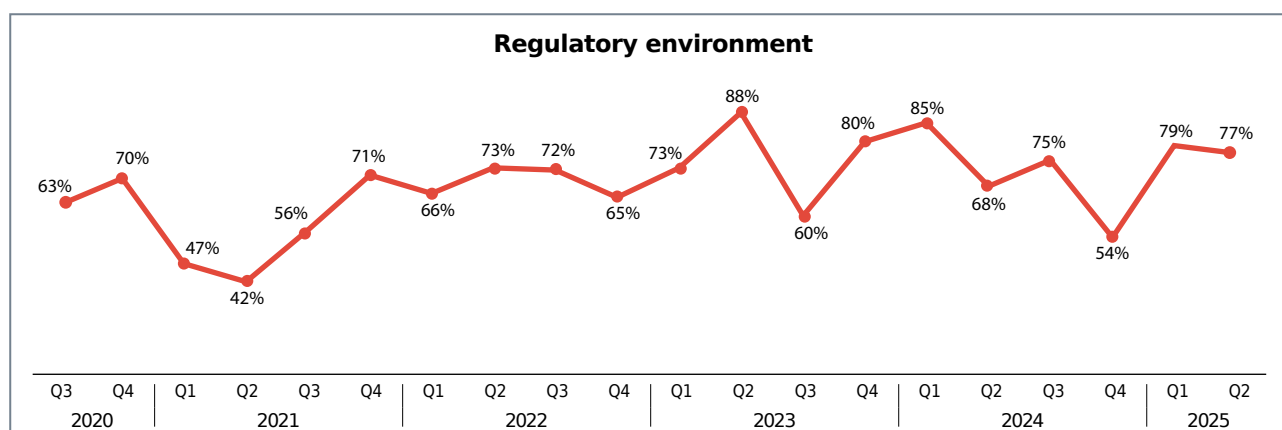
Among legal and administrative barriers, **administrative issues** were the second-most cited hindering factor. This was deemed the most hindering in the construction sector, while the least hindering for the manufacturing sector.

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



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

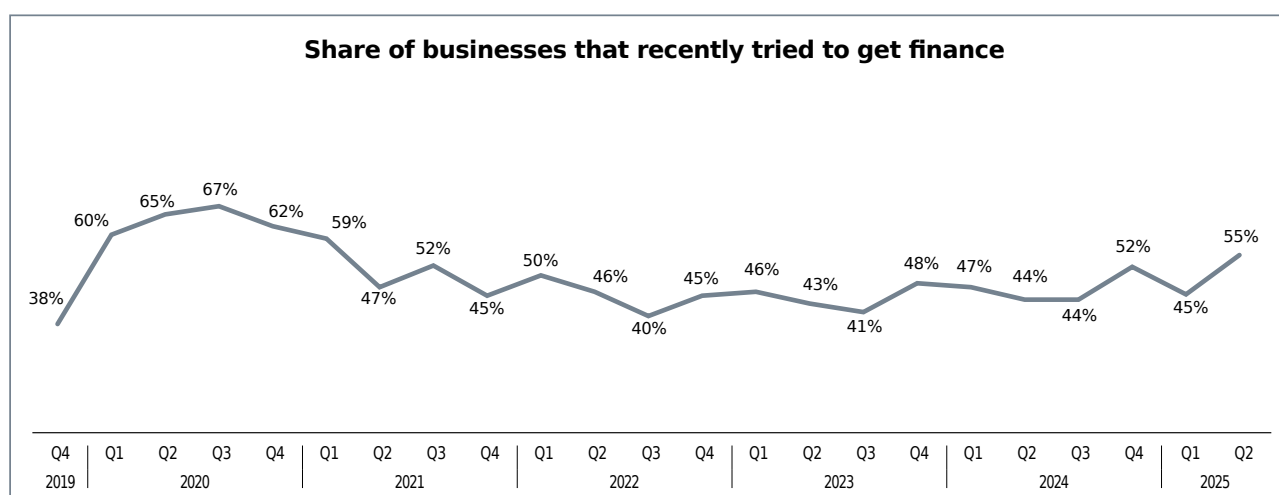
In summary, in Q2 of 2025, compared to the previous quarter, the share of companies to cite administrative issues as hindering factors increased (by 8 percentage points). Meanwhile, the share of companies to cite regulatory framework and judicial system as hindering factors decreased (by 2-2 percentage points).



