საქართველოს ეროვნული ბანკი
National Bank of Georgia

Sustainable Finance in Georgia

Status Report

2024

საქართველოს ეროვნული ბანკი
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SUSTAINABLE FINANCE IN GEORGIA

STATUS REPORT

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I. Overview of Sustainable Finance Regulations and Policies in Georgia

NBG's Sustainable Finance Framework – brief overview

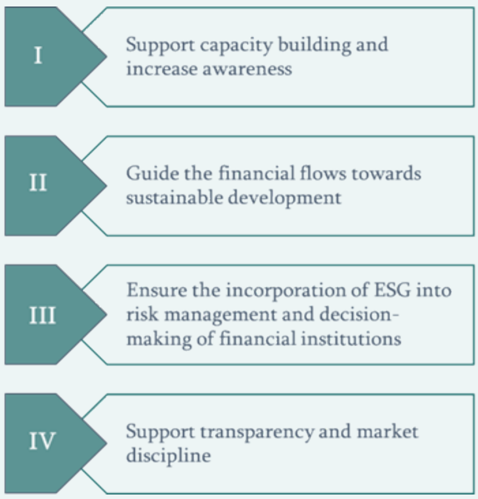
The sustainable development challenges that the world is increasingly facing require urgent actions to adapt public policies to this new reality. All of this inevitably calls for policy reforms to mobilize finance for economic growth that is green, stable, and inclusive. The financial system has a key role to play in this process, as there is no sustainable development without sustainable finance - be it public or private. Reorienting private capital to more sustainable investments requires a shift in how the financial system works. This is necessary if we want to achieve more sustainable economic growth, ensure the stability of the financial system, and foster more transparency and long-termism in the economy.

In order to ensure financial stability and support sustainable development, it is essential to incorporate environmental, social and sustainability issues in the central banks' policies. The National Bank of Georgia (NBG), as the central bank of the country, supports strengthening the role of the financial sector in the sustainable development of the country and for this purpose develops a framework for Sustainable Finance (SF). This framework implies the integration of Environmental, Social, and Governance (ESG) issues into financial decision-making of the financial sector, managing ESG-related risks, and reorientation of financial flows to the projects that have positive environmental and/or social effects. All of these contribute to long-term economic sustainability and financial stability.

In 2019, the NBG launched the Roadmap for Sustainable Finance in Georgia as the main policy document. The Roadmap summarizes all the possible actions that the NBG intendsto implement with the corresponding timeframe. The ultimate goal of this roadmap is to provide a credible, predictable, and stable regulatory framework and prepare the market for transitioning to sustainable finance.

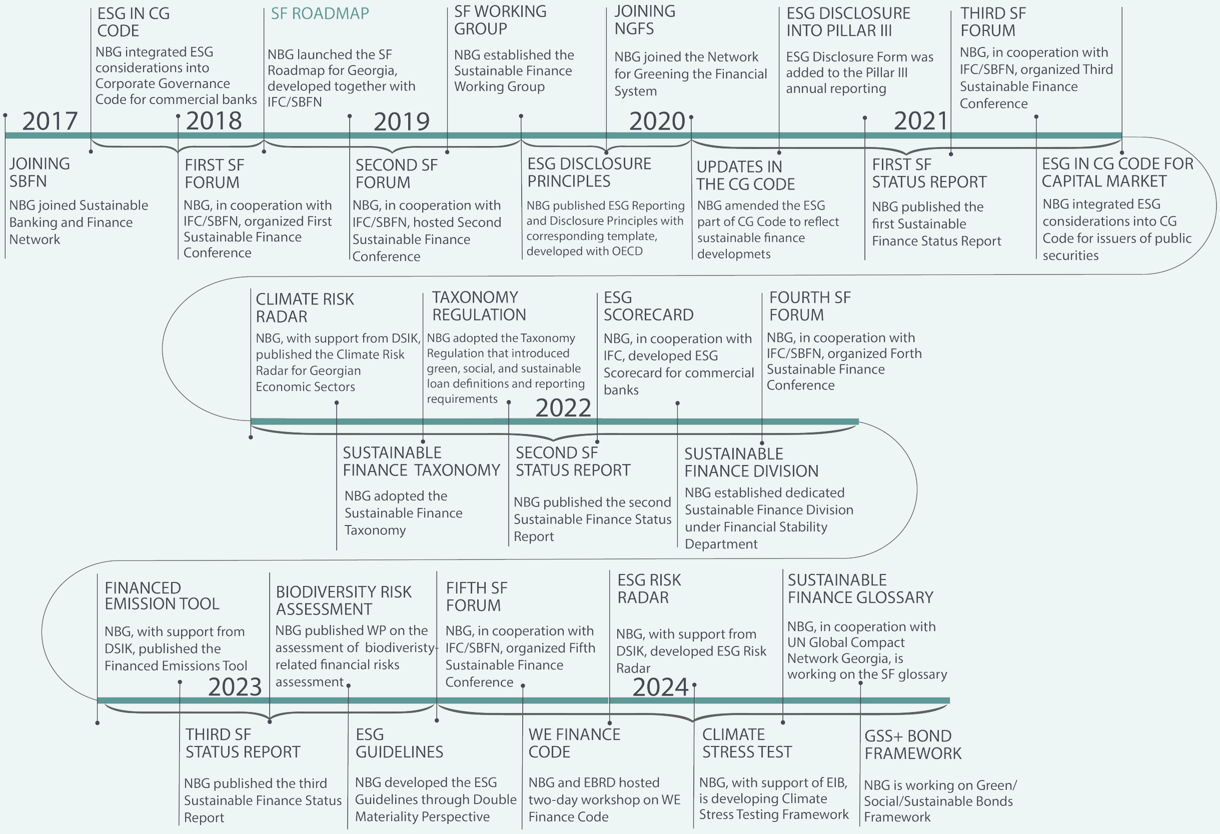
The actions listed in the Roadmap are grouped under four main pillars each of them serving different goals set out in the action plan.

