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ARMENIA

End of the Gold Rush: Armenia Experiences Sharp Investment Decline

Armenia is seeing a sharp decline in foreign investment. According to the Statistical Committee, net foreign investment inflows amounted to around 48bn drams ($125m) in the first half of 2025. By comparison, the figure stood at 107.2bn drams ($279m) in the same period of 2024.

The downturn is largely attributed to a major capital outflow from Russia — estimated at 55.1bn drams (about $143m) in the first half of this year. Direct investment from Russia also fell by roughly 27bn drams ($70m). A year earlier, both indicators were positive — 10.2bn drams ($26.6m) and 8.7bn drams ($22.6m) respectively.

The investment statistics also reflect payments for goods and services. With trade between Armenia and Russia declining — mainly due to a fall in the re-export of gold — overall figures have been negatively affected. Meanwhile, the drop in direct investment is believed to be linked to reduced activity by Russian IT companies that previously operated in Armenia.

Armenia became a key hub for re-exporting Russian gold to markets such as the UAE and Hong Kong in 2022–2024 — a workaround to Western sanctions on Russian precious metals. The practice fueled a surge in Armenian export data, though the goods were not linked to domestic production. Armenia has also acted as an intermediary for shipping sanctioned goods back to Russia.

These re-exports drove the country's rapid economic growth in 2022 and 2023. However, growth slowed in 2024, and the latest data suggests a continued slowdown this year as Armenia scales back gold-related operations under Western pressure.

According to the World Bank, by April 2024 gold and diamonds accounted for more than 70–80% of all Armenian exports — compared with 24% a year earlier. At the same time, exports in other sectors — including agriculture, logistics and manufacturing — declined. The massive influx of foreign currency contributed to the dram's appreciation, eroding the international competitiveness of Armenian goods.

With these revenue streams now shrinking, Armenia's underlying economic vulnerabilities have become more visible, including a shortfall in tax revenues in 2024, weakened real-sector performance and a lack of a sustainable foundation for long-term growth. As a result, the government budget deficit for 2025 is projected at 5.5% of GDP, or around 600bn drams ($1.56bn).

Politics

Armenian Truck Drivers Block Border Checkpoints Over Russian Entry Rules

Lorry drivers in Armenia have blocked roads at the Bavra, Bagratashen and Gogavan checkpoints on the border with Georgia. The drivers had earlier staged protests outside the government building in Yerevan and then the Russian Embassy, calling on the authorities to secure a relaxation of Russian entry restrictions, similar to measures agreed between Kazakhstan and Moscow.

On January 1, 2025, amendments to Russia's Federal Law No.115 "On the Legal Status of Foreign Citizens" came into force, limiting the duration of stay for citizens of visa-free countries. Under the new rules, foreign nationals entering Russia without a work permit — if "employment" is not stated on their migration card — may remain in the country for no more than 90 days in a calendar year.

Armenian truck drivers say lengthy delays and bottlenecks at the Upper Lars checkpoint on the Russian–Georgian border are forcing them to overstay this limit, resulting in their names being added to a registry of violators.

The dispute has highlighted emerging frictions in Armenia–Russia relations. While Kazakhstan has successfully negotiated exemptions for its transport operators, Yerevan has so far failed to secure comparable concessions. This is despite Armenia, Kazakhstan and Russia being members of the Eurasian Economic Union, which in principle is designed to streamline customs, border and migration procedures among its participants.

Economy

Tourism on the Rise: Armenia Sets Sights on 3 Million Visitors

Armenia is experiencing a tourism boom, with visitor numbers rising in the first eight months of 2025 compared with the previous year. According to the Tourism Committee, 1,734,247 tourists arrived in the country between January and August — an increase of 13,002 on the same period in 2024, when 1,721,245 visitors were recorded.

Tourism is considered a strategic sector of Armenia's economy. Large-scale projects are currently under way, including a loan agreement with the European Bank for Reconstruction and Development to develop tourism clusters across seven regions. Key destinations include Yerevan, mountain resorts such as Tsaghkadzor, Dilijan and Jermuk, along with major cultural and natural heritage sites.

The government has approved a tourism development strategy for 2026–2030. Under the plan, Armenia aims to boost international tourist arrivals by 10% annually, targeting around 3 million visits by 2030. The authorities expect annual tourism revenues to reach $3bn as a result.

In parallel, the government is working to diversify its tourism markets and liberalise visa regulations. Visa requirements have been lifted for Chinese citizens and simplified for visitors from India — measures designed to attract new inflows from Asia.