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

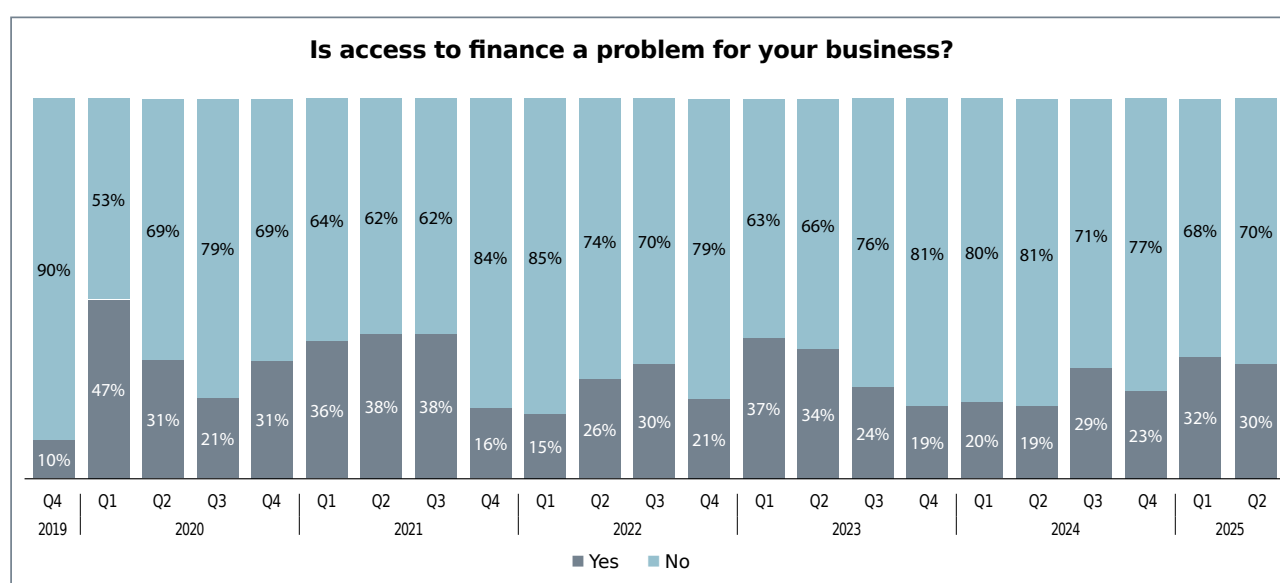
FINANCING

In Q2 of 2025, 55% of surveyed companies claimed to have recently tried to obtain finance, which is 10 percentage points higher than the figure recorded in the previous quarter (see Graph 17). By enterprise size, large (60%) and medium (56%) enterprises tried to get finance more often than small enterprises (38%).



Graph 17: Businesses that recently tried to get finance

In Q2 of 2025, 30% 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 2 percentage points) than that of the previous quarter (see Graph 18). The problem of accessing finance was observed more frequently in medium enterprises (33% of those that tried to obtain finance) and relatively less in small and large (29-29%) enterprises.