Pillars of the SF Roadmap:



Most of the actions outlined in the roadmap are already implemented or in the development process. Diagram 1 summarizes the main actions that the NBG has taken over the past few years. The NBG continues developing SF framework and plans to publish a new roadmap that will outline the action plan for the upcoming years.

Diagram 1. NBG's Sustainable Finance Framework Implementation



Source: NBG

The development of the SF Framework and the implementation of the action plan is carried out with collaboration and support from various international organizations, including International Finance Corporation (IFC), IFC-supported Sustainable Banking and Finance Network (SBFN), Organization for Economic Cooperation and Development (OECD), Finance in Motion, Green for Growth Fund (GGF) Technical Assistance Facility, German Sparkassenstiftung for International Cooperation (DSIK), NDC Partnership, European Investment Bank (EIB), UN Global Compact Network Georgia, European Bank for Reconstruction and Development (EBRD). Coordinating with financial institution through the Sustainable Finance Working Group and other local stakeholders, including various ministries, is also a part of the process. Apart from that, the NBG has been an active member of Sustainable Banking and Finance Network (SBFN) since 2017 and the Network for Greening the Financial System (NGFS) since 2020. At this stage, the NBG has an appointee at the NGFS's Workstream on "Scenario Design and Analysis" and a representative at the plenary. At SBFN, the NBG is a part of the Measurement Working Group and one of two co-chairs of Data & Disclosure Working Group. During these years, the NBG has learned from and shared its national sustainable finance development experiences with other SBFN members. In April 2024, the NBG moved to the Consolidating Stage of the SBFN Progression Matrix, which measures the progress of SBFN member countries in promoting sustainable finance (see Diagram 2). This advancement was the result of the actions undertaken by the NBG toward the development of the sustainable finance framework in Georgia.

Diagram 2. SBFN's Sustainable Finance 6-step Progression Matrix

Source: SBFN (2024), Global Progress Brief 2024

Policy and Regulatory Highlights from 2023-2024

The NBG remains committed to advancing its Sustainable Finance Framework and continues to implement various initiatives. The list of activities carried out in 2023-2024[1], as well as some ongoing projects, include:

- ✓ Publication of the ESG Guidelines through a double materiality perspective – In December 2023, under the ESG Risk Management pillar of the Sustainable Finance Framework outlined in the Roadmap for Sustainable Finance in Georgia, the NBG published the ESG Guidelines through a double materiality perspective (ESG Guidelines). The aim of the ESG Guidelines is to enhance ESG integration by financial institutions and improve the management of ESG risks, including those related to climate change. The ESG Guidelines, which adopt a holistic approach to ESG integration and risk management, were developed in cooperation with international experts and commercial banks and are based on the best international standards. The existing ESG risk management practices of commercial banks were also considered in the development process, making the Guidelines tailored for the Georgian financial sector. The Corporate Governance Code for Commercial Banks sets requirements for commercial banks to integrate ESG issues and manage ESG risks. The ESG Guidelines aim to help commercial banks meet these requirements and provide main principles for managing risks and opportunities in line with international best practices. Furthermore, these guidelines will serve as a reference for the NBG, enabling the evaluation of existing ESG risk management frameworks within commercial banks and facilitating ongoing monitoring of their progress toward ESG integration and risk management.

- ✓ Development of the ESG Due Diligence Checklist Tool – The NBG, with support from DSIK, developed the ESG Due Diligence (DD) Checklist Tool. The ESG DD Checklist Tool, developed as part of the ESG Guidelines, follows the same double materiality approach (considering both inside-out and outside-in perspectives), varies in scope and depth based on the initial categorization of the transaction. The tool defines both outside-in and inside-out risk scores on a scale from 1 (lowest risk) to 6 (highest risk). The final outcome, the ESG Risk Rating score, falls within this range and is classified into High, Medium, and Low-Risk categories. This tiered approach ensures a nuanced and tailored evaluation that aligns with the specific characteristics and risk exposure of different transaction categories, providing a holistic perspective on their ESG performance and risk profiles. The ESG Risk Ratings and corresponding allocation to risk categories are further used in the ESG risk management process.