Low-cost airline Wizz Air has also launched eight new routes from Armenia to six countries: Italy (Naples and Bari), Germany (Memmingen and Hamburg), Cyprus (Paphos), France (Nice), the Czech Republic (Prague) and Hungary (Budapest). The expansion of air connections is seen as a major driver of growth, opening fresh opportunities for the sector.

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Demographics

Armenia Faces Population Decline as Emigration and Low Birth Rates Persist

Armenian experts are sounding the alarm over the country's shrinking population. Economist Suren Parsyan warns that unless urgent measures are taken, Armenia's population could fall below 2.5 million by 2040 if current trends continue.

Parsyan cites severe socio-economic difficulties and a fragile security environment as the main drivers of emigration. He argues that the government must prioritise policies aimed at keeping citizens in the country and integrating returning migrants.

He says this requires sustainable socio-economic programmes, guarantees of basic security and stronger incentives for families to have children.

According to the National Statistics Service, 20,437 babies were born in Armenia between January and August 2025 — 1,439 fewer than in the same period in 2024, when 21,821 births were recorded. Over the same period, deaths increased by 138 year-on-year, rising to 17,210 in 2025 from 17,027 a year earlier.

Low birth rates and mass emigration — driven by poverty, unemployment and uncertainty about the future — continue to weigh heavily on Armenia's demographic outlook. The human losses sustained during the 44-day war also remain a significant factor.

In October 2024, the government approved a demographic programme that includes a package of measures to improve the environment for family development, reduce mortality risks and promote healthier lifestyles. It also places special emphasis on ensuring dignified and active ageing, curbing emigration and retaining high-skilled workers.

However, the programme has yet to demonstrate any tangible improvement in the country's demographic situation.

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AZERBAIJAN

Initialing a Peace Agreement at the White House

In the aftermath of the 44-day war in 2020, Azerbaijan proposed launching peace talks with Armenia based on five core principles. But in the early stages, there was little progress—no draft document, no meaningful breakthrough. Negotiations proceeded through various mediators, yet none of these tracks delivered tangible results.

Eventually, the two sides shifted to direct, mediator-free talks. Once they did, the pace changed dramatically. Within a short time, the parties advanced significantly, even preparing a full draft peace treaty that was agreed upon article by article.

But a peace treaty is not an end in itself—it is a means. History has seen many treaties that merely paved the way for future wars. The goal is not the act of signing, but achieving a real and lasting peace. Seen through this lens, what follows after the agreement becomes more important than the document itself.

For this particular peace to hold, three conditions are essential:

- Both sides must be certain that no territorial claims exist between them.

- The OSCE Minsk Group—established to address a now-defunct conflict—must be formally dissolved.

- Regional connectivity must be restored, including an unimpeded transport link between mainland Azerbaijan and its exclave, Nakhchivan.

Without meeting these requirements, any agreement would remain incomplete and potentially fragile. Lasting peace means resolving all outstanding issues and removing any “hidden mines” that could ignite future tensions. If sources of grievance or uncertainty remain, a peace treaty risks becoming merely a pause—a window to prepare for the next conflict. Azerbaijan, for its part, wanted to avoid such an outcome.

What, then, had prevented progress on these three fronts? A missing “geopolitical ingredient”—a mediator trusted by both sides, capable of guaranteeing that a signed agreement would actually be implemented. With the United States joining the process, that gap was finally filled.

On August 8, in Washington, the President of Azerbaijan and the Prime Minister of Armenia initialled the peace agreement in the presence of Donald Trump. This marked the beginning of the post-agreement phase. One of the key issues was resolved immediately: the parties submitted a formal request to the OSCE for the dissolution of the Minsk Group. And on December 1, the Minsk Group officially ceased operations.

Another critical issue concerns Armenia’s Constitution, which contains an implicit territorial claim against Azerbaijan. The preamble refers to the 1990 Declaration of Independence, a document that calls for the incorporation of the former Nagorno-Karabakh Autonomous Region into Armenia. This establishes a clear territorial claim, preserved at the constitutional level.

Removing the constitutional reference to the Declaration has therefore become necessary. Otherwise, Armenia's legal foundations appear to rest on a claim to Azerbaijani territory. Baku expects that Yerevan will renounce such claims within a legal framework, and the issue is likely to be addressed through a national referendum.

Meanwhile, the restoration of transport links between Azerbaijan and Nakhchivan is set to be achieved through the construction of a corridor known as TRIPP. With Washington's renewed engagement—and Trump's personal involvement—the long-stalled peace process has begun moving forward at full speed.