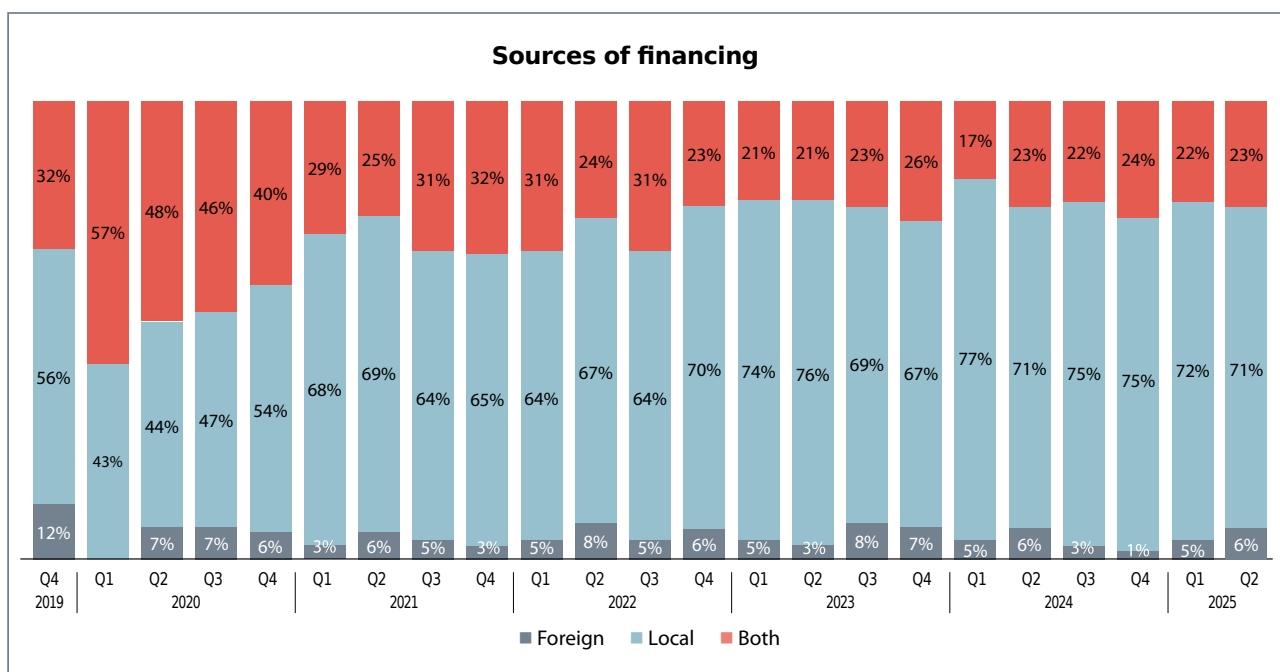


Graph 18: Access to finance⁵

Regarding sources of financing⁶, in Q2 of 2025, the majority of surveyed companies stated that they were financed by local sources (77%). The share of companies stating that they were financed by foreign sources increased by 1 percentage points in Q2 of 2025, compared to the previous quarter, and reached 6%.

⁵ The question was only answered by those companies that stated they had recently sought finance.

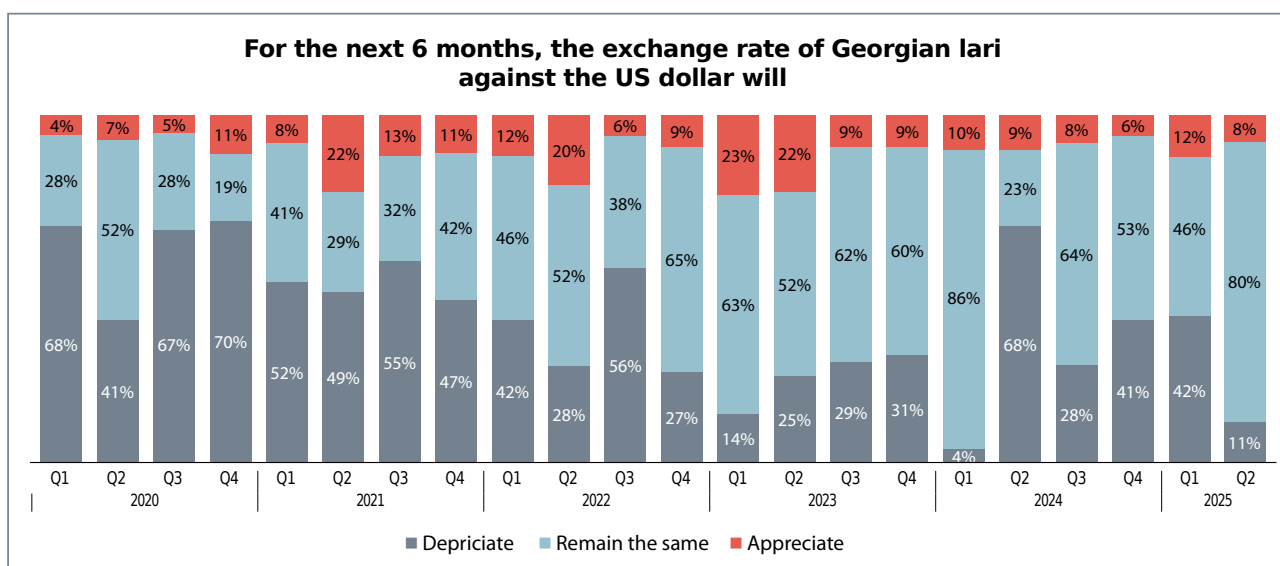
⁶ The change in methodology in Q1 of 2021 (the increase in the number of surveyed companies) altered the financing structure. This methodological change did not affect significantly any other indicators.



Graph 19: Sources of financing

EXCHANGE RATE EXPECTATIONS

In Q2 of 2025, most of the surveyed companies (80%) do not expect any change in the exchange rate of the national currency against the US Dollar over the next 6 months. Meanwhile, 11% of companies expect the national currency to depreciate, and 8% expect it to appreciate. In Q2 of 2025, compared to Q1 of 2025, the share of companies expecting that the national currency exchange rate would remain the same throughout the next 6 months increased (by 34 percentage points), while the share of companies expecting that the national currency would depreciate against the US Dollar decreased by 30 percentage points.

