GEORGIAN CAPITAL MARKET OVERVIEW
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Over the past decade, Georgia has soared on the wings of progress, witnessing remarkable strides in economic development, infrastructure, and socio-economic indicators. Along with this progress, Georgian capital markets advanced as well, achieving significant growth and sophistication over the years.

The dynamism of Georgia’s economic landscape is mirrored in its capital markets, positioned as a beacon for sustainable growth and investment potential. Over recent years, the local corporate bond market has witnessed extraordinary expansion, with total issuances nearly doubling from approximately $205 million in 2018 to a staggering $800 million by the close of 2023. This remarkable feat reflects a compounded annual growth rate of 30.6%, underlining the burgeoning nature of the local fixed-income market.

Moreover, the evolution of the local corporate bond market is underscored by a surge in the number of unique issuers, climbing from a mere 5 to an impressive 11 over the past five years. This influx of issuers from diverse industries signals growing confidence in bonds as an attractive financing avenue, propelling economic growth and fostering job creation.

An examination of investor participation unveils a notable shift in dynamics, with a surge in individual investments alongside traditional commercial bank involvement. In 2023 alone, resident individuals accounted for 20% of investment activity, a testament to the growing allure of bonds as a lucrative investment alternative. Furthermore, the increasing interest from non-bank financial institutions and international investors underscores the growing confidence in Georgia’s capital markets as a viable investment destination.

Looking forward, the trajectory of Georgia’s financial landscape appears buoyant, with robust GDP growth forecasts of 9.2% in 2024 and 8.6% in 2025. Projections suggest a surge in total bond issuances, poised to soar to approximately $5 billion over the next three years. As household financial assets undergo a steady 5% compound annual growth rate, reaching an anticipated 20% penetration rate within five years, Georgia’s capital markets are poised for unprecedented growth and vibrancy.

In navigating this growth trajectory, initiatives aimed at enhancing market accessibility, regulatory integrity, and investor education will be pivotal. By embracing inclusivity, transparency, and sustainable investing practices, Georgia can unlock the full potential of its capital markets, fueling long-term economic prosperity and resilience.
GEORGIAN CAPITAL MARKET HAS A SIGNIFICANT ROOM FOR GROWTH, AS THE ECONOMY OF THE COUNTRY ADVANCES

Georgia has made much progress over the past decade in terms of economic development, infrastructure, human rights, poverty rate and corruption. For example, The poverty rate (measured by the national poverty line) was more than halved over the same period while the unemployment rate has decreased from 22% in 2017 to just 15% in the 4th quarter of 2023. Georgia has been growing faster than other upper middle-income countries in the EU and gross national income per capita increased from $3,048 in 2010 to $5,073 in 2022 (constant 2015 USD). Namely average per capita growth rate for Georgia averaged at 9.21% (2015-2021) while the average of advanced markets, emerging markets and Europe was 1.55%, 8.37% and 1.39% respectively. Georgia has a solid foundation to continue growing fast, including a favorable business environment, but it also faces some structural challenges.

Development of capital markets could support sustainable growth of the economy through creation of alternative funding sources and investing opportunities. banks or non-bank international financial institutions seeking resources for capital expenditures and implementation of new projects. On the other hand, developed capital markets represent the robust investment alternatives to accumulate wealth for local and foreign investors.

Considering the importance of advanced capital markets, local government is actively involved in establishing a legal framework and implementing essential reforms to facilitate their development. Namely Georgian securities regulations have transformed significantly over the last decade, driven by government initiatives to foster financial market growth. Reforms span currency denominated issues, brokerage firm licensing, AML practices, compulsory pension reform, investment funds law, and covered bonds. The nation’s EU candidacy aspiration has been pivotal and the recently granted candidacy status will further fuel the effort to align market infrastructure with the European best practice. Despite notable strides, there remains ample room for further development.

Despite the aforementioned progress, the challenges remain. For example, a high dollarization rate, a lack of diversity of capital market products and low liquidity on the stock exchange are limiting the ability to frequently tap the local capital market for funding options for Georgian Issuers. Designing appropriate capital market support measures to channel funding to companies will be a defining factor on the path to economic prosperity and might enable Georgia to build an active capital market ecosystem in the country over time.