This event marks the beginning of a new era of cooperation in the region. The restoration of relations among the countries of the South Caucasus promises great opportunities for realizing the region's geographic potential. A reduction in risks will be accompanied by an acceleration of development across the entire region. Interested external forces will no longer view Azerbaijani-Armenian tensions as a geopolitical tool for interfering in regional processes.

Also on August 8, Azerbaijan and the United States signed another document in Washington: a memorandum establishing a Strategic Working Group to prepare a Strategic Partnership Charter. With this step, Azerbaijan formally positions itself as a strategic partner of the United States in the South Caucasus—an unmistakable signal about the direction of the country's future development.

Logistics evolution

At the heart of the peace process launched during the Washington talks lies the development of the Zangazur corridor, with its section passing via Armenia now known as TRIPP. Armenia has agreed to implement its portion of the project together with a U.S. company, and intensive negotiations on this front are already under way.

The Middle Corridor, which connects China to Europe, currently has an annual freight capacity of around 6 million tonnes—or roughly 100,000 containers. This figure is steadily increasing. The reason is clear: in recent years, logistics infrastructure along the Middle Corridor has been rapidly upgraded, reducing delivery times from 38–53 days to just 19–23 days. The target is to cut this even further to 15 days. For comparison, maritime transport between China and Europe takes 30–45 days. Unsurprisingly, the Middle Corridor is becoming increasingly attractive. Some estimates suggest that the Zangazur corridor could shorten transit times even further—to as little as 12 days.

Freight volumes along the route have grown more than fivefold in the past four years. If this pace continues, container transit along the Central Trans-Caspian Route could reach 11 million tonnes by 2030. Against this backdrop, the Zangazur corridor takes on global importance.

For it to function, the sections passing through Azerbaijan, Türkiye and Armenia all need to be constructed.

On the Azerbaijani side—the eastern segment—much of the work is already complete. The Horadiz–Aghband railway is approaching inauguration. The project includes nine stations, 40 bridges, 26 overpasses and four tunnels. A high-speed motorway linking Horadiz and Aghband, built by Turkish companies, is also nearly finished. By financing the initial phase entirely on its own, Azerbaijan signals its full confidence in the success of the Zangazur corridor.

Türkiye, meanwhile, is constructing the western segment. Work has begun on the 224-kilometre Kars–Dilucu railway, scheduled for completion in 2029. Once operational, travel from Kars to the Azerbaijani border will take just 1 hour 25 minutes. The line will support passenger trains travelling at up to 160 km/h.

The project is backed by $2.8 billion in investment, provided by a consortium of international lenders—including export credit agencies from Japan, Sweden and Austria, as well as the Islamic Development Bank.

The new route is set to dramatically transform the region's logistics map: Kars will become a major freight gateway; Igdir will emerge as a commercial hub; and Aralik and Dilucu will serve as strategic transit points. Annual freight capacity is expected to reach 15 million tonnes, with passenger volumes at 5.5 million people. The line will also integrate with the existing Baku–Tbilisi–Kars railway.

As for the Armenian segment, the United States has already announced an initial loan of $145 million. At just 42 kilometres in length, it will require relatively little time and funding to complete.

Altogether, these developments make it entirely realistic for the corridor to be fully operational by 2030.

Geopolitics

Azerbaijan at Peace Summit on Gaza

When President Ilham Aliyev attended the peace conference that brought an end to Israel's military operations in the Gaza Strip last October, his presence offered important clues about how regional diplomacy may evolve in the months ahead. The invitation was extended personally by U.S. President Donald Trump and Egypt's President Abdel Fattah al-Sisi — and it was not without reason.

First, Azerbaijan's geopolitical weight in the Middle East has been steadily increasing. Baku maintains close relations with Türkiye, Israel and the Arab world alike, giving it a unique position in a region where few actors can engage all sides at once. Recent momentum in relations with Qatar and the United Arab Emirates has further strengthened Azerbaijan's role.

Added to this is the part Azerbaijan is playing — and is expected to play — in Syria's reconstruction. Gas exports from Azerbaijan to Syria have already begun.

Second, Washington wants Azerbaijan to participate in maintaining future peace in Gaza. Azerbaijan has taken part in multiple peacekeeping missions, both under NATO command and alongside U.S. forces, most notably in Afghanistan and Iraq. Azerbaijani troops were responsible for securing strategic facilities in both countries and fulfilled their missions successfully.

