



საქართველოს ეროვნული ბანკი
National Bank of Georgia

Overview of Georgian Capital Market

Capital Market Supervision
Department

Capital Market Development
and Research Division

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DEFINITIONS

BIS	Bank of International Settlements
EBRD	European Bank for Reconstruction and Development
USAID	United States Agency for International Development
IFI	International Financial Institutions
NBG	National Bank of Georgia
GSE	Georgian Stock Exchange
MOF	Ministry of Finance (Georgia)
TREASURY	Includes T-bills and T-Notes
BONDS	

Cross-Country Capital Market Comparison

BOND MARKET

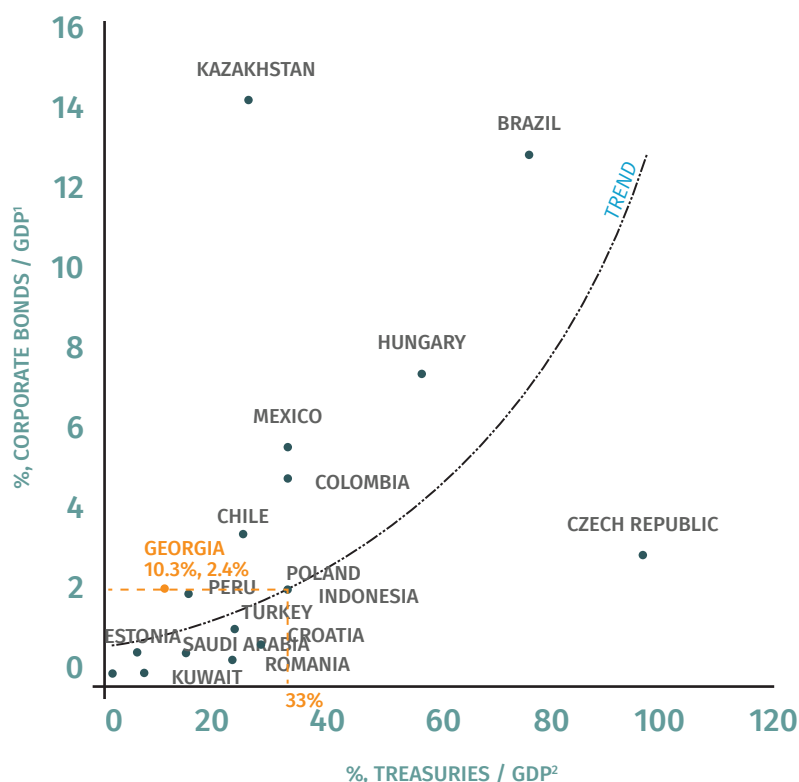
GEORGIAN TREASURY BOND MARKET DEMONSTRATES SIGNIFICANT GROWTH POTENTIAL:

A positive exponential relationship exists between the corporate and the treasury bond markets.

In most countries, treasury bond market is significantly larger than the corporate bond market.

Assuming that the trend observed across emerging countries represents optimal relationship between treasury and corporate bond markets, the ratio of Georgian treasury bonds to GDP should be roughly three times higher (33%) than its current level of 10.3%

CHART 1: Corporate Vs. Treasury Bonds (2023)



SOURCE: NBG, BLOOMBERG.

¹ Publicly issued corporate bonds by local and foreign companies on the local market (excluding IFI and dual-listed bonds).

² Treasuries include bills and bonds issued within a country by central and/or regional governments, regardless of the currency of issuance.

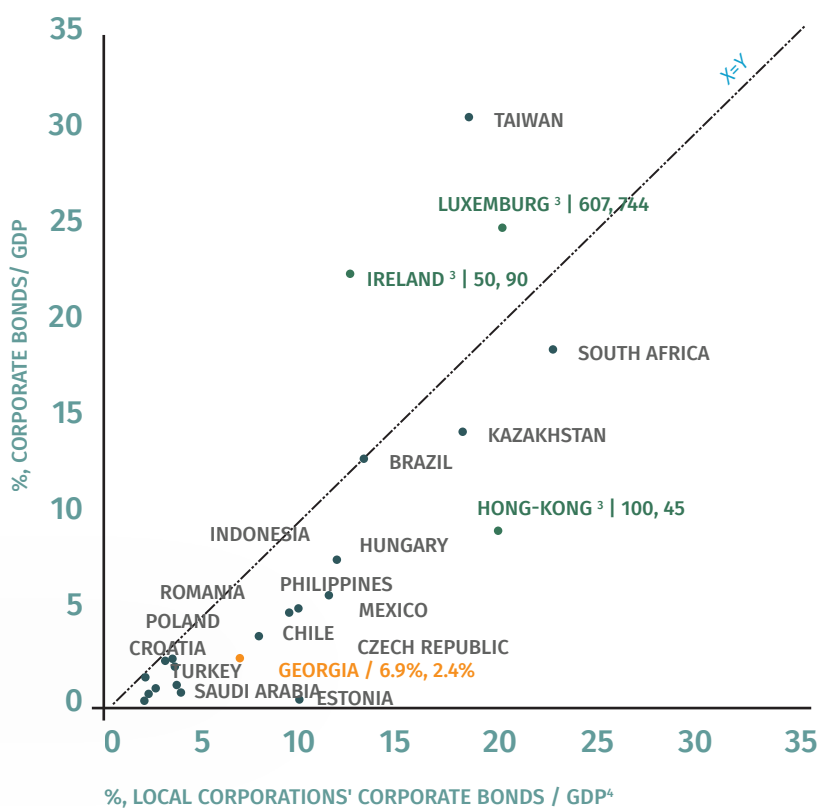
ALONGSIDE THE COUNTRY'S ECONOMIC GROWTH, THE REENTRY OF GEORGIAN COMPANIES INTO THE DOMESTIC CORPORATE BOND MARKET IS EXPECTED:

In emerging countries, the total volume of bonds issued by local companies in both local and foreign markets significantly exceeds the size of the domestic bond market.

Conversely, in regional hubs such as Ireland, Luxembourg, and Taiwan (positioned above the 45° axis), the domestic market attracts a greater volume of foreign bond issuances than the amount issued abroad by local companies.

On Chart 2, Georgia is positioned below the 45° axis

CHART 2: Local Corporate Bond market Vs. Corporate Bonds of Local Companies (2023)



SOURCE: NBG, BLOOMBERG.

³ For clarity, the data for Luxembourg, Ireland, and Hong Kong have been proportionally scaled down. Exact figures are provided next to the country names on the chart.

⁴ Corporate bonds publicly issued by local corporations on both local and international markets in any currency.

STOCK MARKET

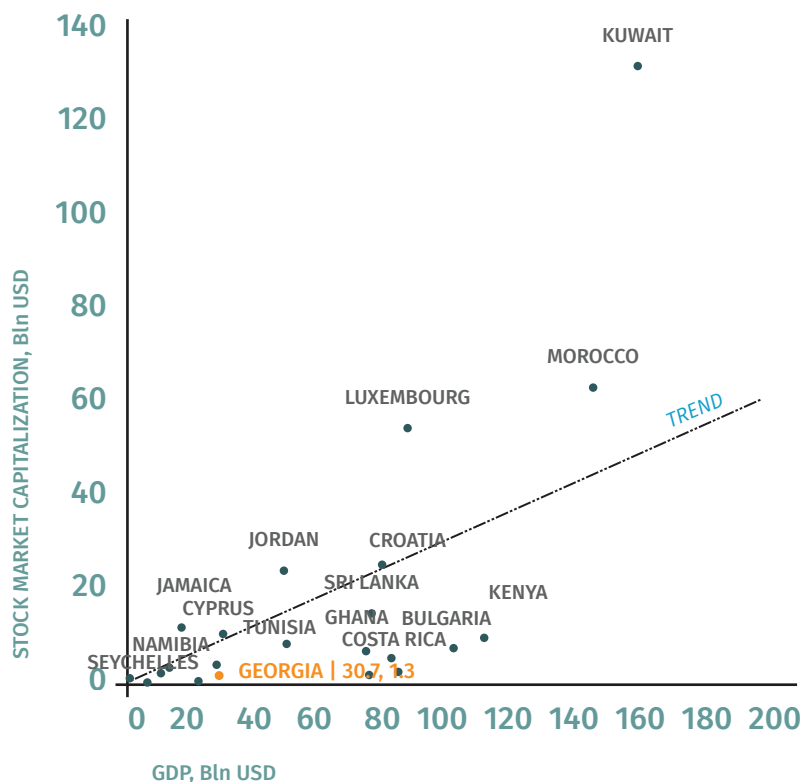
TOTAL MARKET CAPITALIZATION OF LISTED STOCKS ON THE GEORGIAN STOCK EXCHANGE IS SUBSTANTIALLY LOWER COMPARED TO THE SIZE OF THE NATIONAL ECONOMY:

By the end of 2023, shares of six companies were listed on the exchange, collectively representing a market capitalization of 3.5 billion GEL (1.3 billion USD)

A positive correlation exists between GDP and Stock market capitalization (Chart 3)

Assuming that the trend observed across 97 countries represents the optimal relationship between GDP and stock market size; Given a GDP of \$30.7 billion in 2023, Georgia's stock market should be four times larger than \$1.3 billion, reaching \$5.2 billion (13.9 billion GEL).

CHART 3⁵: Stock Market Capitalization Vs. GDP (2023)



SOURCE: NBG, BLOOMBERG.

⁵ Charts 3 and 4 are based on data from 78 stock exchanges, covering a total of 97 countries. For better visualization, the charts are zoomed in and do not display every observation point; however, the trends are derived from the entire dataset.

ONLY A SMALL PORTION OF THE SHARES LISTED ON THE GEORGIAN STOCK EXCHANGE ARE FREE FLOATING.

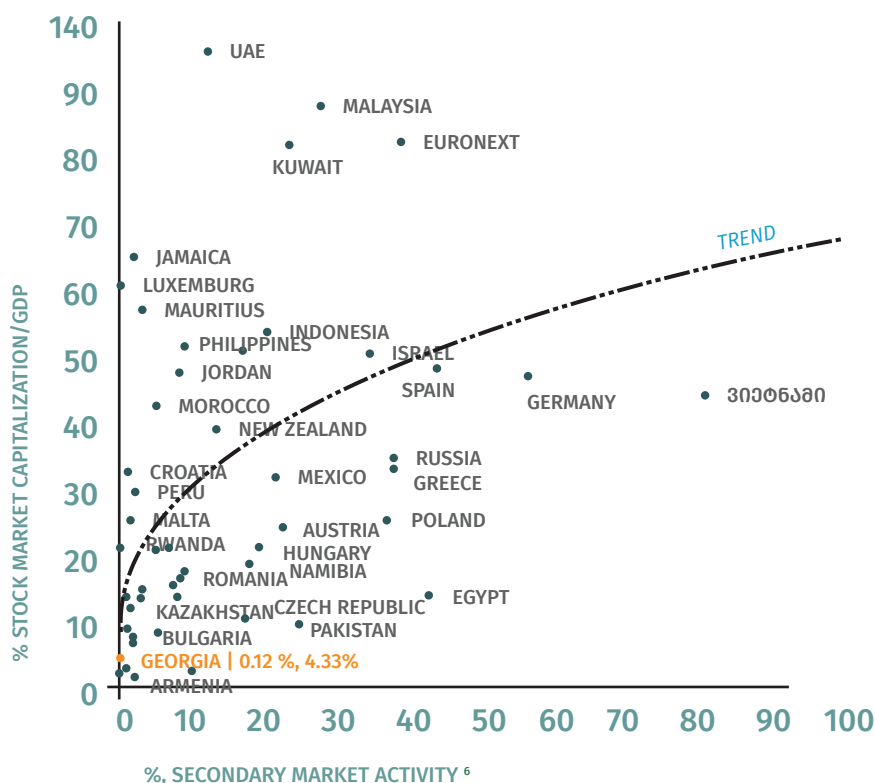
As a result, in 2023, the volume of tradable shares was significantly below the reported 3.5 billion GEL.

GIVEN THE LIMITED SIZE OF THE STOCK MARKET, SECONDARY MARKET ACTIVITY SHOWS LITTLE GROWTH:

While there is a positive relationship between the size of a stock market and its liquidity, market liquidity shows minimal growth during the early stages of development.

The activity level⁶ on the Georgian secondary stock market accounts for only 0.12%, making it one of the lowest among the 78 stock markets analyzed. However, given the market's small size, this is not unexpected

CHART 4⁵: Stock Market Capitalization Vs. Secondary Market Activity (2023)



SOURCE: NBG, BLOOMBERG.

⁵ Charts 3 and 4 are based on data from 78 stock exchanges, covering a total of 97 countries. For better visualization, the charts are zoomed in and do not display every observation point; however, the trends are derived from the entire dataset.

⁶ Secondary market activity is measured by the ratio of transactions carried out during the year to the average market capitalization for 2022 and 2023.

Georgian Capital Market

LOCAL TREASURY BOND MARKET ⁷

ACTIVE TREASURY BOND MARKET IS ESSENTIAL FOR THE DEVELOPMENT OF THE CORPORATE BOND MARKET:

The treasury bond yield curve serves as a key benchmark for pricing corporate bonds.

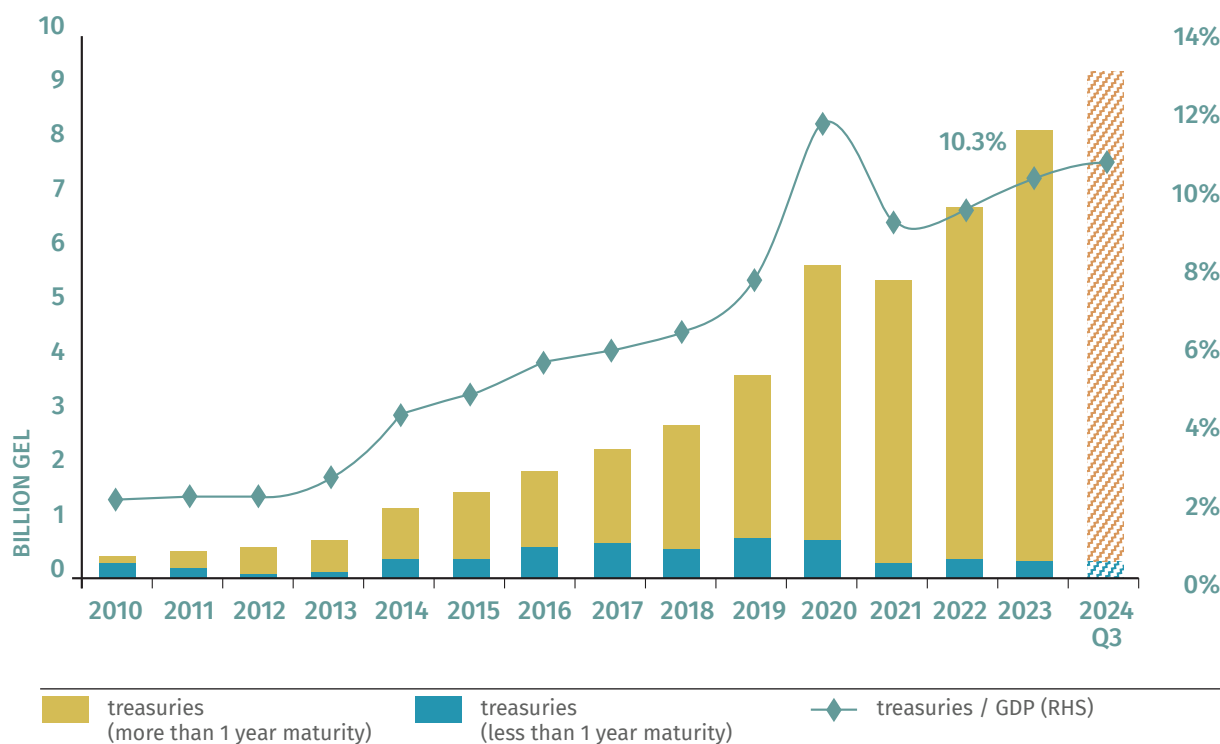
As the least risky securities in the country, treasury bonds are usually a primary financial alternative for investors, after bank deposits.