Gross national income growth (GNI) Georgia versus EU 27

Liquidity on Georgian Stock Exchange is historically low

Source: GeoStat, Eurostat
GEORGIAN CAPITAL MARKET HAS A SIGNIFICANT ROOM FOR GROWTH, AS THE ECONOMY OF THE COUNTRY ADVANCES

Georgian businesses traditionally rely heavily on bank loans for financing, but a developed capital market offers alternative funding sources, like stocks and bonds, attracting a wider investor base, injecting necessary capital for growth and job creation, thus propelling economic growth. A developed capital market provides financial flexibility through diversification, potentially lowering costs and offering varied repayment structures, fostering a resilient business environment.

Additionally, a developed capital market efficiently allocates capital, promoting long-term economic growth and stability, enhancing trust and transparency through stricter disclosure requirements for companies seeking capital. Capital markets empower individuals to invest directly, promoting inclusivity and wealth accumulation.

Diversification across assets serves as a crucial risk management strategy, bolstering overall financial resilience. Sophisticated capital markets draw the interest of foreign investors in pursuit of lucrative prospects. Foreign direct investment and portfolio investment gravitate towards nations with well-established capital markets, injecting vitality into economic dynamics and catalyzing job creation.

Generally, there’s a strong link between the advancement of capital markets, measured by the financial markets development index, and a nation’s prosperity, indicated by Nominal GDP per capita. Enhanced financial market development typically aligns with higher levels of nominal GDP per capita. Moreover, capital market progress is associated with higher rates of productivity growth, leading to more employment opportunities and better wages for citizens.
GEORGIA’S LEGAL AND REGULATORY FRAMEWORK HAS BEEN PROGRESSING OVER THE YEARS

As mentioned earlier, Georgia has made notable progress in terms of legal reforms, enhancing the regulatory and legal framework for nurturing the further development of capital markets. These reforms include:

- **2018** - Improvements of regulatory framework based on DCFTA requirements
- **2019** - Compulsory Pension Reform
- **2020** - Asset management and investment fund law
- **2022** - Covered Bond Law
- In progress – Securitization law

For instance, a pivotal moment occurred in 2019 with the introduction of the compulsory pension scheme. By planning to allocate around 80% of pension agency funds into bonds and other various range of assets, this reform has a potential to provide a stable source of domestic capital, driving market expansion. This domestic investor base enhances market stability and is crucial for long-term market sustainability.

Furthermore, the Asset Management and Investment Fund Law, enacted in 2020, has a potential to act as a catalyst for further growth in the market. This legislation simplifies the process of establishing asset management entities, promoting competition, fairness, and transparency in the collective investment schemas.

The introduction of the Covered Bond Law in 2022 stands as a significant milestone in diversifying funding options for Georgian financial institutions. This legislation enables the issuance of mortgage-backed securities. This expansion not only appeals to new investors seeking exposure to the Georgian housing market but also contributes to the ongoing growth and stability of the bond market. Moreover, the finalization of the securitization Law might expand the array of security options by permitting the creation of various securitized products beyond mortgages. This move potentially makes the bond market even more appealing to a wider investor base, thus solidifying its position as a cornerstone of financial stability and growth in Georgia.

Source: TBC Capital, NBG, NAPR, Myhome.ge
The Georgian capital market comprises two stock exchanges: JSC Georgian Stock Exchange (GSE, www.gse.ge) and JSC Tbilisi Stock Exchange (TSE, www.tse.ge). There are three securities registrars: JSC Kavkasreestri (www.kavkasreestri.ge), JSC United Securities Registrar of Georgia (www.usr.ge), and JSC CSR. Additionally, there is one central depository: JSC Georgian Central Securities Depository (GCSD, www.gcsd.ge), and nine licensed brokers (professional intermediaries). However, only two of them are active and play a crucial role in the Georgian capital market: LTD TBC Capital (www.tbcccapital.ge) and JSC Galt & Taggart (www.galtandtaggart.com).