- ✓ Development of the ESG Risk Radar – The NBG, in collaboration with DSIK, published the "ESG Risk Radar for Georgia – Assessment of Climate-related and other ESG Risks". This report marks a significant advancement from the 2022 Climate-related Risk Radar, featuring an optimized and streamlined methodology that reduces subjectivity and enhances precision. By incorporating sub-scores for all major scoring items,the report offers a more detailed and transparent assessment of ESG risks,

[1] For descriptions of activities implemented in previous years, please refer to the reports from those years: https://nbg.gov.ge/en/page/sustainable-finance-in-georgia

providing a robust evaluation tailored to the Georgian context. The report introduces an ESG Scorecard specifically designed for Georgian economic sectors and evaluates the financial sector's exposure to these sectors at both the individual institution and national levels. The enhanced methodology employs a top-down approach, effectively addressing challenges related to data availability at the loan level. This approach allows for a detailed examination of a range of climate-related risks, including acute and chronic physical risks and transition risks. Additionally, it considers other ESG risks such as biodiversity loss and potential human rights violations. The ESG Risk Radar employs a comprehensive five-step scoring methodology applied across all major sectors in Georgia, classified according to NACE sector codes. The process includes: Conducting initial desk research for sector-level ESG risk assessments based on diverse information sources; Integrating local expertise; Compiling an extensive ESG risk database and sector profiles; Developing a heat map assessment for both individual institutions and the national level; Fully disclosing findings and methodology for practical use by financial institutions.

✓ Development of Climate Stress Testing Framework and publication of the results from the first climate stress test exercise – The NBG has developed its Climate Stress Testing Framework and published the results from the first climate stress testing exercise for the Georgian financial sector in 2024 Financial Stability Report. The Framework was developed with financial support from the European Investment Bank (EIB) and in collaboration with international experts from EconLab. It is an integrated approach that combines several analytical modules to comprehensively assess climate-related risks. The framework employs a top-down approach that leverages the NBG's existing Top-down stress testing methodology, and it includes several satellite models and tools designed to project and stress test various economic and financial impacts. By covering both physical and transition risks, the framework provides a holistic view of the challenges posed by climate change. It also uses NGFS Climate Scenarios as reference scenarios to align the stress tests with globally recognized standards. The framework is comprehensive, covering both retail (Household sector) and non-retail portfolios (Corporate sector), ensuring that all significant exposures within Georgia's financial sector are evaluated for potential climate-related vulnerabilities. The framework includes Acute Physical Climate Risk Module; Transition Risk and Chronic Physical Risk Module; Stress Test Module for Corporate Sector; and Stress Test Module for Household Sector. Each of these modules works in conjunction to provide a holistic view of the potential economic disruptions and financial stability challenges posed by climate change. The publication of the Climate Stress Testing Framework is expected by the end of the year.

✓ Development of the GSS+ Bonds Framework – The NBG has developed a framework and draft regulation for Green, Social, Sustainable, and Sustainability-linked (GSS+) bonds. This framework outlines the conditions for granting, maintenance, and cancelation GSS+ bond status, as well as the associated reporting requirements. Eligible economic activities are defined by the NBG Sustainable Finance Taxonomy or an equivalent international taxonomy. The regulation prohibits the use of the GSS+ label for public bonds that do not comply with the set requirements, and failure to provide timely reviews or reports can lead to the revocation of the bond's status. The primary goals of the regulation are to prevent greenwashing, protect investors, and ensure the credibility of the market. The framework was developed with input from international financial institutions, including IFC, EBRD, and the World Bank. Public consultations on the draft regulation were completed by the end of March 2024, and the final adoption of the GSS+ bonds framework and corresponding regulation is expected by the end of the year.

- ✓ Establishment of the Inter-agency Sustainable Finance Coordination Council – To enhance coordination and information sharing on sustainable finance, the NBG is in the process of establishing an inter-agency Sustainable Finance Coordination Council. The Council will include representatives from the NBG, the Ministry of Finance (MoF), the Ministry of Economy and Sustainable Development (MoESD), the Ministry of Environment Protection and Agriculture (MEPA), and the Service for Accounting, Reporting and Auditing Supervision (SARAS). The Council will be chaired by the Head of the Financial Stability Department of the NBG, with the Sustainable Finance Division serving as the secretariat. The Council's primary objective is to coordinate existing and forthcoming regulatory policies and activities related to sustainable finance in Georgia, as well as to facilitate information exchange among its members. To achieve these goals, the Council will have the authority to establish thematic working groups aimed at promoting effective interagency collaboration in analyzing sustainable finance issues and developing technical documents. The formal establishment and first meeting of the Council are planned for the end of the year.

- ✓ Development of a Sustainable Finance Glossary – The NBG, in collaboration with the UN Global Compact Network Georgia, is developing a Sustainable Finance Glossary in Georgian. This glossary will feature the most widely used concepts and terminology in the field of sustainable finance, offering internationally accepted definitions. The goal is to establish a standardized translation of key terms and concepts, enhancing clarity and consistency in the market. This initiative aims to ensure that all stakeholders have a common understanding of sustainable finance terminology, thereby facilitating effective communication and implementation of sustainable finance practices in Georgia.

- ✓ Evaluation of the Green Loans – In 2022 the NBG adopted the Regulation on Loan Classification and Reporting according to the Sustainable Finance Taxonomy (Taxonomy Regulation). This regulation not only defines green, social, and sustainable loans but also imposes reporting requirements on commercial banks for taxonomy-aligned loans. Starting in 2023, banks are required to submit monthly reports on green loans using the Green Loan Monthly Reporting Form defined by the Taxonomy Regulation. To ensure the accuracy of these reports and prevent greenwashing, the NBG conducts periodic evaluations (at least once a year) of the reported green loans. For this purpose, a methodology and corresponding activity-level questionnaires were developed. The evaluation process involves selecting a sample of green loans from financial institutions to ensure a comprehensive review of credit practices. Detailed information is collected through questionnaires, and banks are required to provide supporting technical documentation for each selected green loan. This documentation must demonstrate compliance with the established green loan criteria outlined in the Green Finance Taxonomy. The first evaluation was conducted on the portfolio reported in December 2023, and the results showed that banks are accurately identifying green loans, with no evidence of greenwashing found.