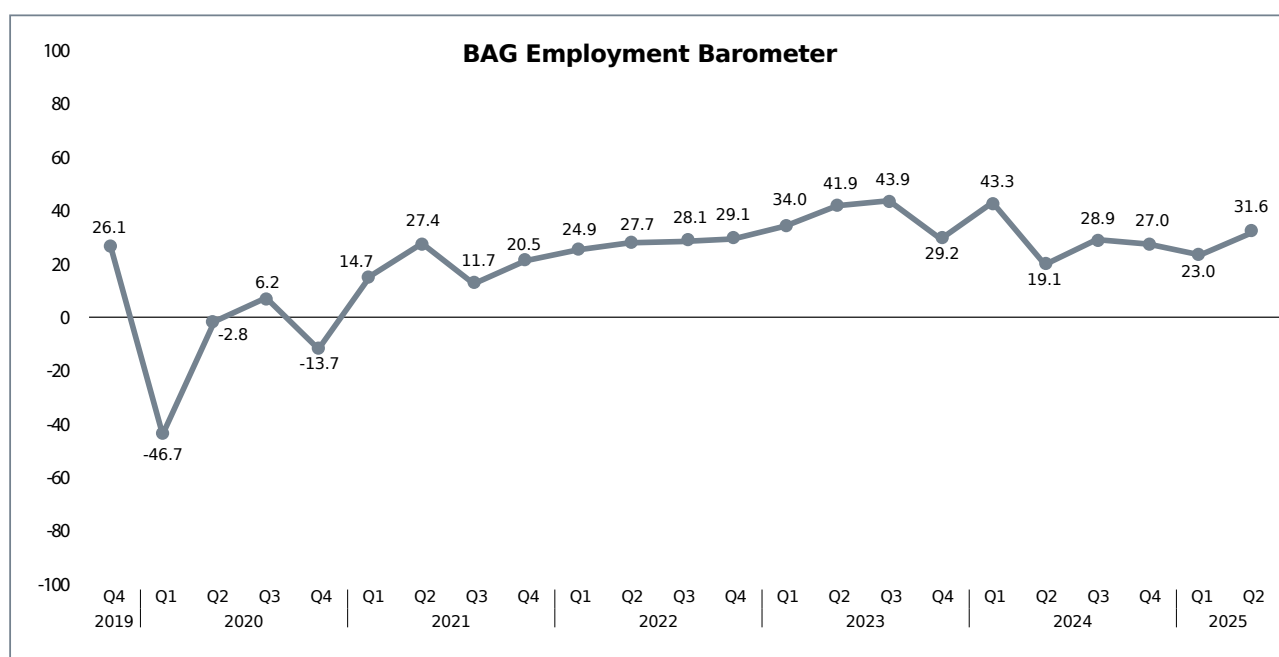


Graph 20: The exchange rate of the Georgian Lari against the US Dollar

BAG EMPLOYMENT BAROMETER

The BAG Employment Barometer reflects companies' expectations regarding changes in employment in the next three months.⁷

IN Q2 OF 2025, THE SURVEYED BUSINESSES GENERALLY HAD A POSITIVE OUTLOOK REGARDING EMPLOYMENT FOR THE NEXT THREE MONTHS. THE BAG EMPLOYMENT BAROMETER AMOUNTED TO 31.6 POINTS, MARKING AN INCREASE OF 8.6 POINTS COMPARED TO Q1 OF 2025 AND 12.5 POINTS COMPARED TO Q2 OF 2024.