The Georgian capital market is regulated by the National Bank of Georgia (NBG, www.nbg.ge), which serves as the central bank of Georgia. The NBG also regulates commercial banks and enforces monetary policy within the country.

Other key entities operating within the Georgian capital market include issuers of securities, the Pension Agency of Georgia, licensed asset managers, and investment funds. These entities are also regulated by the National Bank of Georgia (NBG) and will be covered in later sections of this report.

Source: NBG
LOCAL CORPORATE BOND MARKET SURGED IN THE LAST TWO YEARS, DRIVEN BY FAVORABLE ECONOMIC CONDITIONS AND INCREASED ATTRACTIVENESS OF BONDS

The Georgian local corporate bond market has experienced notable expansion and heightened interest in fixed-income instruments among both issuers and investors. The year 2023 marked the year of extraordinary growth in accordance with this successful trajectory for the local corporate bond market, as total bond issuances nearly doubled compared to the previous year. By the end of 2023, the market had reached a total value of 2.1 billion GEL (approximately $800 million), excluding funding from IFIs and Back-to-back loans. This marks a substantial increase from 2018, when the market was valued at 552 million GEL (approximately $205 million). The impressive 30.6% compounded annual growth rate highlights the expanding nature of the local fixed income market. Remarkably, in 2023, there was a notable surge in both the scale and quantity of bond issuances, with over double the number of securities issued compared to 2018 and approximately quadruple the total value of bonds issued.

By the end of 2023, approximately 23% of all Georgian bonds were issued in the local market, marking a substantial increase from the mere 2.2% in 2014—an impressive 29.8% compounded growth rate in a market share.

The composition of the local corporate bond market has evolved alongside its growth. Recent times have seen a surge in hard-currency and GEL-denominated corporate bonds. Over the past decade, the outstanding value of locally issued hard-currency bonds has risen from GEL 8 million to GEL 790 million, representing a CAGR of 58.29%. Similarly, GEL-denominated bonds have grown from virtually zero to GEL 360 million.
BOND FINANCING IS BECOMING AN ATTRACTIVE ALTERNATIVE FOR LOCAL CORPORATES ACROSS THE RANGE OF INDUSTRIES

The market’s expansion is driven by interest from new issuers and an increasing number of transactions. Over time, the number of public transactions by currency and unique issuers have risen. For instance, currently, there are 11 unique issuers from 8 industries, compared to 5 issuers from 3 industries in 2018. Their primary objectives include refinancing existing liabilities (such as previous bonds and bank loans) with more favorable terms, optimizing cash flows, and reducing the proportion of collateralized assets on their balance sheets.

As of 2023, the automotive industry constitutes the largest share of issuances on the local corporate bond market, accounting for 32%. The second largest industry is non-bank financial institutions, followed by hospitality and others. In comparison, in 2018, the real estate industry was the largest issuer, followed by food & beverages and diversified financial services.

Furthermore, there has been a notable shift in currency distribution over the years. While bonds were primarily issued in USD during the period of 2018-2020, with USD being the dominant currency, there has been a significant increase in the issuance of GEL bonds since 2021. Currently, in 2023, 37% of total issuances are denominated in GEL.

Additionally, there has been an increase in the number of unique issuers over the past five years, rising from 5 to 11. This indicates that more corporations are viewing bonds as attractive alternatives to bank loans, reflecting the growing appeal of bond financing in the local corporate market.
THERE IS A SHIFT IN THE USE OF PROCEEDS FROM FUNDING NEW PROJECTS TO REFINANCING BANK LOANS AS THEY PROVIDE BETTER TERMS FOR CORPORATIONS

Over the past five years, the primary purposes of new bond issuances have been consistent: to attract funds for new projects, roll over existing bonds, or refinance existing bank loans on better terms. However, there has been a notable change in recent years. In 2018, 70% of new issuances were for funding new projects, while 30% were for refinancing existing loans. In contrast, in 2023, only 8% of new issuances were for funding new projects, 39% were for bond rollovers, and 52% were for refinancing bank loans. This shift indicates a significant evolution in the use of bonds as a financing tool for operational needs or new projects, in addition to using developed capital markets for refinancing existing bank loans at better terms or rolling over the existing bonds.