- ✓ Hosting Sustainable Finance Forum – In March 2024, the NBG hosted the Fifth International Sustainable Finance Forum in Tbilisi, Georgia. Organized in cooperation with the IFC and SBFN, and supported by the Swiss State Secretariat for Economic Affairs (SECO), the event attracted over 200 attendees from 15 countries, including senior representatives from EU and SBFN member countries, central banks, local financial institutions, international organizations, private and public sector representatives, universities, and other stakeholders. The forum featured insightful discussions on sustainable finance frameworks, with a particular emphasis on emerging countries. Key topics included strategies employed by regulators and market participants to address ESG and climate-related risks, the role of taxonomies in supporting sustainable finance, and the importance of disclosure and transparency. The private sector's perspectives on the challenges and opportunities in sustainable finance were also explored, with participants sharing their plans and projects. This forum marks the fifth event hosted by the NBG in partnership with the IFC and SBFN. Since its inception in 2018, the forum has become a regular platform for meaningful discussions among various stakeholders on the development of sustainable finance in Georgia and the broader region.

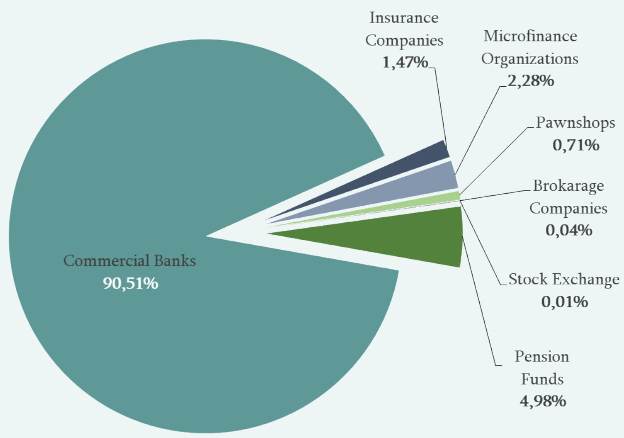
- ✓ Organizing workshop on WE Finance Code – In September 2024, the NBG, in collaboration with the EBRD, hosted a two-day workshop on leveraging data for advancing finance to women entrepreneurs and the WE Finance Code. The Women Entrepreneurs Finance Code (WE Finance Code) is a multi-stakeholder effort to advance the collection of sex-disaggregated SME data, and promote its use to design gender responsive entrepreneurship policies that work for both women and men, enabling them to grow and contribute to their economies and communities. The workshop brought together representatives from the financial sector, public institutions, development partners, and other key stakeholders. The event emphasized the importance of sex-disaggregated data in developing products and services for women-owned and women-led SMEs and to introduce the new SME/WSME Dashboard, which offers insights into gender-specific credit and deposit data for entrepreneurs. The NBG, with support from the EBRD, will continue to work on enhancing the SME/WSME Dashboard and aligning it with the needs of the financial sector and WSMEs, with the aim of advancing gender equality and financial inclusion in Georgia.

II. Overview of Sustainable Finance Market Development in Georgia

The financial sector in Georgia is mainly comprised of commercial banks (see Diagram 3). Currently, there are seventeen commercial banks holding around 91% of total assets in the financial sector. Apart from that, the concentration is high, with the two largest banks accounting for around 77% of total assets in the banking sector and 70% in the financial sector. Pension funds share is increasing standing at around 5% by the end of 2023. While the share of microfinance institutions (MFIs) is quite small, they play an important role, especially in financing SMEs and access to finance in rural areas. While the insurance market has been growing in recent years, it still has a relatively small share in the total assets of the financial sector.

Taking these characteristics of the Georgian financial system into account, the NBG's sustainable finance policies and regulations are currently mainly directed at commercial banks. However, the NBG also acknowledges the importance of the capital market for scaling up sustainable finance and thus, includes actions dedicated to capital market participants in its SF action plan.

Diagram 3. Structure of the Georgian Financial Sector by Assets, Dec. 2023



Source: NBG

Where the commercial banks stand in terms of ESG – evidence from ESG Reporting

The Corporate Governance Code for Commercial Banks sets the mandatory ESG disclosure requirements, while the "Regulation on Disclosure Requirements for Commercial Banks within Pillar 3" defines the ESG Reporting Form as a part of the Pillar 3 Annual Reporting and refers to the NBG's ESG Reporting and Disclosure Principles for guidance.

In 2024, commercial banks filled out the ESG forms for the fourth time. Reports from 2021, 2022, 2023 and 2024 are now available on the NBG's webpage. This section summarizes the main findings from these forms and highlights Key Performance Indicators (KPIs)[2] on ESG for the Georgian financial system. The disclosed

[2] For more detailed information regarding each commercial bank, please visit: https://nbg.gov.ge/financial-stability/esg-reporting-and-disclosure

information includes qualitative information regarding business model, policies and due diligence, risk management, and quantitative information on the KPIs related to different ESG issues.