Generally, treasury bonds are the first to develop as an investment alternative, followed by the subsequent allocation of investor savings into riskier assets, such as the corporate bond market

TREASURY BONDS HAVE BEEN ACTIVELY ISSUED IN THE GEORGIAN MARKET SINCE 2009, AND THEIR TOTAL VOLUME IS EXPANDING AT A SIGNIFICANT PACE THEREAFTER.

However, in relation to GDP, the market size still remains relatively small - 10.3% in 2023 (Chart 5).

CHART 5: Local Treasury Bond Market, Outstanding



SOURCE: NBG, MOF

⁷Under this heading, only treasury bonds issued in GEL on the local market are presented, excluding the \$500 million Eurobond issued abroad.

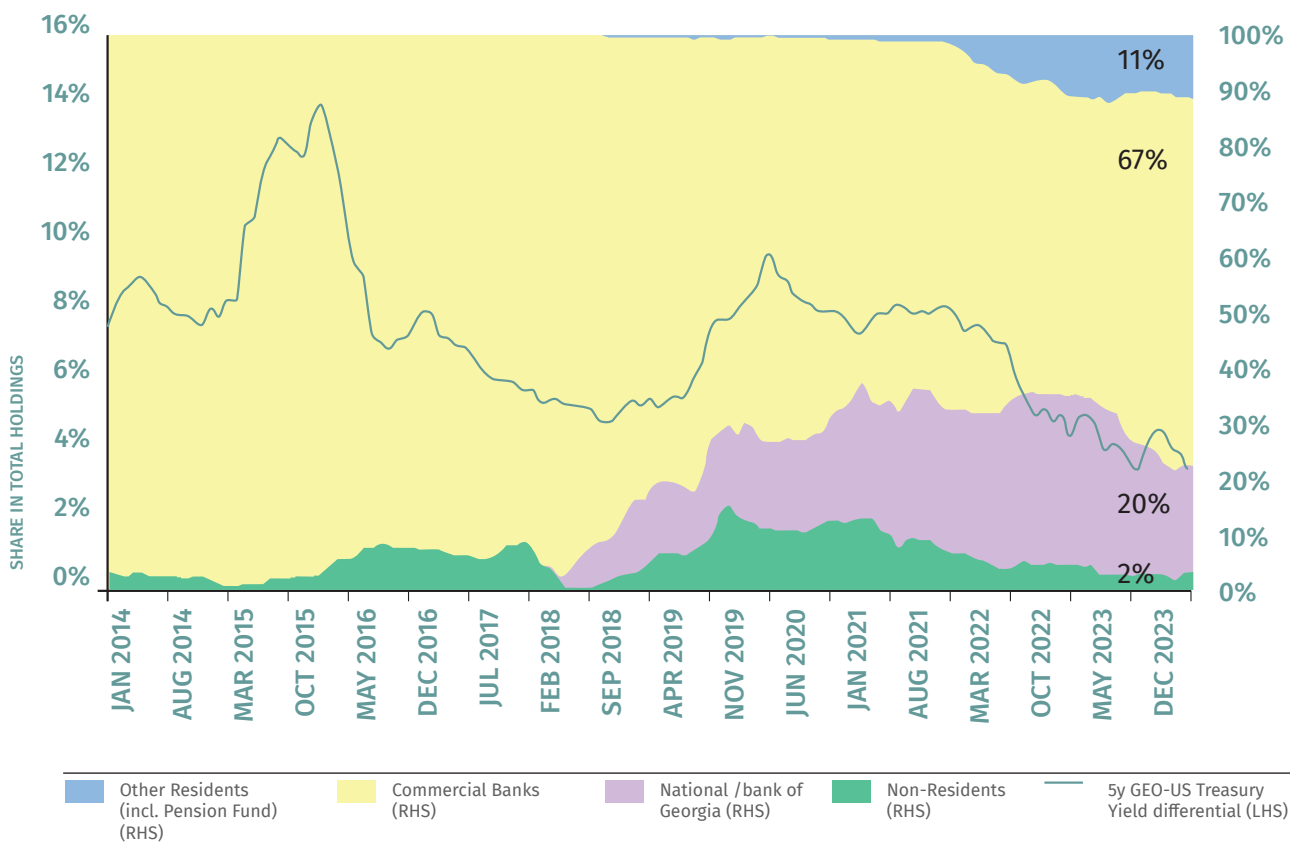
THE OWNERSHIP STRUCTURE OF TREASURY BONDS IS PRIMARILY COMPOSED OF INSTITUTIONAL INVESTORS, WITH A RECENT DECLINE IN THE SHARE HELD BY NON-RESIDENT INVESTORS:

The majority of treasury bonds are held by commercial banks, the National Bank of Georgia⁸, and the Pension Agency of Georgia - who typically prefer to hold these bonds until maturity. As a result, trading activity in the secondary market is limited.

Consequently, these factors somewhat impede treasury bonds' capacity to effectively serve as a benchmark for the market valuation of corporate bonds.

A decline in the share of non-resident holders is also observed, which could largely be attributed to the narrowing yield differential between Georgian and U.S. treasury bonds of comparable maturities

CHART 6: Holders of Local Treasury Bonds



SOURCE: NBG, MOF

⁸ From 2018 to 2023, the National Bank undertook the purchase of treasury bonds on the secondary market as part of its open market operations; however, these activities are currently suspended

LOCAL PUBLIC CORPORATE BOND MARKET

IN 2023, THE LOCAL CORPORATE BOND MARKET EXPERIENCED RECORD LEVELS OF ACTIVITY:

Bonds totaling 1.2 billion GEL were publicly issued (see Chart 7), with 70% denominated in foreign currency (see Chart 9).

As a result, the corporate bond market reached 1.9 billion GEL, representing 2.37% of GDP for the year (see Chart 8).

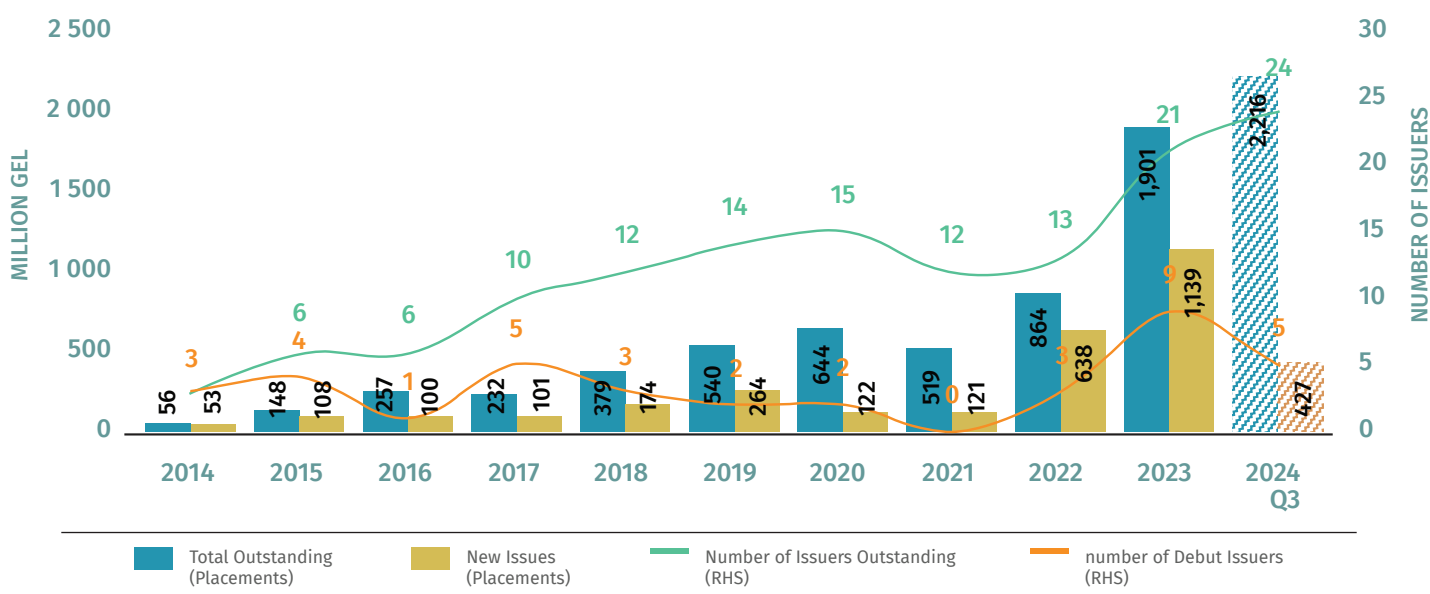
By the end of the year, out of 21 outstanding issuers, 9 had issued bonds for the first time (Chart 7, “debut issuers”).