The local corporate bond market has reached a point where interest rates on local bonds stand at an optimal level compared to rates on bank loans, deposits, and rental yields, presenting an attractive option for both issuers and investors. Companies are seizing the opportunity to secure funds at lower interest rates while reducing collateralization.

For instance, the average coupon rates for USD-denominated local bonds have hovered around 8.65% over the past five years.

During this period, local deposit rates in foreign currency have consistently remained slightly higher, with the average interest rate on a hard currency denominated bank loan in 2023 standing at approximately 9.1%, whereas the coupon rate on the USD-denominated bonds is 8.65%. From an investor’s perspective, alternatives to investing in local bonds include local bank deposits or real estate. Although historically low, interest rates on foreign currency deposits in Georgia have declined from over 4% to about 1.92% over the last 5 years—considerably lower than the coupon rate on local USD-denominated bonds. Nevertheless, rental yield remains an appealing investment with the average rental yield increasing from 7.22% to 10.73% since 2021—significantly higher than the coupon rate.
COMMERCIAL BANKS LEAD INVESTMENTS IN GEL BONDS, BUT INDIVIDUALS AND NON-BANK INSTITUTIONS START TO SHOW INTEREST WHILE NON-BANKING FINANCIAL INSTITUTIONS GAIN MOMENTUM IN LOCAL USD CORPORATE BONDS

The appeal of the local corporate bond market for investors is also evident in the distribution of different types of bond investors in the primary market. In 2020, approximately 53% of investments made in USD on the primary corporate bond market came from Non-residents, with resident individuals accounting for the remaining 47%. Over the years, non-bank financial institutions, banks, and legal entities have also entered the hard currency bond market. As of 2023, approximately 20% of investment activity on the primary market originates from resident individuals, 30% from Non-residents, 38% from financial institutions, and the remainder is predominantly attributed to local banks, with local entities holding only a marginal share.

On the flip side, investment activity in GEL presents a slightly different narrative. Traditionally, commercial banks have been the primary investors in GEL bonds as they utilize GEL denominated securities for repo transactions. However, in 2023, there was a shift as individuals and non-bank institutions also demonstrated interest. In 2020, commercial banks accounted for 100% of investments in GEL bonds, whereas by 2023, this figure decreased to 75%, with 14% now attributed to resident individuals and 10% to financial institutions.

This rise in individual investments illustrates a growing interest of local investors towards the local corporate bond market, viewing investment in GEL-denominated bonds as a lucrative alternative to traditional bank deposits.

Source: TBC Capital, NBG, NAPR, Myhome.ge
AS SAVING HORIZON ON LOCAL MARKET IS RATHER SHORT, RELATIVELY SHORT TERM BONDS ARE PREVALENT

On the local market, investors tend to favor relatively short-term bonds due to the shorter saving horizon. The distribution of outstanding bonds illustrates this preference: approximately 68% of bonds are set to mature within the 2024-2026 period, totaling 1.4 billion GEL equivalent (around $549 million). This trend indicates a preference for shorter investment cycles. Further analysis of the data reveals that a significant portion of USD-denominated bonds will mature in the near term. Specifically, 366 million GEL equivalent (approximately $138 million) will mature in 2024, followed by 202 million GEL equivalent (approximately $76 million) in 2025, and 173 million GEL equivalent (approximately $65 million) in 2026. This pattern suggests a concentration of USD-denominated bond maturities in the next few years. Looking ahead, there is a notable increase in USD-denominated bond maturities in 2028, two issues totaling 439 million GEL equivalent (approximately $165 million). Interestingly, there are no USD-denominated bonds maturing in 2029, indicating a gap in maturities for that year.

Regarding bonds denominated in GEL, the majority are scheduled to mature in 2025 and 2026, with 39% maturing in 2025 and 45% in 2026. This distribution suggests a more evenly spread maturity profile compared to USD-denominated bonds. Similarly, bonds denominated in EUR will mature in 2025 and 2026, with respective equivalents of 48 million GEL (approximately $18 million) and 15 million GEL (approximately $6 million). This distribution further diversifies the maturity profile of bonds on the local market.