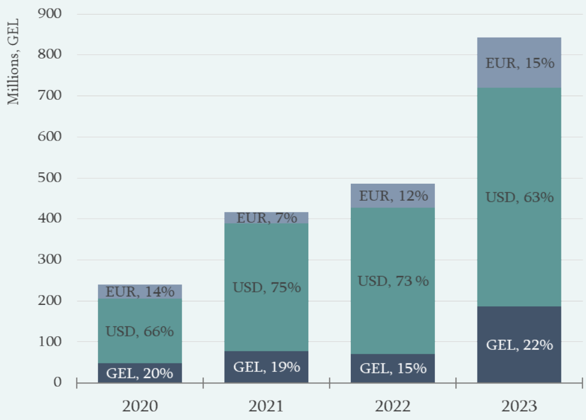
Analysis of the ESG related information from fifteen commercial banks shows that despite some progress over the last couple of years, there is still big room for improvement. Apart from that, the ESG practices vary across the institutions. There are few commercial banks that are quite advanced in terms of sustainable finance and ESG risk management practices, and they also have other social and environmental policies in place. On the other hand, some banks have not yet implemented the ESG policies but are in the process of developing or plan to develop their ESG policies in the near future. Detailed results separately on E, S and G are presented below.

E – Environmental

In 2024, commercial banks were allowed to use both the Sustainable Finance Taxonomy and their own definitions when reporting on green loans in their annual ESG forms, as most banks were still in the early stages of implementing the Taxonomy. This exception was made for the year to facilitate a smooth transition in green loan reporting. Out of fifteen commercial banks, only seven provided data on green loans for 2023, and five of them reported loans according to the Taxonomy.

In 2023, the reported volume of total green loans issued amounted to around GEL 843 million (USD 313 million[3]) (see Diagram 4). It is a 73% (17% in 2022) increase compared to green loans issued in 2022, excluding exchange rate effect. Most of the loans issued in 2023 were still denominated in USD (see Diagram 4). The share of green loans in total loans issued in 2023 is 1.8% that is 0.6 pp higher compared to the previous year. Among those banks that provided data on green loans, the share of green loans in the total loans issued during 2023, on average, was around 2.7%.

Diagram 4. Total Green Loans Issued in 2020-2023 (excluding exchange rate effect)



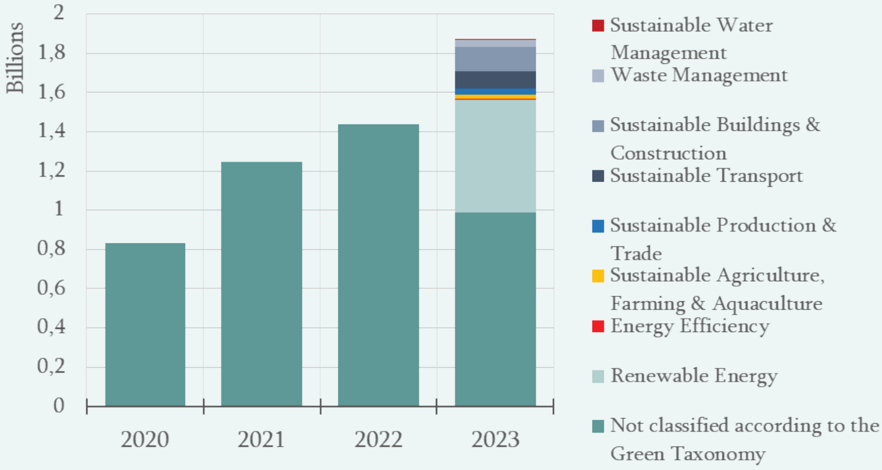
Source: NBG

As of the end of 2023, the total amount of green loans outstanding stood at approximately GEL 1.9 billion (USD 694 million) (see Diagram 5). The stock of total green loans increased by 30% in 2023 (compared to 15% in 2022) compared to the previous year, excluding exchange rate effect. The share of USD denominated green loans increased compared to the previous year and stood at 67%. As of the end of 2023, the share

[3]The value is calculated using the end of Dec. 2023 GEL/USD and GEL/EUR exchange rates.

of green loans in the total outstanding portfolio was 3.5% compared to 3.2% in 2021 and 2.9% in 2021, showing a slow but persistence increase. At the bank level, on average, share of green loans was around 4.7%, with the highest share of around 14%.

Diagram 5. Total (Taxonomy-aligned and other green loans) Green Loans Outstanding (excluding exchange rate effect

