Modern challenges of construction development in Georgia

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Summary

Construction, as a sector of the economy, plays a vital role in the creation of fixed assets across all branches of the national economy. Consequently, the development of each sector is largely dependent on the scale and progress of construction. Construction output is both diverse and highly individualized. It provides the material foundation for all sectors of the economy while simultaneously consuming the products of more than 70 branches of the national economy.

Without construction, the operation and further development of other economic sectors would be unimaginable — and vice versa. Therefore, analyzing the construction sector and studying its development trends is of great importance. Interest in this field is driven by its status as one of the leading and dynamically developing branches of the national economy. In 2024, the share of construction in the sectoral structure of Gross Domestic Product (GDP) amounted to 8.4%, which is 0.8 percentage points higher than the figure recorded in 2023. The value added by the construction sector demonstrated a growing trend between 2016 and 2023, with a decline observed only during 2020–2021, primarily due to the COVID-19 pandemic. During the analysis period, the average annual absolute increase in value added amounted to GEL 25 million, while the average annual growth rate reached 107.9%. In parallel with the growth of value added, the number of registered construction entities increased between 2019 and 2023. Specifically, according to officially declared data, 21,280 construction entities were registered in 2019, of which only 10,819 — or 43% — were active. By 2023, the total number of registered construction entities had increased to 42,707, with 19,126 of them being active, accounting for 44.8%.

Key economic indicators of the construction sector have exhibited a consistent upward trend. Between 2019 and 2023, the turnover in the sector increased from GEL 8.3 billion to GEL 12.1 billion, while intermediate consumption grew from GEL 5.3 billion to GEL 8.7 billion. In terms of total turnover, 24.4% was accounted for by large construction enterprises, 31.3% by medium-sized enterprises, and 44.2% by small enterprises. During the same period, the volume of production output increased from GEL 8.9 billion to GEL 13.5 billion,

reflecting a growth rate of 151.7%.

The construction sector is one of the largest employers in the country, engaging a significant portion of the economically active population. While employment in construction has been increasing, the sector's share in total wage employment has been gradually declining.

The rapid growth of the construction sector has naturally led to a sharp rise in wages. Between 2019 and 2023, the average monthly nominal wage in the construction sector increased from GEL 1,641.8 to GEL 2,312.9 — a growth of 140.9%. In terms of this indicator, the construction sector ranks second only to the financial sector. The average monthly nominal wage in the construction sector exceeds that of overall wage employment in the national economy by GEL 546.1 (GEL 2,312.9 – GEL 1,766.8), which represents a 30.9% difference. In recent periods, construction output has been characterized by an upward pricing trend. This increase has mainly been driven by rising prices for production factors in the construction sector and increased demand for residential housing. The latter has largely resulted from a surge in immigration following the outbreak of the Russia–Ukraine war.

Changes in the prices of production factors used in the construction process, compared to a base period, are reflected in the Construction Cost Index (CCI). The CCI is an important macroeconomic indicator used to assess the country's investment environment and to support planning and decision-making processes within the construction sector.

According to international methodology, the Construction Cost Index (CCI) represents the average level of prices for construction materials and services required to build residential, non-residential, and civil engineering structures during the reporting period, compared to a base period (3.4).

The Construction Cost Index includes expenditure categories such as:

- Expenses incurred by the construction company on raw materials and construction supplies used during the building process;
- Labor costs for workers directly employed in the construction process;
- Costs associated with the use of machinery and equipment during construction;
- Expenses related to transportation, fuel, and electricity;
- All other construction-related costs (excluding land value and architectural design fees).

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