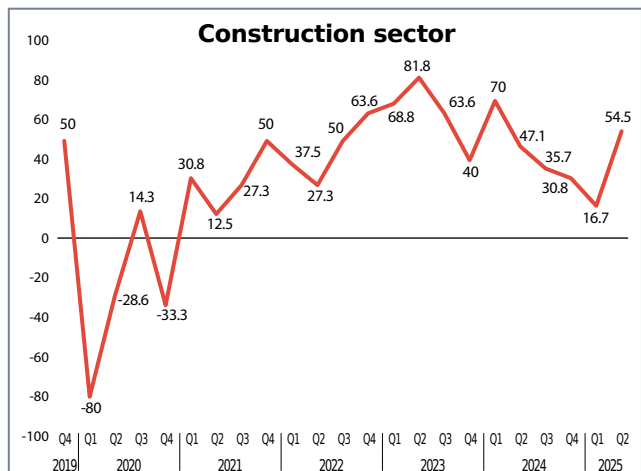
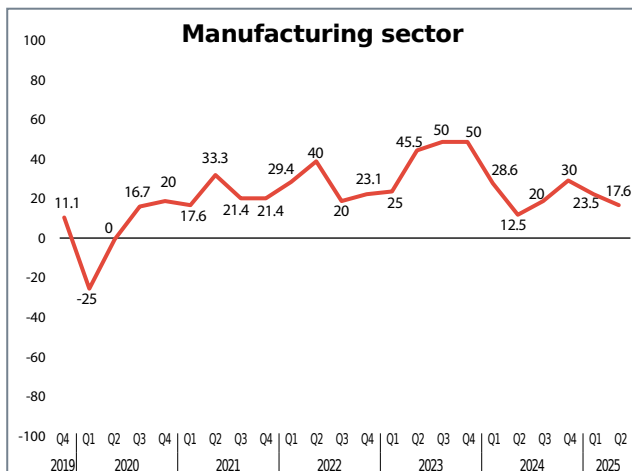
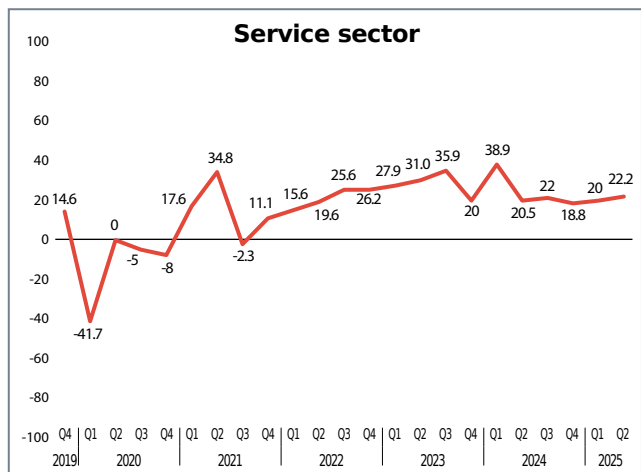
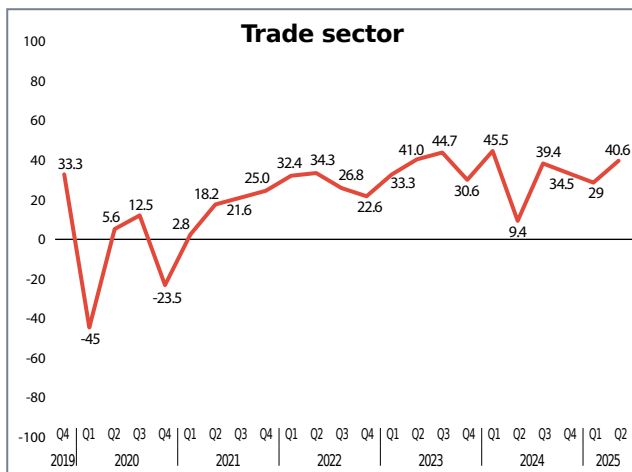
Graph 1: BAG Employment Barometer

In Q2 of 2025, the BAG Employment Barometer was positive for all sectors. In Q2 of 2025, compared to Q1 of 2025, the employment barometer indicator increased in construction (by 37.8 points), trade (by 11.6 points) and service (by 2.2 points) sectors, but decreased in the manufacturing sector (by 5.9 points) (see graph 2).

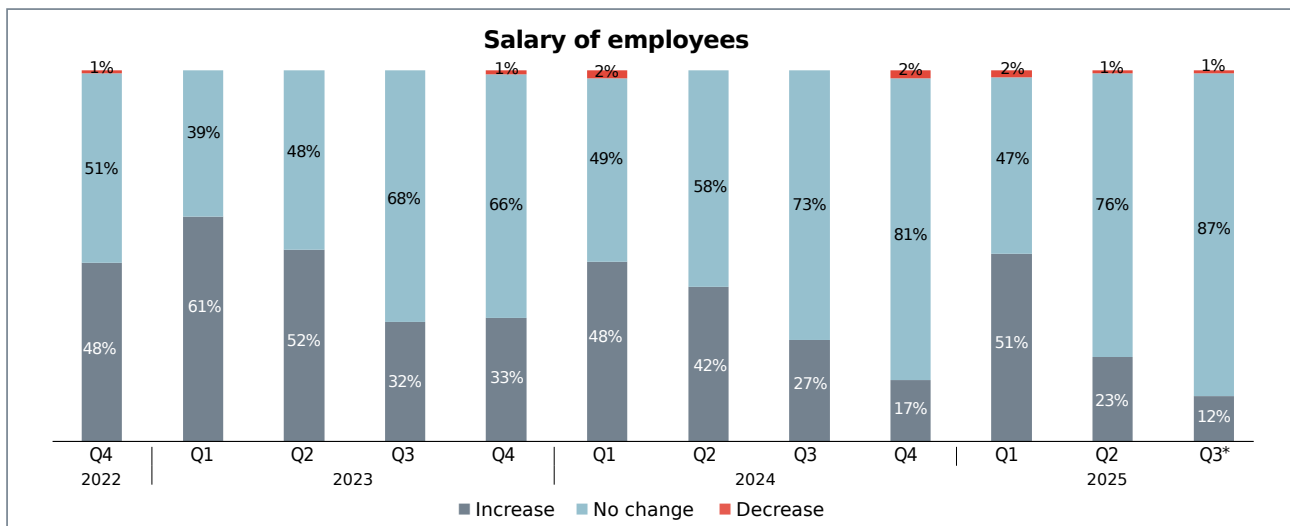
⁷ Respondents could describe their plans regarding the number of employees for the next three months as "increasing," "stable," or "decreasing". The balance value of these plans is the difference in the percentage shares of the "increasing" and "decreasing" responses. The BAG Employment Barometer is 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.