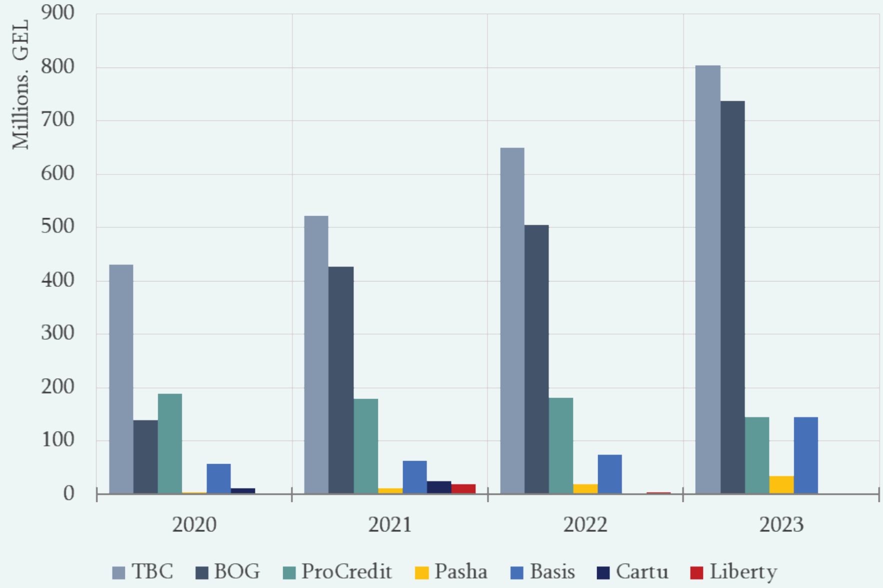


Source: NBG

Following the introduction of the Taxonomy Regulation, five banks have initiated the implementation of the Sustainable Finance (SF) Taxonomy. As of December 2023, the SF Taxonomy-aligned green loan portfolio amounted to approximately 932 million GEL, representing around 50% of the total green portfolio and 1.7% of the total lending portfolio (see Diagram 5). For loans disbursed in 2023, Taxonomy-aligned green loans amounted to around 491 million GEL, accounting for approximately 58% of green loans and 1% of the all loans issued that year. These relatively low shares can be partly attributed to the ongoing implementation process by banks and the fact that not all banks have begun adopting the Taxonomy.

In terms of the sectoral breakdown, the majority, accounting for 65%, was directed towards the renewable energy sector, with a notable 57% specifically dedicated to hydropower projects. Additionally, 14% of these loans are channeled into the sustainable buildings and construction sector, while 10% into the green transport sector (see Diagram 5). Overall, as of December 2023, taxonomy-aligned green loans were issued in eight different sectors.

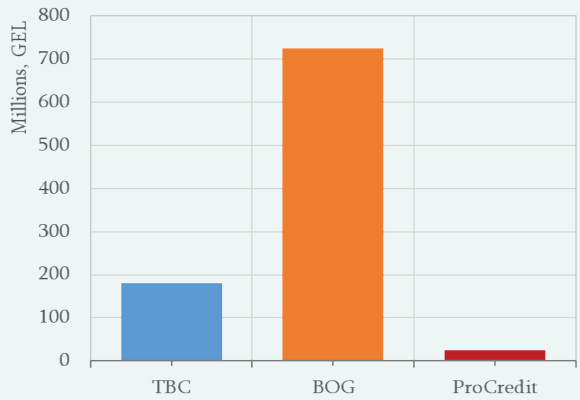
Diagram 6. Total (Taxonomy-aligned and other green loans) Green Loans Outstanding by Banks (excluding exchange rate effect)



Source: NBG

When it comes to the active participation of banks in promoting green lending in Georgia, two financial institutions take the lead. If we consider total green loan portfolio that includes both the Taxonomy-aligned and other green loans, TBC bank holds the biggest share of the total green portfolio, commanding 43% share of the market. Following closely, Bank of Georgia (BOG) secures second place with a 39% share, while ProCredit Bank and Basis Bank share the third position with 8% (see Diagram 6). However, if we look only at the Taxonomy-aligned green loan portfolio the picture changes. In this case, BOG dominates the market, followed by TBC and ProCredit (see Diagram 7). The Taxonomy-aligned green loans reported by other two banks, Cartu Bank and Credo Bank, are negligible.

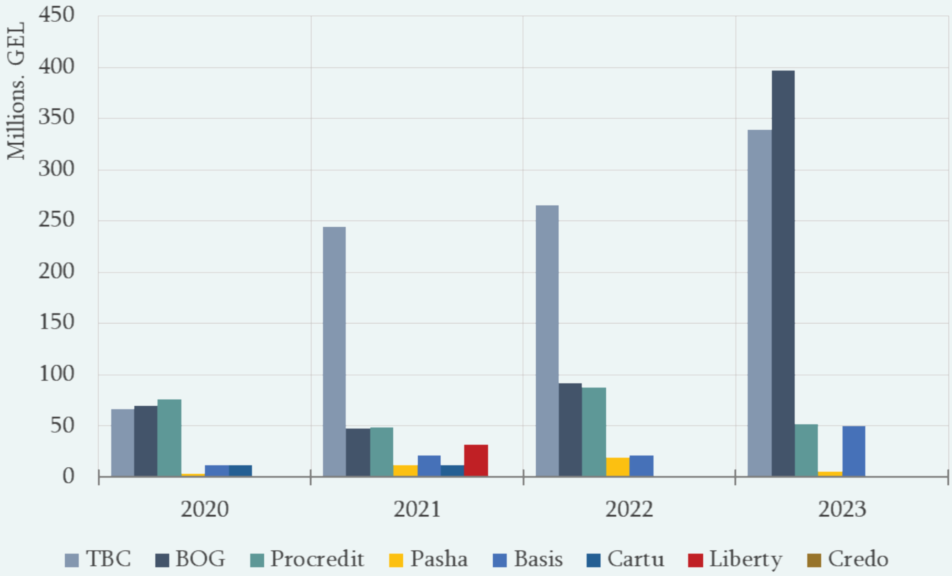
Diagram 7. Taxonomy-aligned Green Loans Outstanding by Banks, Dec. 2023



Source: NBG

In 2023, Bank of Georgia led the market in green loan disbursements (see Diagram 8). That year, BOG issued 47% of all green loans, followed by TBC with 40%, and ProCredit Bank and Basis Bank each with approximately 6%. The market distribution remains similar when considering only Taxonomy-aligned green loans. In 2023, 78% of Taxonomy-aligned green loans were issued by BOG, followed by TBC with 19% and ProCredit Bank with 3%.