This experience positions them as a credible contributor to future peacekeeping arrangements in Gaza.

Third, due to tensions between Israel and Türkiye, Israel opposes the deployment of Turkish peacekeepers in Gaza. Türkiye, however, insists that it must have a role in post-war arrangements. In this context, deploying Azerbaijani peacekeepers under an international mandate could help defuse tension. Baku has considerable experience mediating between Türkiye and Israel in the past; this time, it may play that role in a different form.

Fourth, both the United States and Israel would like Azerbaijan to join the Abraham Accords, which brought four Arab states into formal cooperation with Israel during Trump's first term. Since then, the process has stalled — no new countries have joined. Policymakers in Washington and Tel Aviv believe that the participation of Azerbaijan, a country with strong standing in the Islamic world, could help "break the ice". But Baku, for well-known reasons, is in no hurry to take that step.

Taken together, these elements illustrate that Azerbaijan can play an important role in the Middle East.

Transport

Transporting Grain to Armenia via Azerbaijan

In October, Azerbaijan took a step that will likely be remembered as a milestone in the modern history of the South Caucasus: it lifted restrictions on the transit of goods to Armenia — in simple terms, it opened the roads.

To appreciate the significance of this move, it is worth recalling that communications between Azerbaijan and Armenia have been effectively closed since the collapse of the Soviet Union and Armenia's occupation of Azerbaijani territory.

After the occupation ended, Azerbaijan sought to demonstrate the sincerity of its commitment to peace and good-neighbourly relations by removing transit restrictions without preconditions.

Under the new arrangement, the first shipment — around 1,048 tonnes of grain — has already been delivered to Armenia from Kazakhstan. The 15-wagon train travelled through Russia, Azerbaijan and Georgia before entering Armenian territory.

According to Kazakhstan's Food Corporation, this new route could become a permanent channel for transporting grain and other goods to Armenia. Kazakhstan says it is ready to supply Armenian consumers with 15,000–20,000 tonnes of grain every month.

Transporting Kazakh goods to Armenia via Azerbaijan is more efficient both commercially and logistically. Azerbaijan's internal transport infrastructure allows goods to move quickly and safely, while transit costs are lower — savings that should ultimately be reflected in grain prices.

By taking this step, Baku has demonstrated that it is, in principle, fully prepared to open all regional communications. Even Armenian Prime Minister Nikol Pashinyan, speaking at a government meeting, described Azerbaijan's decision as a clear sign that peace is no longer confined to paper but is beginning to take shape in practice.

Such signs are becoming more frequent. In October, for the first time, a plane belonging to Azerbaijan's national carrier AZAL landed in Yerevan — an event widely regarded as a sensation in both countries. On board were civil-society representatives travelling to Armenia to take part in a round-table discussion on the "peace agenda".

In reality, Azerbaijan and Armenia still have a long way to go on the path to fully opening communications. By taking the first step, Baku has effectively pressed the "start" button. The peace process should lead to Armenia's integration into regional transport initiatives. The Armenian section of the Zangazur corridor — known as TRIPP — would make Armenia one of the countries along the Middle Corridor, increasing both its revenues and its transport-transit significance. Gradually, Yerevan is beginning to see the tangible benefits that peace can bring.

This may be a small step in practical terms, but politically it is an important one — a move that contributes to trust-building between the two sides.

GEORGIA

Economy

Economic Dynamics in Georgia, 2022–2025

Introduction

In recent years, Georgia's economic landscape has been shaped by post-COVID-19 recovery, the outbreak of the Russia–Ukraine war, migration flows, foreign capital movements, and shifts in trade routes. During this period, the country experienced significant changes in economic growth, foreign trade volumes, public debt, and inflation. This article aims to analyze Georgia's economic dynamics between 2022 and 2025 and identify the key factors influencing these trends.

Economic Growth Dynamics

Since 2022, Georgia has achieved rapid economic growth. In 2022, growth reached 11%, driven by post-pandemic expansion in the services sector, a surge in exports following the Russia–Ukraine war, and the development of sectors such as tourism and information technology.