Table 2: Employment Barometer. Balance values by sector

Sector	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Trade	33.3	-45	5.6	12.5	-23.5	2.8	18.2	21.6	25.0	32.4	34.3	26.8	22.6	33.3	41.0	44.7	30.6	45.5	9.4	39.4	34.5	29.0	40.6
Service	14.6	-41.7	0	-5	-8	17.6	34.8	-2.3	11.1	15.6	19.6	25.6	26.2	27.9	31.0	35.9	20.0	38.9	20.5	22.0	18.8	20.0	22.2
Manufacturing	11.1	-25	0	16.7	20	17.6	33.3	21.4	21.4	29.4	40.0	20	23.1	25.0	45.5	50.0	50.0	28.6	12.5	20.0	30.0	23.5	17.6
Construction	50	-80	-28.6	14.3	-33.3	30.8	12.5	27.3	50.0	37.5	27.3	50	63.6	68.8	81.8	63.6	40.0	70.0	47.1	35.7	30.8	16.7	54.5
BAG	26.1	-46.7	-2.8	6.2	-13.7	14.7	27.4	11.7	20.5	24.9	27.7	28.1	29.1	34.0	41.9	43.9	29.2	43.3	19.1	28.9	27.0	23.0	31.6

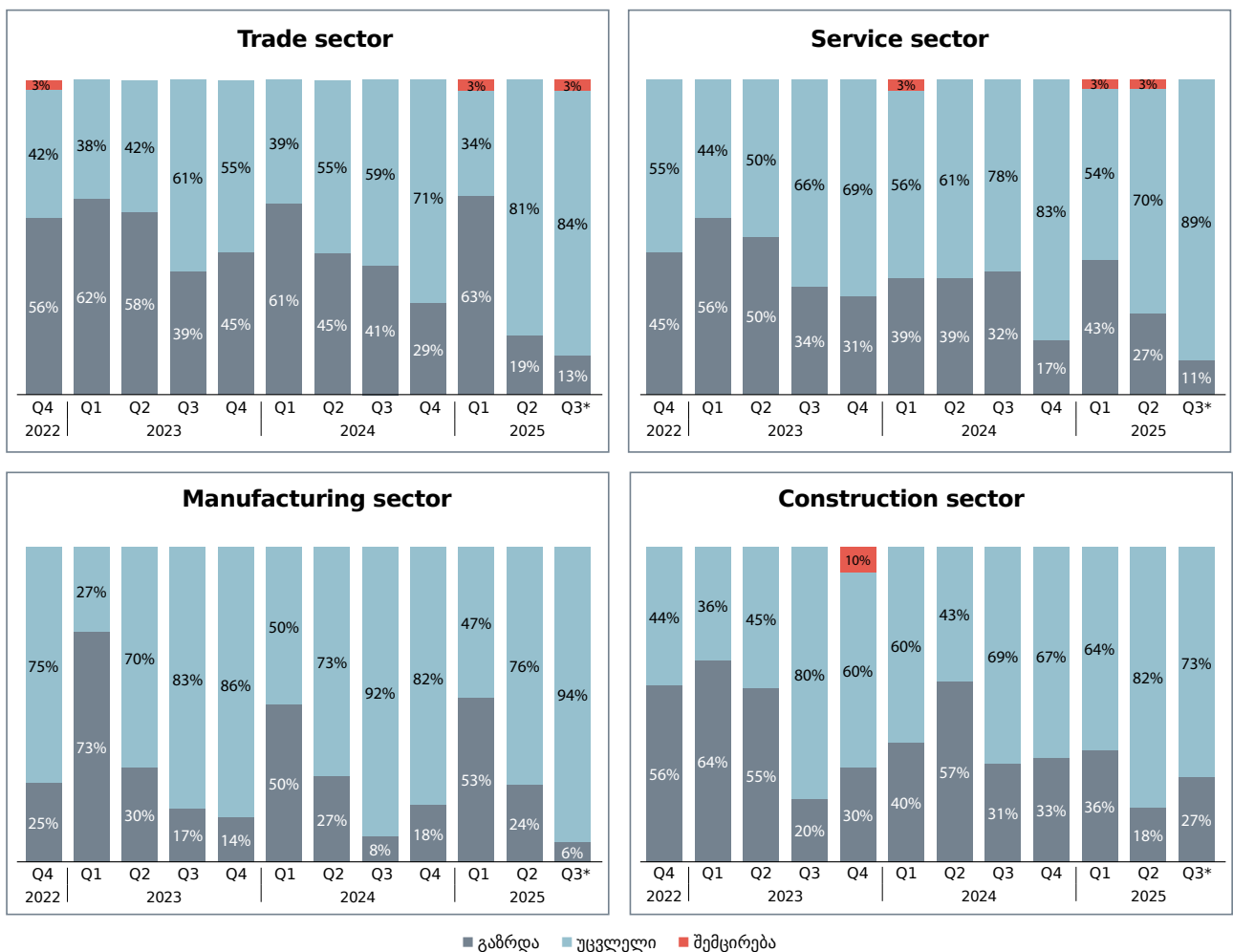
**Graph 2:** BAG Employment Barometer by sector