The popularity of two-year bonds can be attributed to the behavior pattern of Georgian investors. Deposit data from the National Bank of Georgia (NBG) suggests that deposits with 1-2 year maturity dominate the Georgian commercial banking deposit market. Additionally, other lower-term maturities also significantly outperform longer-term deposits. Our conversations with clients further support this trend, indicating a greater comfort level among investors when investing in 1-2 year securities and deposits.

Deposit balances by tenor

Number of bonds by tenor

Source: TBC Capital, NBG, NAPR, Myhome.ge
GEORGIAN EUROBONDS BENEFIT FROM SIGNIFICANT INTEREST FROM INTERNATIONAL MARKET PARTICIPANTS, ENABLING THEM TO IMPROVE FINANCING TERMS AND SECURE LONG-TERM FUNDS

The growing interest in the local corporate bond market from the demand side is also evident from the data on the number of unique investors in primary issues with TBC Capital’s involvement. In 2019, there were only 12 primary market investors, predominantly comprising a concentrated group of large-scale investors, as reflected by the average ticket size of USD $185,000.

However, this number has grown exponentially over the years, reaching 321 in 2023. Although the average ticket size hasn’t decreased as rapidly, it has diminished to $138,985 as of last year. This trend underscores the increasing interest of investors in the Georgian corporate bond market. More individuals are opting for bonds over bank deposits, and more international financial organizations are investing in local corporate bonds.

This growing confidence in the capital markets is a significant development for the country and is crucial for the further development of the market and enhancing liquidity on the secondary market, which remains a key challenge.

While local corporate bonds primarily attract investments from individual investors and financial institutions, Georgian Eurobonds are predominantly purchased by international asset managers, followed by commercial banks and government organizations. Georgian Eurobonds garner significant interest from international market participants, enabling them to negotiate favorable financing terms and secure long-term funds.

In order to increase the demand for bonds with higher maturities and the average size of the issue, it is crucial to attract the foreign institutional investment in the country.

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**Georgian bond book distribution as of issue date by volume**

**Eurobonds**

- Asset Manager: 79%
- Commercial Banks: 10%
- Government organizations: 5%
- Hedge Funds: 4%
- Non-financial organizations: 2%

**Local bonds**

- Individual: 38%
- Financial Institution (other than bank): 10%
- Commercial Bank: 2%
- Legal Entities: 50%

Source: TBC Capital, J.P. Morgan.

Source: TBC Capital
GEORGIAN BOND MARKET, CLOSELY LINKED TO NOMINAL GDP GROWTH, IS SET FOR STRONG GROWTH. SIMILAR TRENDS IN EUROPEAN COUNTRIES INDICATE AMPLE ROOM FOR EXPANSION.

In analyzing the expansion of the debt capital markets, a noteworthy correlation emerges between Georgia’s nominal GDP growth and the issuance of local bonds over time. It’s observed that robust GDP growth often precedes an uptick in local bond issuance, a trend largely propelled by heightened infrastructure spending and increased borrowing by businesses during economic upswings. This correlation not only underscores the resilience of Georgia’s economic landscape but also signifies sustained growth supported by amplified investment activities. Projections for the upcoming years paint an optimistic picture, with Georgia’s nominal GDP expected to surge by 9.2% in 2024 and 8.6% in 2025, translating to remarkable growth rates of 46% and 46.4%, respectively, in the local bond market.

Furthermore, despite the strides made, the Georgian bond market still holds considerable untapped potential, drawing parallels with comparable European nations. One notable area ripe for enhancement revolves around fostering greater interest and demand from Georgian households for investment in capital markets. As of 2023, Georgian share of debt securities in total indebtedness constitutes roughly 8% a figure lower than the corresponding average of 12.6% in the EU 27, with even more pronounced participation rates observed in developed European countries. However, it’s noteworthy that Georgia has outperformed certain EU nations like Poland, Croatia, or Slovakia, signaling a foundation upon which to build and further enrich market engagement.