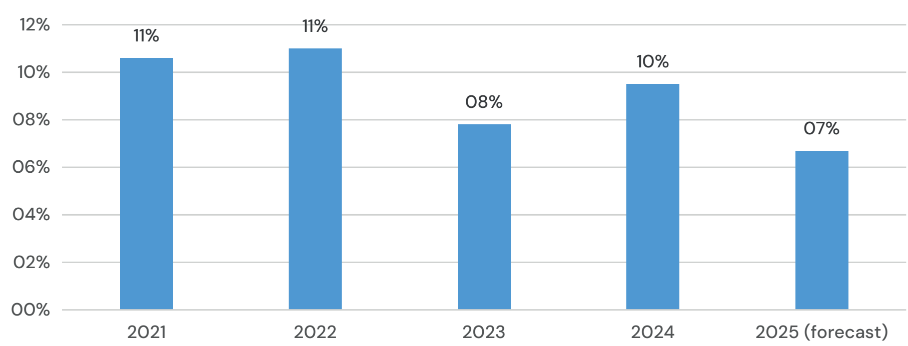
In 2023, growth slowed to 7.8% as the initial post-pandemic recovery moderated (see Figure 1). By 2024, economic growth rebounded to 9.5%, supported by rising tourism revenues, expansion of information services, and increased inflows of informal Russian capital into the country.

Despite the strong growth observed in recent years, Georgia's economic expansion is expected to slow significantly in 2025. According to the National Bank of Georgia, economic growth is projected to fall to 6.7% in 2025. The World Bank offers a slightly more conservative forecast, estimating growth at 5.5%[1]. Earlier, the World Bank had projected 6% growth for 2025, but it revised its forecast downward by 0.5% in June. The main factors behind this revision are expected declines in re-exports, domestic demand, and remittance inflows.

Figure 1.

Economic Growth Rates in Georgia

Source: pmcresearch.org



Looking at quarterly dynamics, Georgia's economic growth has proven highly volatile. In 2024, growth was 8.7% in the first quarter, rose to 9.7% in the second quarter, and peaked at 11% in the third quarter (see Figure 2). It then fell to 8.3% in the final quarter. This volatility has continued into 2025: growth rose to 9.8% in the first quarter, but fell again to 7.3% in the second quarter — the lowest quarterly growth rate since early 2024 (see Figure 2).

The observed volatility in quarterly growth reflects Georgia's heavy reliance on the services sector, particularly tourism. Seasonal fluctuations in tourism, as well as the decline in visitors from Russia in previous years, have contributed to this variability. As tourism and the services sector play a significant role in Georgia's GDP, changes in these areas have a direct impact on overall economic growth. Consequently, this dependence is considered one of Georgia's key economic risks.

Overall, the rapid growth seen in recent years was partly driven by heightened economic activity linked to the Russia–Ukraine war. This included increased re-exports, a rise in Russian tourists, and higher capital inflows from Russia, all of which stimulated economic activity and boosted growth indicators.

From 2025 onwards, however, declining re-export opportunities and reduced economic engagement with Russia in other areas are expected to slow growth. While past growth was largely influenced by external factors, the Georgian economy is now returning to its more natural, sustainable growth rate.

Foreign Trade Dynamics

Georgia's foreign trade expanded significantly between 2022 and 2024. In 2022, the country's total trade turnover reached $19.1 billion, with exports of $5.58 billion and imports of $13.54 billion (see Figure 3). This resulted in a negative trade balance of $7.96 billion.

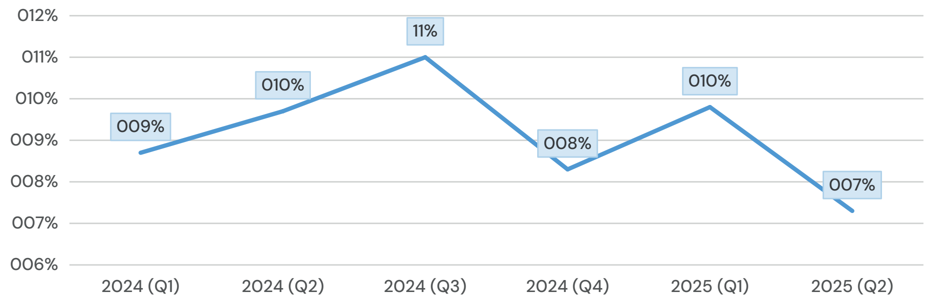
In 2023, trade turnover increased by $2.6 billion to $21.7 billion. Exports rose to $6.09 billion, while imports climbed to $15.61 billion (see Figure 3). Because import growth outpaced export growth, the trade deficit widened further to $9.52 billion.

In 2024, foreign trade turnover grew by another $1.75 billion, reaching $23.45 billion (Figure 3). Exports amounted to $6.56 billion, while imports made $16.89 billion. As in the previous year, imports grew faster than exports, pushing the negative trade balance to $10.33 billion.