When examining employment, it is imperative to analyze the employee compensation dynamics in the process. The survey results revealed that 23% of companies raised employees' salaries in Q2 of 2025, which is significantly lower compared to the previous quarter and the corresponding quarter of the previous year. In Q3 of 2025, 12% of companies plan to increase employees' salaries. (see graph 3).



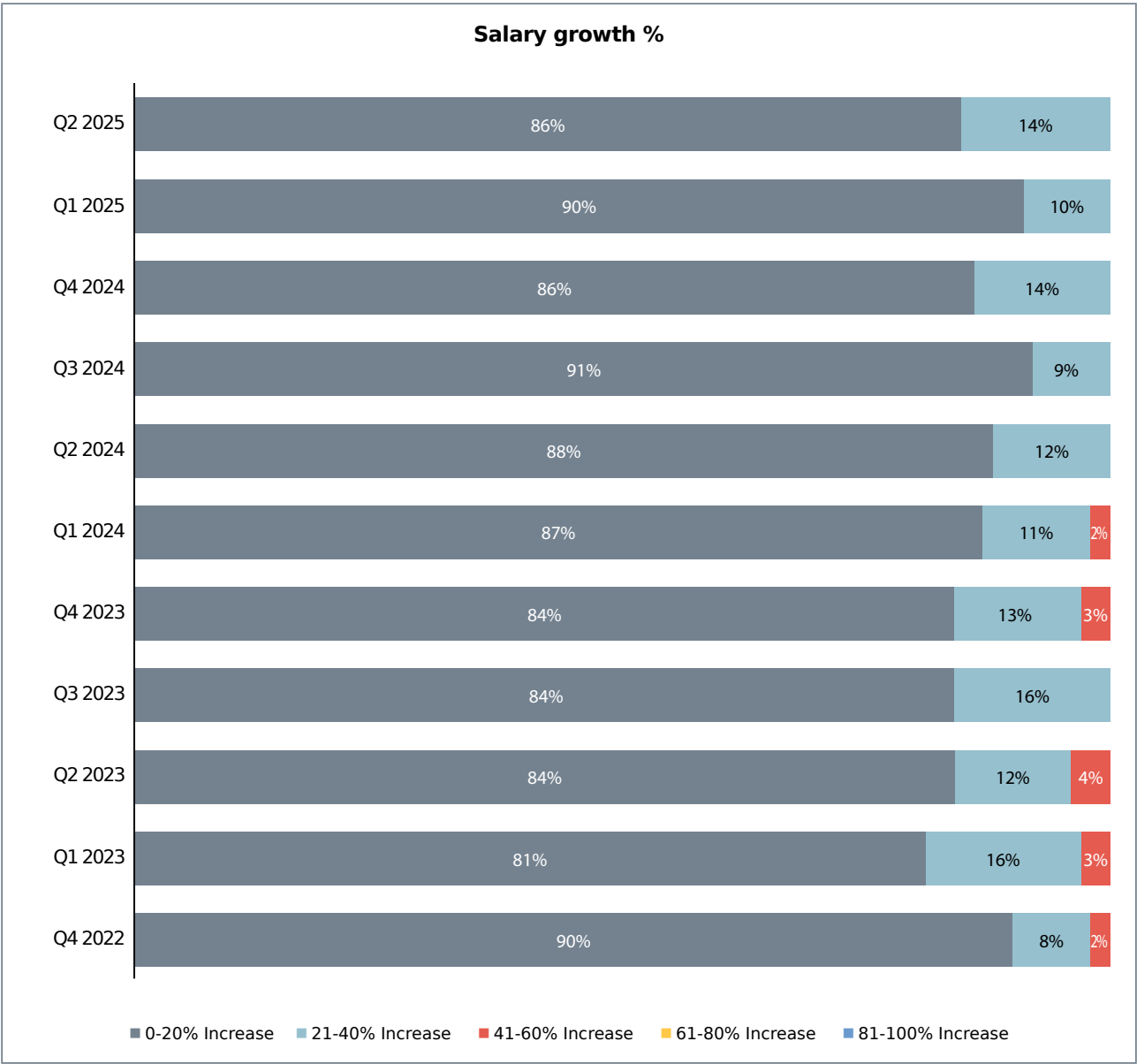
Graph 3: Salary of employees

By sector, in Q2 of 2025, the largest share of companies in the service sector (27%) recorded an increase in the salaries of employees. In Q3 of 2025, the largest share of companies planning to increase the wages of employees was recorded in the construction sector (27%) (see Graph 4).