KEY FACTORS DRIVING THE MARKET GROWTH IN 2023:

Between 2022 and 2023, the Capital Market Support Program (CMS)⁹, co-initiated by the National Bank of Georgia, was implemented by the EBRD with funding from the European Union. Through this program, issuance of bonds totaling 450 million GEL by 7 issuers was supported.

In 2023, the company "Georgia Capital" rolled over Eurobonds through the issuance of bonds worth 150 Million USD on the local market

CHART 7: Local Public Corporate Bond market



SOURCE: NBG

⁹ Under CMS program, underwriting costs were subsidized (including credit rating fees), educational sessions were conducted (eight in total) aimed at enhancing issuer awareness, and costs for Green, Social, Sustainability, and Sustainability-Linked (GSSS) certifications were covered.

OVER THE FIRST THREE QUARTERS OF 2024, THE VOLUME OF NEW ISSUANCES DECLINED COMPARED TO THE RECORD-HIGH ACTIVITY OF THE PREVIOUS YEAR. HOWEVER, THE TOTAL OUTSTANDING VALUE OF THE CORPORATE BOND MARKET HAS CONTINUED TO GROW:

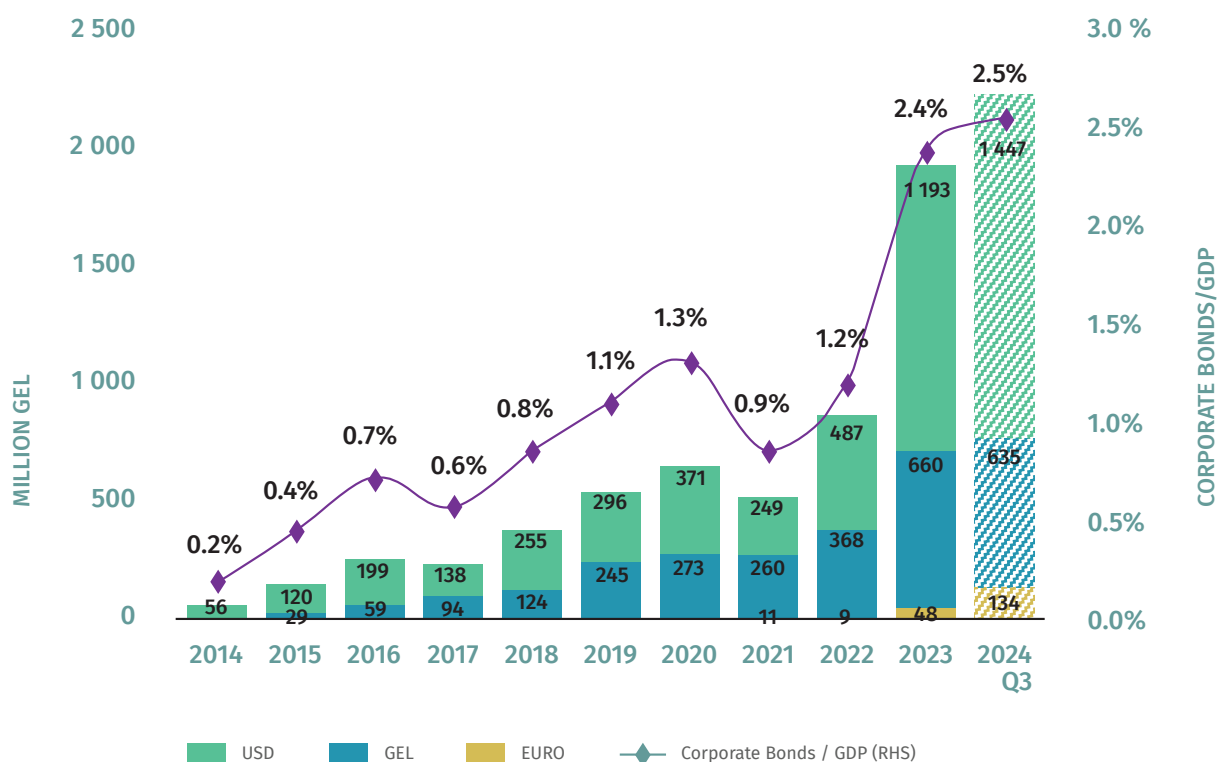
Over this period, bonds amounting to 427 million GEL were issued in the market.

Of this total, 126 million GEL was issued with support under the new Capital Market Support Program (CMS), managed by Enterprise Georgia.

- The program is expected to support issuance of bonds totaling up to 150 million GEL by the end of 2024.

Public corporate bond issuances, amounting to approximately 120 million GEL, are anticipated in the fourth quarter of 2024.

CHART 8: Public Corporate Bonds Outstanding by Currency



SOURCE: NBG

POSITIVE TRENDS ON GEORGIAN CORPORATE BOND MARKET

POSITIVE TRENDS CONTINUE TO SHAPE THE PUBLIC CORPORATE BOND MARKET:

The average size of issuances across all three currencies is steadily increasing, indicating stronger investor confidence and a willingness to participate in larger placements.

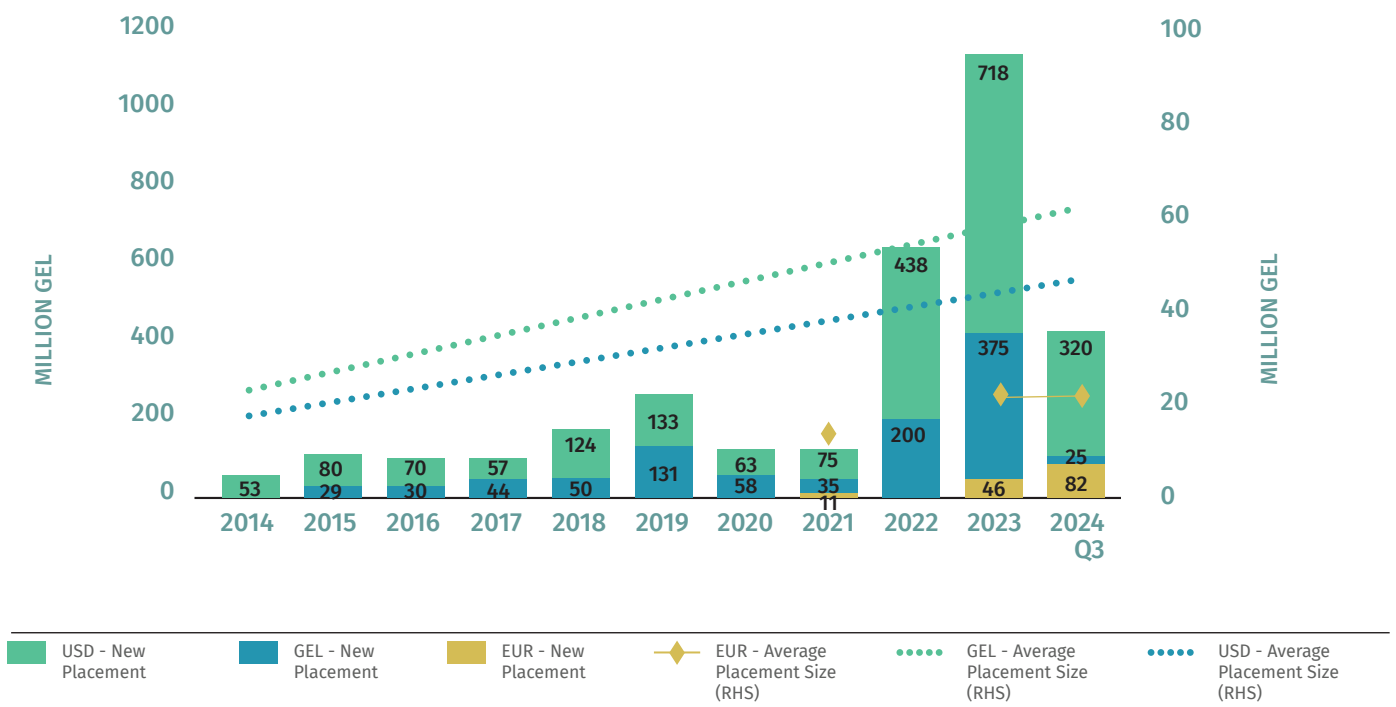
In recent years, the share of rated issuers in new placements has grown significantly (see Chart 10).