Figure 2.

Quarterly Economic Growth Rates in Georgia

Source: geostat.ge



During the period from January to August 2025, exports reached $4.45 billion and imports $11.80 billion, resulting in a trade turnover of $16.25 billion. The foreign trade deficit remained high at $7.35 billion (see Figure 3).

As seen, during the period under review, imports in Georgia consistently exceeded exports, leading to a widening trade deficit each year. Such a trade balance poses risks to Georgia's economic security and remains one of the country's most significant economic challenges. The growth in trade turnover over these years was largely driven by increased re-exports of motor vehicles, petroleum products, and foodstuffs, a trend linked to the Russia–Ukraine war.

Nevertheless, continued reliance on imported equipment and energy products contributes to the persistent negative trade balance.

In addition, Georgia's current account deficit — which stood at 5.6% of GDP in 2023 — fell to 4.4% in 2024[2]. Despite this improvement, the widening trade deficit highlights that, although service revenues (mainly from tourism and logistics) partially offset the imbalance, diversifying trade remains a pressing economic priority.

Public debt

In recent years, Georgia has sought to maintain fiscal stability by reducing the ratio of public debt to GDP. In 2022, this ratio stood at 40.7%, falling 0.2% to 40.5%[3] in 2023. While the decrease was modest during that period, it became more significant in 2024, dropping by 4.5 percentage points to 36% of GDP[4].

The debt-to-GDP ratio in Georgia is expected to remain stable through the end of 2025.

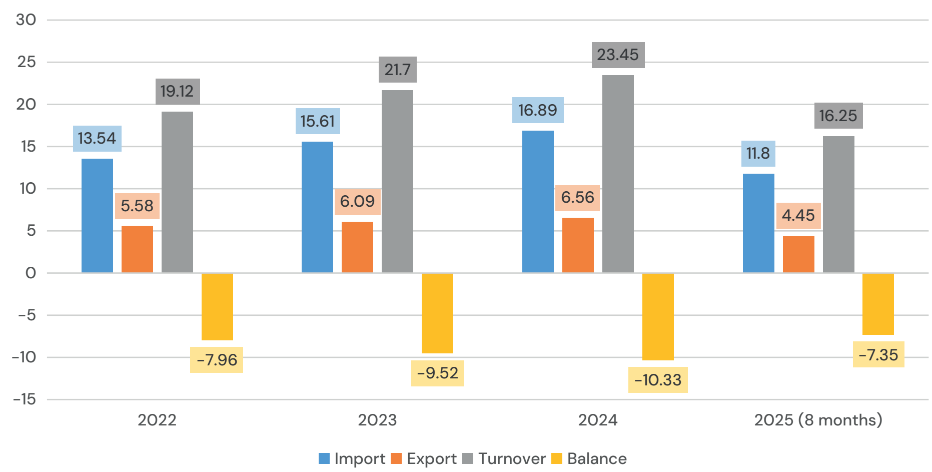
The main drivers behind the decline in Georgia's public debt are strong nominal GDP growth, currency appreciation, and fiscal consolidation measures. This trend helps safeguard the country's credit rating and strengthens investor confidence.

However, Georgia must remain vigilant about exchange rate risks and ensure that long-term infrastructure projects are funded through sustainable financial sources to avoid exposure to economic vulnerabilities.

Figure 3.

Georgia's Foreign Trade Dynamics

Source: National Statistics Office of Georgia, geostat.ge



Inflation Dynamics and Monetary Policy

In 2022, annual inflation in Georgia surged sharply, reaching 12.8%[5] in April and ending the year at 9.8%[6]. Due to persistently high inflation, the National Bank of Georgia maintained refinancing rates at 11% in 2023. Combined with currency appreciation, this helped ease inflationary pressures, and by December 2023, annual inflation had fallen to just 0.4%[7].

By December 2024, inflation had risen to 1.9%, still below the central bank's 3% target[8]. The upward trend in inflation that began in 2024 has continued into 2025, with annual inflation reaching 4.8% in September[9]. Rising prices for food and clothing have been the main contributors to this increase.

The National Bank of Georgia projects that annual inflation will reach 3.8% by the end of 2025 and intends to maintain a cautious monetary policy. These developments demonstrate that Georgia is implementing a flexible approach to monetary policy to keep inflation within the target range while paying close attention to managing economic expectations.