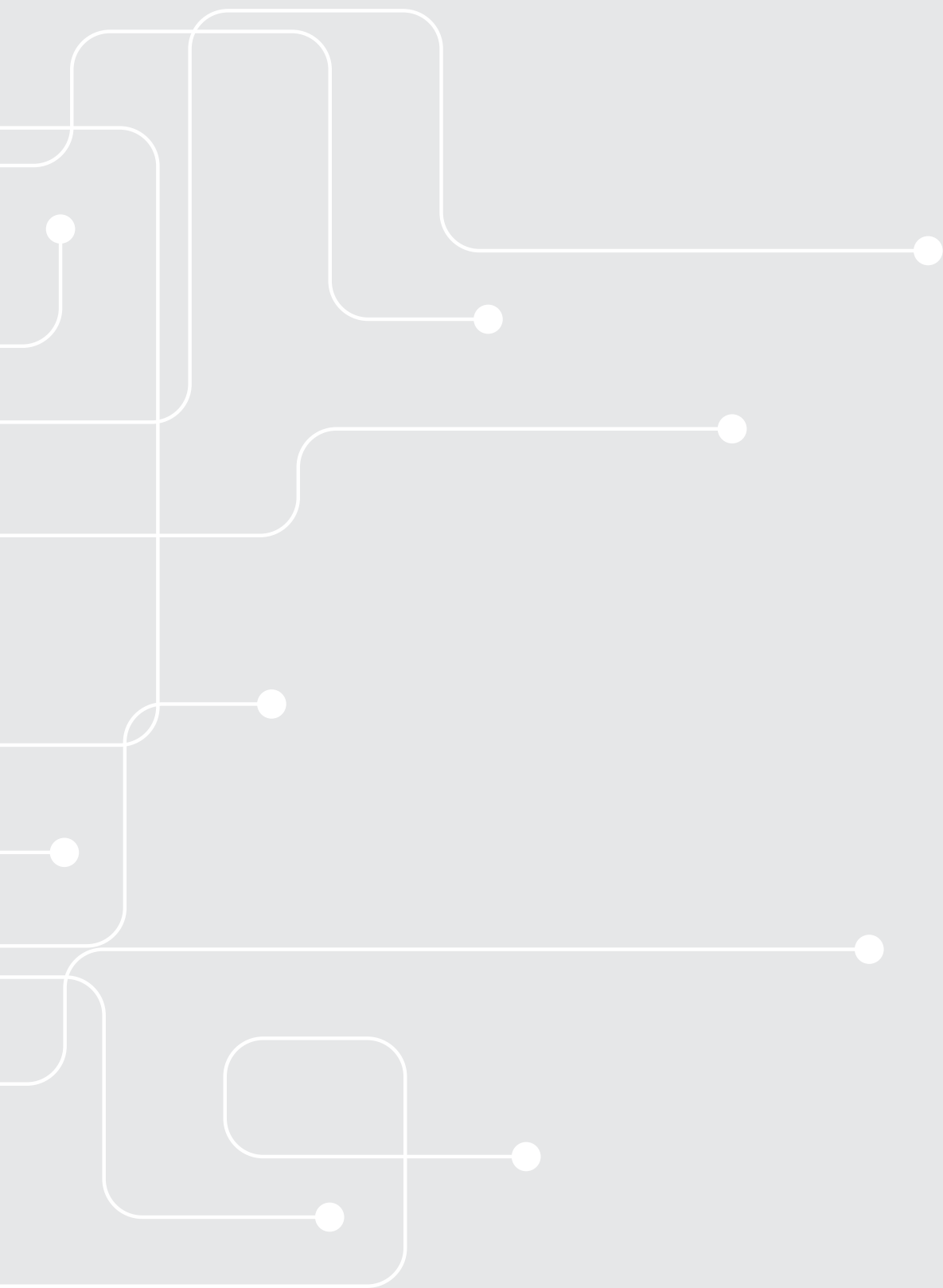


Graph 4: Salary of employees in trade, service, manufacturing, and construction sectors

In Q2 of 2025 most surveyed companies (86%), who increased the salaries of their employees, increased the salaries of their employees by 0-20%. Meanwhile, 14% of the surveyed companies increased the salaries of their employees by 20-40%.



Graph 5: Growth (%) of salary of employees



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