- Issuers of GEL-denominated bonds remain the most active in pursuing credit ratings.

Market diversification by sector has consistently improved over time (see Chart 11).

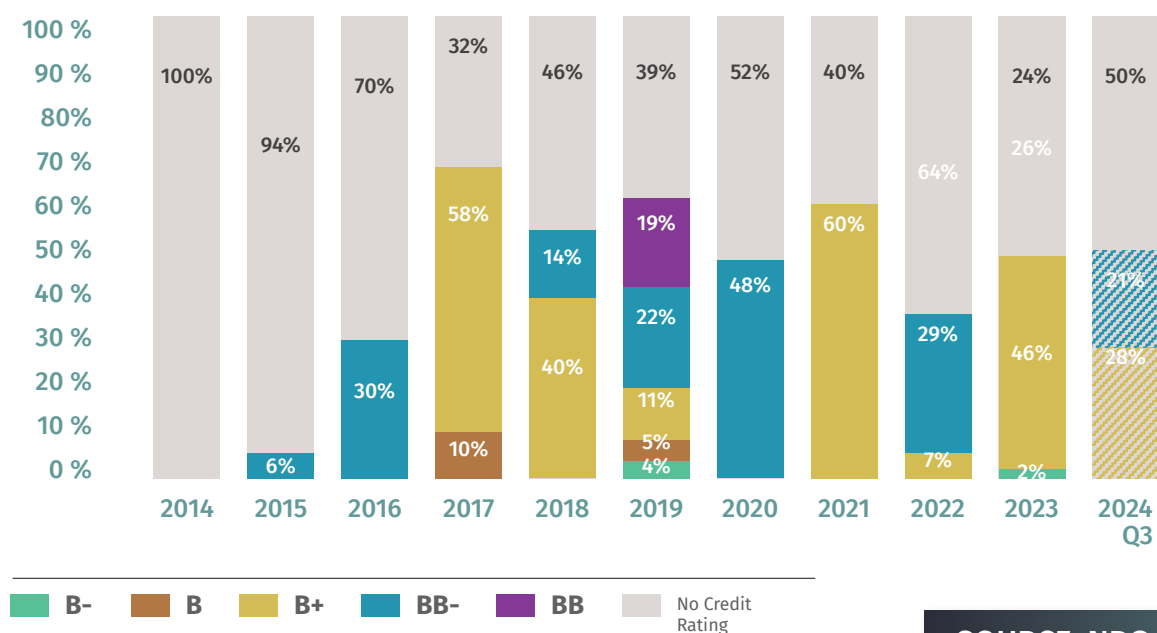
- In 2018, bonds were issued across four sectors, rising to six sectors in 2022, and reaching a historical high of nine sectors by 2023.

CHART 9: Public Corporate Bonds' New Placement by Currency



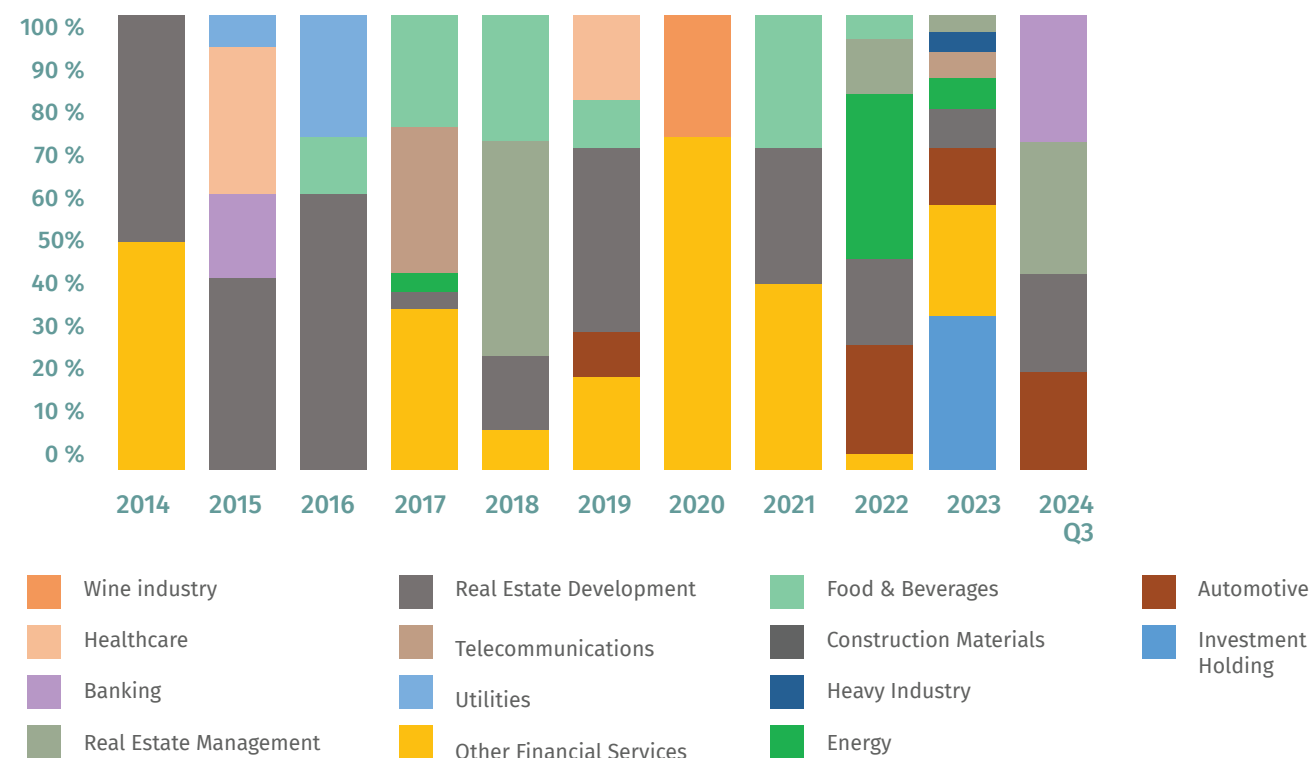
SOURCE: NBG

CHART 10: Public Corporate Bonds' New Placements by Issuer Rating



SOURCE: NBG

CHART 11: Public Corporate Bonds' New Placements by Sector



SOURCE: NBG

INVESTOR BASE AND SECONDARY MARKET ACTIVITY

ACTIVITY IN THE SECONDARY MARKET OF BONDS IN GEORGIA VARIES SIGNIFICANTLY DEPENDING ON THE ISSUANCE CURRENCY AND THE TYPE OF ISSUER:

- Corporate bonds issued in foreign currencies tend to show relatively higher levels of secondary market activity.
- The treasury bond market, by contrast, generally experiences lower levels of activity.
- Corporate bonds issued in GEL are seldom traded on the secondary market, with recent activity driven by a one-time transaction.