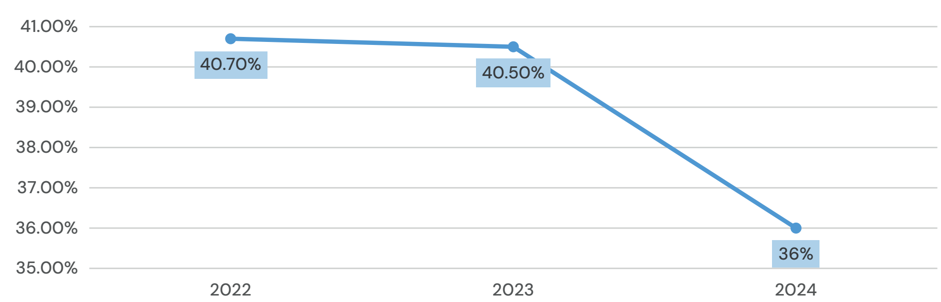
Conclusion

Between 2022 and 2025, Georgia's economy demonstrated strong growth, driven by post-pandemic recovery, the Russia–Ukraine war, and related factors such as increased migration, inflows of informal Russian capital, and opportunities for re-exports. The expansion of tourism, information technology, and other service sectors contributed positively to the country's economic activity. However, the heavy reliance on external factors and the largely "artificial" nature of this growth has meant that from 2025 onwards, economic expansion is approaching more natural, sustainable levels.

From 2022 to 2024, GDP growth, the expansion of foreign trade turnover, and a decline in the debt-to-GDP ratio strengthened Georgia's financial stability, but structural weaknesses remain. The slowdown in growth in 2025, rising inflation, persistently high negative trade balances, and strong dependence on tourism have reaffirmed the economy's vulnerability to external shocks.

Figure 4.

Debt-to-GDP rato



As a small and open economy that relies on attracting foreign investment, Georgia remains highly sensitive to external developments. The decline in re-exports, capital inflows from Russia, and migration—which were the main drivers of rapid growth in recent years due to the Russia–Ukraine war - has contributed to the slowdown. This underscores the importance of achieving sustainable economic growth through domestic resources and structural reforms.

1 bm.ge	2 worldbank.org	3 theglobaleconomy.com
4 IMF.org	5 Civil.ge 03.05.2022	6 Civil.ge 06.01.2023
7 Civil.ge 08.01.2024	8 1tv.ge	9 tradingeconomics.com

Economy

Building in Georgia Just Got More Expensive—Here's Why

Construction costs in Georgia rose by 4.7% year-on-year in September 2025, according to the National Statistics Office (Sakstat). This continues a broader upward trend in the construction sector that has persisted since 2022.

While annual growth remains significant, the monthly index showed a slight decline of 0.1%, suggesting a temporary stabilization in construction expenses. Analysts see this as a potential pause rather than a reversal in cost growth, driven by underlying structural factors.

Key Drivers of Cost Increases

The primary factor fueling annual growth is the rise in average nominal wages for construction workers, which surged 19.2% year-on-year. Rising labor costs are compounded by a 5.3% increase in equipment prices, reflecting global inflationary pressures and supply chain adjustments.

Segment Analysis

A closer look at sectoral data reveals divergent trends within the construction industry:

Residential construction: Down 0.5% month-on-month, but up 7.5% year-on-year, reflecting high ongoing demand for housing.

Non-residential buildings: Increased 0.5% month-on-month and 5.9% year-on-year, showing moderate expansion in commercial and institutional projects.

Civil engineering projects: Slight monthly decrease of 0.01%, with annual growth of 1.7%, indicating more stable cost dynamics in infrastructure projects.

Since early 2022, overall construction costs in Georgia have risen by 24.8%, highlighting significant inflationary pressures in the sector. Experts note that the full-scale war in Ukraine and the influx of tens of thousands of Russian nationals have contributed to unprecedented demand for housing. This surge has, in turn, pushed up real estate prices and increased the cost of construction materials.

Implications for the Market

The data points to a construction market that remains vulnerable to labor and equipment cost pressures, with potential ripple effects across the broader Georgian economy:

Housing affordability: Continued wage- and material-driven cost increases may exacerbate affordability challenges for local residents.

Investment considerations: Developers and investors need to account for rising construction costs when planning projects, potentially adjusting timelines or seeking cost efficiencies.

Policy implications: Authorities might consider targeted measures to stabilize costs, such as incentives for local material production, subsidies for workforce development, or regulatory adjustments.