Diagram 8. Total (Taxonomy-aligned and other green loans) Green Loans issued by Banks during 2020-2023 (excluding exchange rate effect)



Source: NBG

In terms of environmentally friendly activities, most banks have initiated some practices, mostly related to replacing vehicles with internal combustion engines with hybrid or electric cars and improving the energy efficiency of their offices and buildings. Apart from that, the majority of the commercial banks have waste management policies in place, mainly related to recycling, reducing, and separation.

Out of fifteen banks, eight disclosed data on Greenhouse Gas (GHG) emissions—double the number from the previous year. Additionally, some banks have started reporting financed emissions, a development positively influenced by the methodology and tool developed by the NBG. However, the reports indicate no significant progress in emissions target setting among commercial banks, with only one bank having set a target in this regard.

S – Social

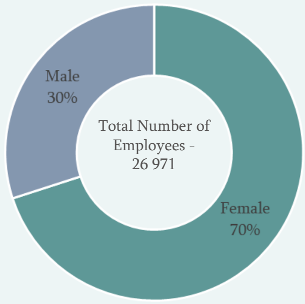
The social part of the KPIs includes questions related to diversity in the workplace, training and education, customer privacy and satisfaction, workplace health and safety and other related topics.

By the end of 2023 there were around 27 thousand people employed in the Georgian banking sector (see Diagram 9). Compared to the previous year, employment in the banking sector increased by 6% (compared to 8% in 2022). In 2022, the average employee turnover rate[4] was 19%, which is 2 percentage points lower compared to 2022. There have been some outliers with a turnover rate as low as 5% and as high as 30-31%.

[4] Annual turnover rate=100*((number of employees who left)/((beginning+ending number of employees)/2))

In terms of gender diversity, as of the end of 2023, 70% of all employees were women that is one percentage point increase compared to 2022. This result is relatively similar across all commercial banks, with the lowest share being 45% and the highest at 72%. However, the share of females in senior management (board of directors, supervisory board) stands at a lower level and is 30% (compared to 26% in 2022), on average. There have been some changes across commercial banks and there has been more convergence in shares compared to the previous year. As for the gender structure at the middle management level, by the end of 2023, on average, women held 49% (compared to 27% in 2022) of these positions.

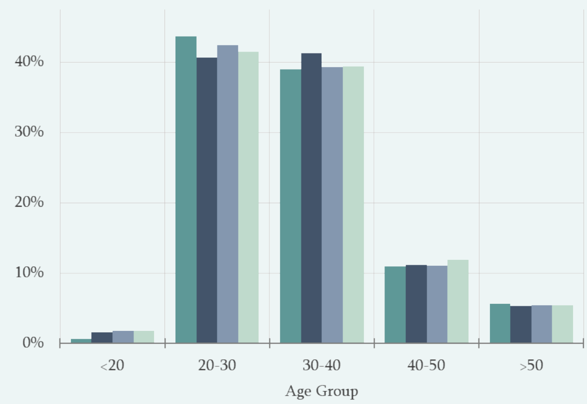
Diagram 9. Gender Diversity in the Georgian Banking Sector, Dec. 2023



Source: NBG

In the Georgian banking sector, as of the end of 2023, the highest share of employees are within the age groups of 20-30 and 30-40 with 41.5% and 39.4% shares respectively (see Diagram 10). Age distribution has a similar pattern across commercial banks in Georgia and has remained almost the same compared to the previous year. Regarding the employment of people with disabilities, only four banks, compared to two in the previous year, indicated positive numbers, and the share in the total employment is below 1%. On the other hand, nine banks specified that at least some of their branches are fully or partially adapted and have special facilities and dedicated infrastructure for customers with disabilities. There has not been any significant improvement in this regard since 2022.

Diagram 10. Age Structure of Employees in the Georgian Banking Sector, Dec. 2023



Source: NBG

During 2023, all commercial banks have provided training for their employees, however, the coverage varies. There are few banks where only 17% or fewer employees have attended the training. More than half of commercial banks have organized training for 50% or more of the employees, while some of them even covered the whole personnel. The difference regarding average expenses on training per employee is also evident. The expenses also depend on the type of the trainings, since some banks mainly offered internal trainings, which are less costly, while others provided both internal and external trainings for their employees.

In terms of workplace health and safety, all banks indicated that they have corresponding policies and procedures in place. Such policies include Occupational Safety Management Plan, Labor safety policy, Emergency action plan, among others. Apart from this, training on fire safety, emergency response, and other occupational safety issues is provided to the employees on a regular basis.