### Annual growth in nominal GDP and local public bonds outstanding, %

- **Local bonds**
- **Nominal GDP**

<table>
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<th>Local bonds</th>
<th>Nominal GDP</th>
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### Share of debt securities in private sector’s indebtedness, latest available data

- **Croatia**
- **Slovakia**
- **Hungary**
- **Czechia**
- **EU 27**
- **Ireland**
- **Portugal**
- **France**

Source: TBC Capital, Eurostat, NBG
GEORGIA’S SECURITIES MARKET IS POISED FOR GROWTH DRIVEN BY ROBUST GDP AND INCREASED DEBT INCORPORATION

At present, a mere 5.6% of household financial assets find their way into securities, a stark contrast to peer countries boasting an impressive penetration rate of 28.98% in securities. However, expectations paint a promising picture as household assets are projected to experience a steady 5% compound annual growth rate (CAGR), propelling them towards a 20% penetration rate within the next five years. Should these forecasts materialize, household security holdings in Georgia could soar to approximately 3 billion GEL, bringing them more in line with the averages of comparable countries. Encouraged by the buoyancy of GDP growth and the expanding penetration rates in corporate indebtedness, we anticipate total issuances to surge to approximately 5 billion GEL over the forthcoming three years, further invigorating the dynamics of Georgia’s financial landscape.

On the supply side, it is anticipated that the share of debt securities issued by Georgian corporations in total indebtedness will increase to approximately 14.8% by 2026, representing an 8% rise. This significant growth is bolstered by expectations of robust GDP growth, with the total debt of local corporates projected to escalate at an even faster pace. We forecast that total corporate debt will amount to 42 billion by the conclusion of 2026. Considering the anticipated share of 14.8%, it is expected that the local bond market will expand to 5.4 billion GEL over the next three years.
WHAT’S NEXT?

Looking ahead, the trajectory of financial markets is influenced by a myriad of factors, including accessibility, regulatory integrity, technological innovation, sustainability, and investor education. Firstly, expanding market access to a diverse array of investors is paramount for fostering inclusivity and ensuring equitable participation in financial opportunities. Initiatives such as online trading platforms, financial literacy programs, and regulatory reforms play pivotal roles in democratizing access to investment opportunities, thereby bridging the gap between different segments of society and the financial world.

Secondly, enhancing the regulatory framework is essential for maintaining market integrity, safeguarding investor interests, and promoting market efficiency. A robust regulatory environment strikes a delicate balance between protecting investors and fostering innovation. Specific reforms should focus on bolstering transparency, fairness, and accountability within financial markets. Regulatory enhancements can instill investor confidence, encourage broader participation, and ultimately contribute to the overall stability and resilience of the financial system.

Furthermore, technological integration and innovation are driving transformative changes in the investment landscape. The advent of fintech solutions, algorithmic trading, and digital asset platforms has revolutionized how investors access, analyze, and manage their investments. These technological advancements offer numerous benefits, including lower transaction costs, enhanced data analytics capabilities, and improved portfolio management tools. Embracing technological innovation can lead to greater efficiency, accessibility, and democratization of financial markets, ultimately empowering investors and fostering greater market liquidity.

Moreover, there is a growing recognition of the importance of sustainable and responsible investing practices. Investors are increasingly factoring in environmental, social, and governance (ESG) considerations into their investment decisions. Integrating ESG factors into investment strategies not only helps mitigate risks but also promotes long-term value creation and positive societal impact. Sustainable investing aligns financial goals with environmental and social objectives, contributing to a more sustainable and equitable future.

Additionally, increased awareness to attract new issuers and investors and engagement of both local and international institutional investors are essential factors shaping the financial markets. Moreover, the availability of advanced investment options such as funds, REITs, and asset-backed securities further diversifies investment opportunities, contributing to market development.

Lastly, education and investor awareness initiatives are crucial for cultivating a knowledgeable and empowered investor base. Improving financial literacy, promoting responsible investing behaviors, and raising awareness about investment opportunities, risks, and best practices are essential components of investor education. By equipping investors with the necessary knowledge and skills, these initiatives empower individuals to make informed decisions, navigate financial markets effectively, and achieve their financial goals.
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