CHART 12: Georgian Secondary Bond Market Activity¹⁰



წყარო: სპბ, სსბ, სფს

¹⁰ Activity Level is calculated as the ratio of total annual transactions to the average annual balance. For corporate bonds, the data includes both exchange-traded and OTC transactions.

¹¹ The increased activity in the GEL-denominated corporate bond market in Q3 2024 is a one-time event.

DIFFERENCES IN LEVELS OF MARKET ACTIVITY ACROSS DIFFERENT MARKET SEGMENTS CAN BE TRACED BACK TO VARIATIONS IN OWNERSHIP STRUCTURES.

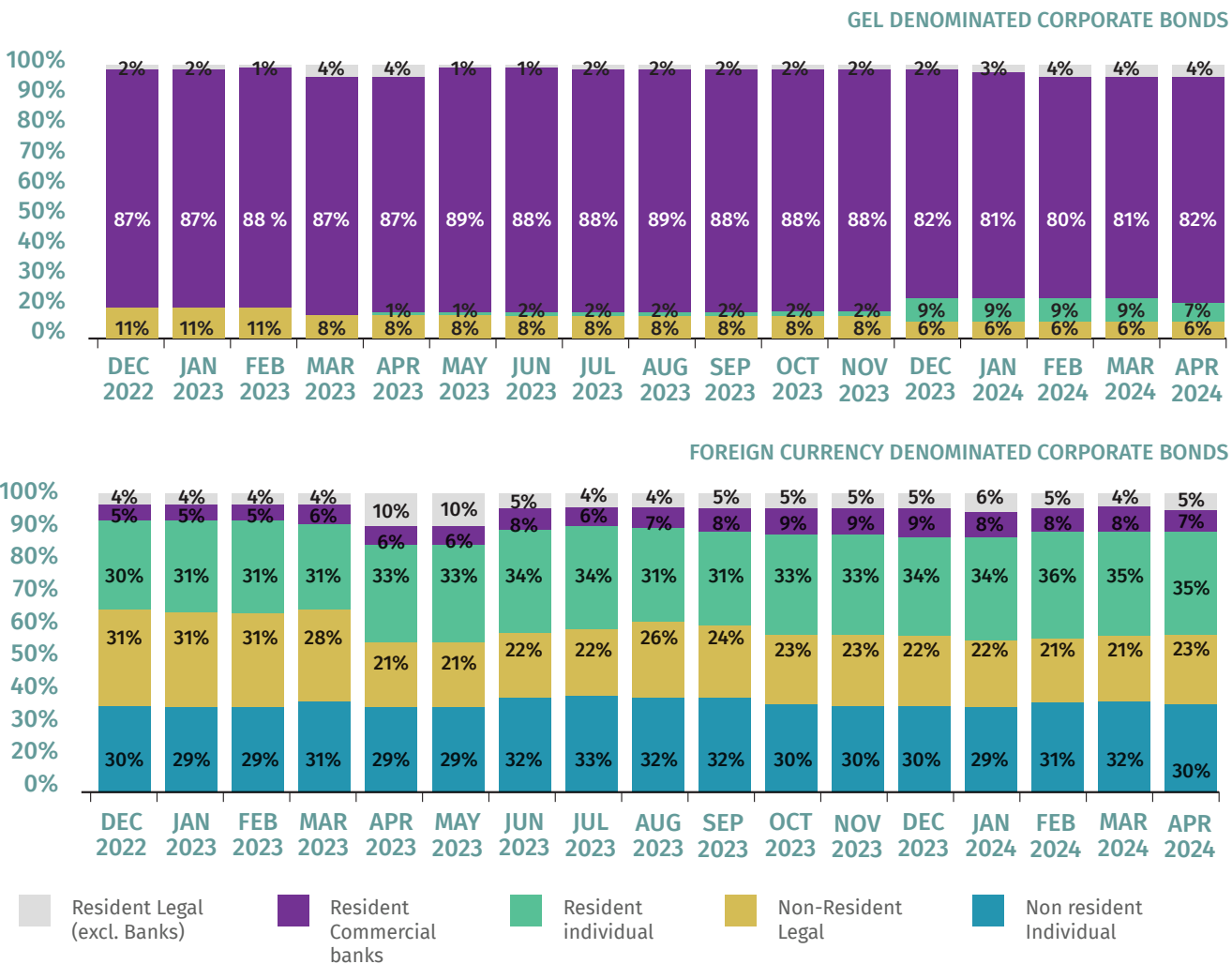
- Although the share of retail investors has slightly risen in recent months, commercial banks have historically purchased 80–90% of GEL-denominated bonds, primarily holding them to maturity.
- By contrast, holders of foreign currency-denominated bonds are more diverse, with a higher proportion of active retail investors, which supports relatively greater market liquidity.

Chart 6 illustrates the ownership structure of treasury bonds (Page 8).

CAUSALITY EXISTS BETWEEN RETAIL INVESTOR PARTICIPATION AND SECONDARY MARKET ACTIVITY.

- In an inactive market, bid-ask spreads tend to be higher, discouraging both resident and non-resident retail investors. These markets are dominated by local, long-term investors employing a 'buy-and-hold' strategy.

CHART 13 / 14: Corporate Bonds’ Holding Structure by Currency



INSTITUTIONAL INVESTORS

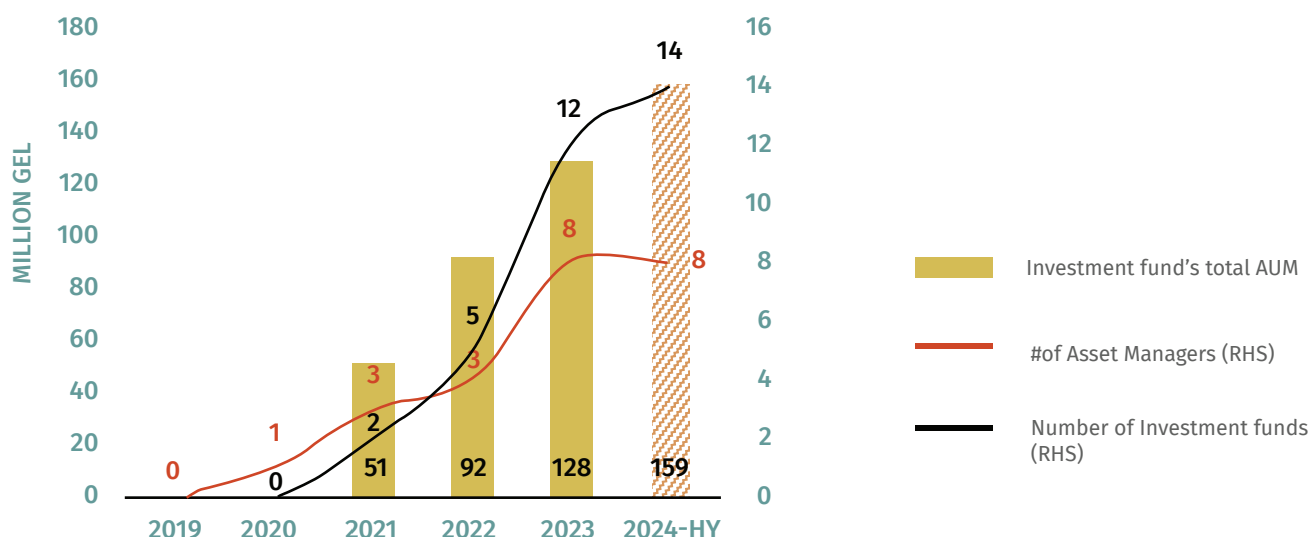
INVESTMENT FUNDS

AS OF JUNE 2024, THERE WERE 8 ASSET MANAGEMENT COMPANIES AND 14 INVESTMENT FUNDS OPERATING IN GEORGIA, WITH A COMBINED TOTAL OF 159 MILLION GEL IN ASSETS UNDER MANAGEMENT.