Georgia's construction sector illustrates the interplay of labor market dynamics, global commodity trends, and geopolitical shocks on domestic economic indicators. While monthly stabilization hints at a short-term pause, structural factors suggest that construction costs will remain elevated, requiring careful strategic planning by both policymakers and market participants.

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Energy Partnership Strengthened: Georgia and Romania Sign MoU on Undersea Cable

The energy regulators of Georgia and Romania have signed a memorandum of understanding to collaborate on the implementation of a major undersea power cable across the Black Sea, according to David Narmania, head of Georgia's National Energy and Water Supply Commission.

The memorandum formalizes cooperation between the two commissions on joint regulatory matters for the project, which has already completed a feasibility study and is now undergoing detailed research on the Black Sea shelf. Narmania described the initiative as "a highly viable project with significant future potential."

The nearly 1,200 km Black Sea power cable, originally agreed upon in December 2022 in Bucharest by the leaders of Azerbaijan, Hungary, Georgia, and Romania, is designed to transmit electricity and digital data between the countries. The project is expected to play a key role in enhancing energy security for multiple European nations.

Azerbaijan's Prime Minister Ali Asadov highlighted the regional significance of the project during the IV International Silk Road Forum in Tbilisi, referring to it as a "green energy bridge" to Europe.

He noted Bulgaria's expressed interest in joining the initiative and emphasized that the project complements broader efforts to strengthen Europe's energy security. Asadov also reminded that, under a Memorandum of Understanding signed with the European Union in July 2024, Azerbaijan aims to double its natural gas exports to Europe by 2027.

Analysts note that the Black Sea cable project represents a critical step in regional energy integration, combining undersea infrastructure with complementary gas supply agreements. The collaboration between Georgia and Romania on regulatory oversight reflects the increasing importance of multilateral coordination in cross-border energy projects, while Azerbaijan's active participation positions it as a key energy hub linking the Caspian and European markets.v

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Transport

Trams Make a Comeback: Tbilisi Launches Major Urban Mobility Project

The Tbilisi City Hall has officially launched an international tender for the design and construction of a new 7.5-kilometer tram line, connecting the Didi Digomi district with the Didube metro station. The project, estimated at over 700 million lari, including rolling stock acquisition, marks a significant milestone in Georgia's capital reclaiming its historic tram system.

The Mayor of Tbilisi, Kakha Kaladze, stated at a government meeting in the capital that, for the first time in the history of independent Georgia, a tram line project would be implemented. He noted that the city was announcing a tender for both the design of the tram line and the construction work.

Kaladze emphasized that the modern European-standard tram line would connect Didi Digomi with the Didube metro station. He added that a previous market study tender had been announced, providing complete information on what needed to be done and on which section the project would be realized. He described the project as another vital and large-scale transport development initiative and stated that the tram would return to Tbilisi after 35 years. He explained that the purpose of the project was to quickly connect Didi Digomi with various districts of Tbilisi through the new tram line.

The proposed line will feature 11 stops and a fully equipped tram depot, with construction planned primarily along the central axis of David Agmashenebeli Avenue, currently a green public space. The tender specifies a "Design-Build" approach, combining project design and construction responsibilities, with a three-year completion timeline, including two years for construction. Each tram is expected to accommodate at least 300 passengers, functioning as a "surface metro" in areas not currently served by the Tbilisi Metro.

This initiative follows more than six years of planning discussions, dating back to 2019 when Mayor Kakha Kaladze announced the development of Tbilisi's Sustainable Urban Mobility Plan with support from the Asian Development Bank.

Initial projections placed the project completion as late as 2035, with an estimated budget of $276 million. Today, the project has advanced into active procurement, signaling a tangible commitment to modernizing urban transport.

Urban mobility analysts, including Vakhtang Mgeladze, emphasize the economic and environmental benefits of reintroducing trams. Powered by Georgia's abundant hydroelectric resources, the system could reduce reliance on imported fuels, improving energy efficiency while offering a cleaner, quieter mode of public transport. Beyond ecological advantages, the tram promises to enhance accessibility for residents in districts underserved by metro lines, bridging transport gaps across the city.

Tbilisi's tram network carries a deep historical legacy. Operating for 123 years, from 1883 to 2006, the system transitioned from horse-drawn carriages to electric trams, at its peak covering 105 kilometers with nearly 300 vehicles. The network was gradually phased out in favor of trolleybuses and buses, with the last tram running in 2006. Its revival reflects both a nod to the city's heritage and a forward-looking strategy to integrate sustainable, modern public transit.

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