- | Most of these funds are credit and fixed income funds;
- | Currently, there are 3 fixed income funds which invest in both domestic and foreign debt securities.
- | In 2024, the first public (authorized) Money Market Fund (MMF) was established, which fully allocates its assets to GEL-denominated financial instruments, including debt securities.

Investment funds promote savings by offering alternative investment options; they also stimulate demand for securities and support the market's overall development.

CHART 15: Investment Funds and Asset Management Companies



SOURCE: NBG, INVESTMENT FUND REPORTS

PENSION AGENCY

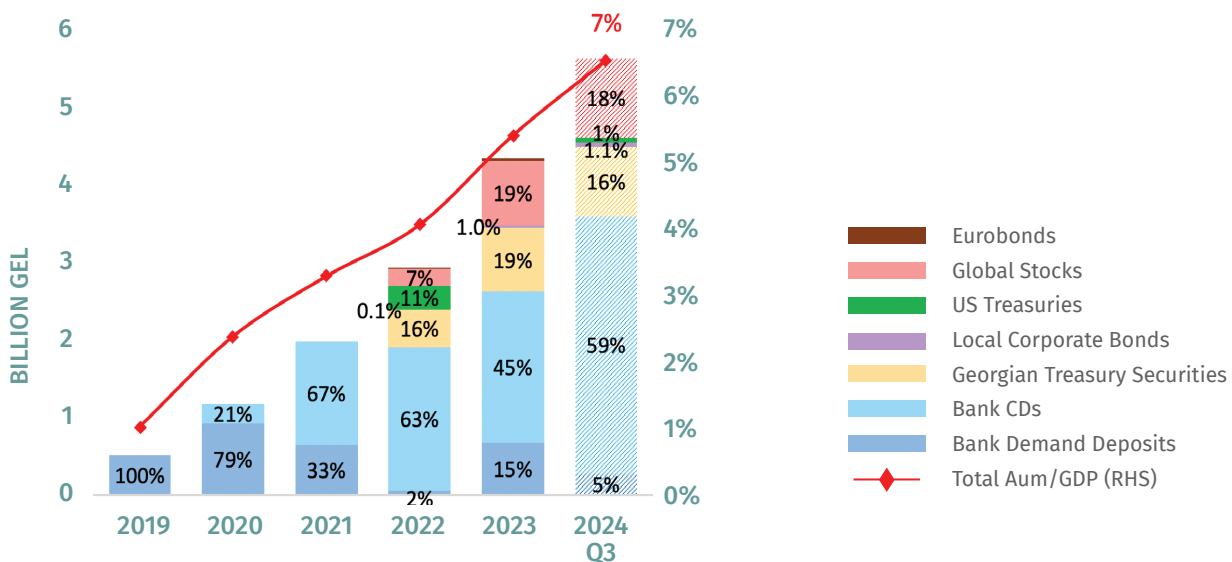
AS OF SEPTEMBER 2024, THE PENSION FUND'S ASSETS STOOD AT 5.6 BILLION GEL, WITH TOTAL RETURNS REACHING 1.3 BILLION GEL:

The largest - Conservative - portfolio which makes up 99% of total assets delivered an annualized net nominal return of 9.96% from inception through September 2024, corresponding to a real annualized return of 3.97%.

By the end of the second quarter of 2024, 1.1% of the pension fund's total portfolio (62 million GEL) was allocated to GEL-denominated corporate bonds, accounting for 9.9% of the entire GEL-denominated corporate bond market

As a large, long-term institutional investor, the pension fund helps drive demand for GEL-denominated debt securities and fosters stronger corporate governance practices among issuers.

CHART 16: Asset allocation of the Pension Agency



SOURCE: NBG, PENSION AGENCY

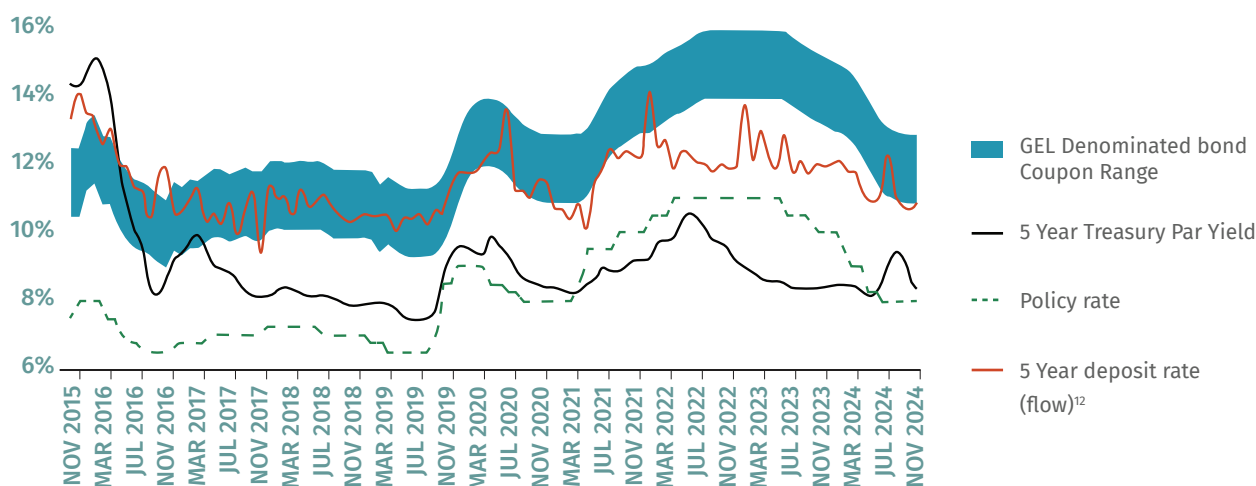
GEL INTEREST RATE ENVIRONMENT

ALTHOUGH GEL DENOMINATED CORPORATE BONDS ISSUED IN 2022–2023 HAVE RELATIVELY HIGHER YIELDS, RETAIL INVESTORS HAVE SHOWN LIMITED INTEREST IN THEM. POTENTIAL REASONS:

- Despite the ongoing de-dollarization trend, the U.S. dollar remains the primary savings instrument for many households.
- Limited financial literacy among the population.
- The spread between bond and deposit yields may be insufficient for retail investors to compensate for risk premium.

Taking into account the risk and liquidity premium, the spread between long term deposit rates and treasury bond yields is relatively high compared to other countries. This factor reduces retail investor interest in treasury bonds and negatively affects secondary market activity.

CHART 17: GEL Interest rate Environment

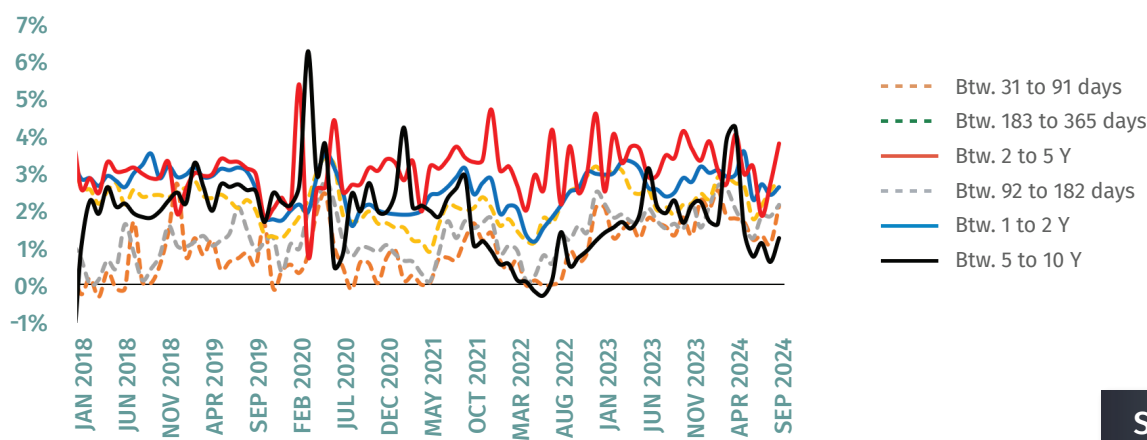


SOURCE: NBG

HIGH SPREADS BETWEEN DEPOSIT RATES AND TREASURY YIELDS CAN BE A RESULT OF TWO MAIN FACTORS:

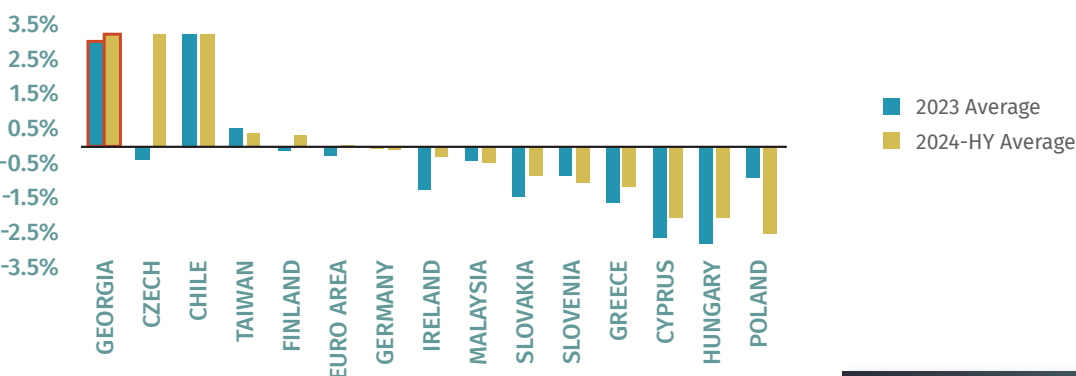
- Higher yields on GEL-denominated deposits, driven by the disparity in dollarization levels between loans and deposits.
- Lower yields on treasury bonds, caused by high demand from institutional investors such as commercial banks and the pension fund.

CHART 18: Spread between the returns on deposits¹² and par yields on treasury bonds with comparable maturities



SOURCE: NBG

CHART 19: Spread between the returns on long-term deposits (with maturities exceeding one year) and the par yields on treasury bonds in other countries.



SOURCE: NBG, OTHER CENTRAL BANKS

¹² As we are examining the interest rate environment from the perspective of retail investors, the deposit rates considered include only GEL deposits (including CDs) newly placed by households in banks during the specified month. Longer-term deposits typically have a higher proportion of CDs.

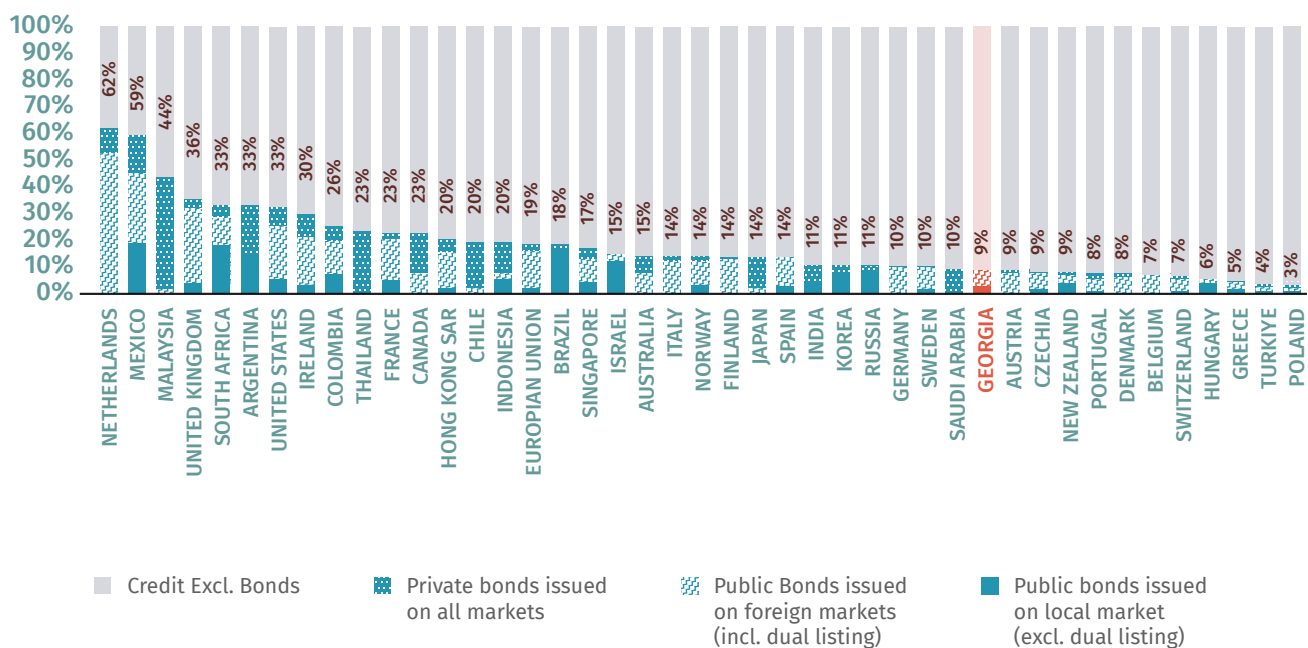
FUNDING SOURCES OF GEORGIAN NON-FINANCIAL CORPORATIONS

GEORGIAN NON FINANCIAL CORPORATE BOND MARKET DEMONSTRATES SIGNIFICANT GROWTH POTENTIAL:

The share of all types of corporate bonds issued by Georgian non financial companies (both public and private offerings, in local and foreign markets) constitutes only 9% of their total debt financing.

Although the volume of corporate bond issuances is on the rise, the gap with some other developed and emerging markets remains notably large.

CHART 20: Debt Financing Sources of Non Financial Corporations (2023)

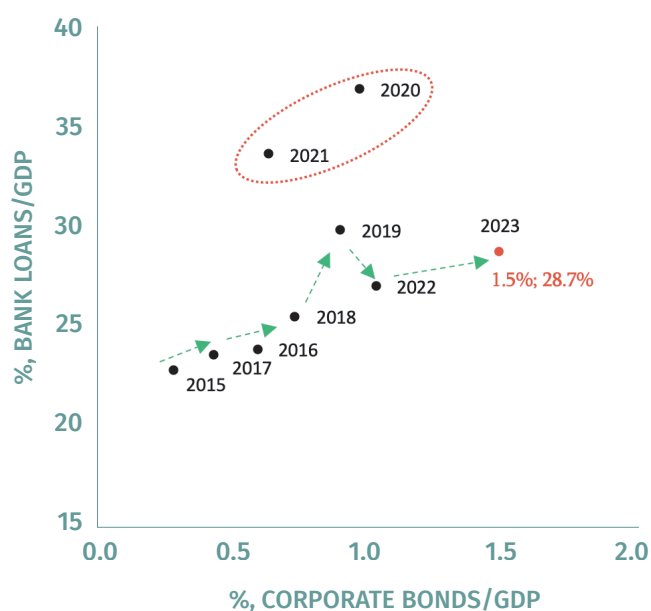


SOURCE: NBG, BIS

SINCE 2015, THE FUNDING STRUCTURE OF LOCAL NON-FINANCIAL CORPORATIONS HAS GRADUALLY IMPROVED.

Setting aside the exceptional impact of COVID-19 in 2020–2021—which led to an unusually high share of bank loans relative to GDP—the ratio of non-financial corporate bonds to GDP has steadily increased from 0.2% in 2015 to 1.5%.

CHART 21: Non Financial Corporations: Bank Loans vs. Locally Issued Public Bonds



SOURCE: NBG