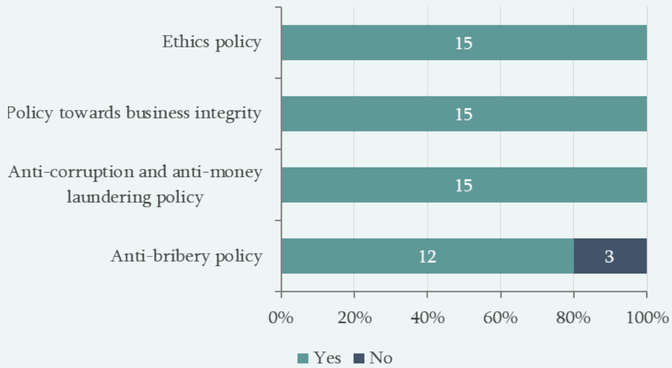
G – Governance

The information provided in the ESG reporting forms indicates that ten out of fifteen commercial banks have a designated officer or body responsible for overseeing environmental and social policies and practices. Apart from that, with only a couple of exceptions, almost all banks reported having some ESG policies and procedures.

In most cases, it is related to ESG risk management practices. However, some banks have also incorporated ESG consideration into their strategy. Moreover, results show that if there is an ESG policy in a bank, the supervisory board or board of directors approves it. Some banks have also established processes for consultation between stakeholders and the board of directors or supervisory board on environmental and social topics.

Besides the ESG risk management policies, almost all the banks have also established policies related to ethics, business integrity, anti-bribery, etc. (see Diagram 11).

Diagram 11. Number of Commercial Banks with Corresponding Policies in place, Dec. 2023



Source: NBG

Bond Market Highlights

The capital market, despite some progress, is still at an early stage of development in Georgia. Nevertheless, the bond market has demonstrated a robust upward trajectory in recent years, and this upward momentum persisted throughout the year 2023 and the first half of 2024 (see Diagram 12). Anticipated to sustain this momentum and foster further market growth are a series of legislative and regulatory reforms, and the introduction of new products.

Similar to previous years, the upward trend in the bond market continued in 2023. Compared to the previous year, this market segment grew by 39.6%, reaching 5.32% of the gross domestic product.

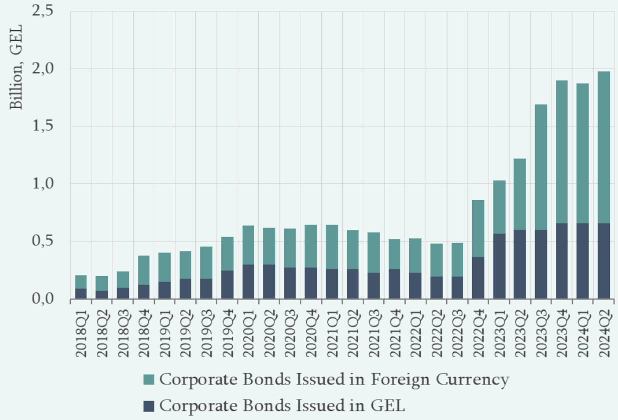
Of the issued bonds, 54.4% were denominated in GEL and issued by international financial institutions. The market for bonds issued by international financial institutions grew by 6.4%, while the corporate bond segment saw a substantial increase of 121.9%. Consequently, at the end of 2023, the size of the corporate bond market amounted to 1.947 billion GEL. The average growth rate of the public corporate bond market over the past 5 years reached 38.7%.

In 2023, 21 public corporate bonds (compared to 8 in 2022) and 4 private bonds issued by international financial institutions (compared to 7 in 2022) were issued on the local market. Of the corporate bonds issued in 2023, 72.8% were rated by international rating agencies, which is significantly higher than the 36.7% of bonds rated by value in 2022.

The corporate bond market achieved a higher level of diversification in 2023, encompassing issuers spanning eleven distinct industries. Regarding the balances of corporate bonds, investment companies held the largest share of the market at 21% (power generation held the largest share at 26% in 2022). Additionally, issuers in the financial services, automotive trade and services, and energy sectors, collectively constituted almost 46% of the market (see Diagram 13).

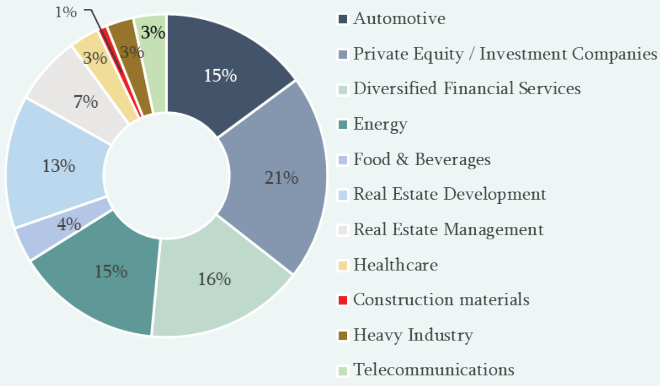
Over the past few years, Georgian companies started to issue Green, Social, Sustainable, and other Labeled (GSS+) bonds, both at the foreign and Georgian stock exchanges (see Diagram 14). The 2022 and 2023 stood out as particularly active for GSS+ bonds in Georgia, as local companies embarked on issuing these types of bonds on the domestic bond market, mostly denominated in the Georgian national currency. The recent trends in the local bond market demonstrate a growing interest among Georgian companies in GSS+ bonds.

Diagram 12. Outstanding corporate bonds issued in the domestic market (public offering)



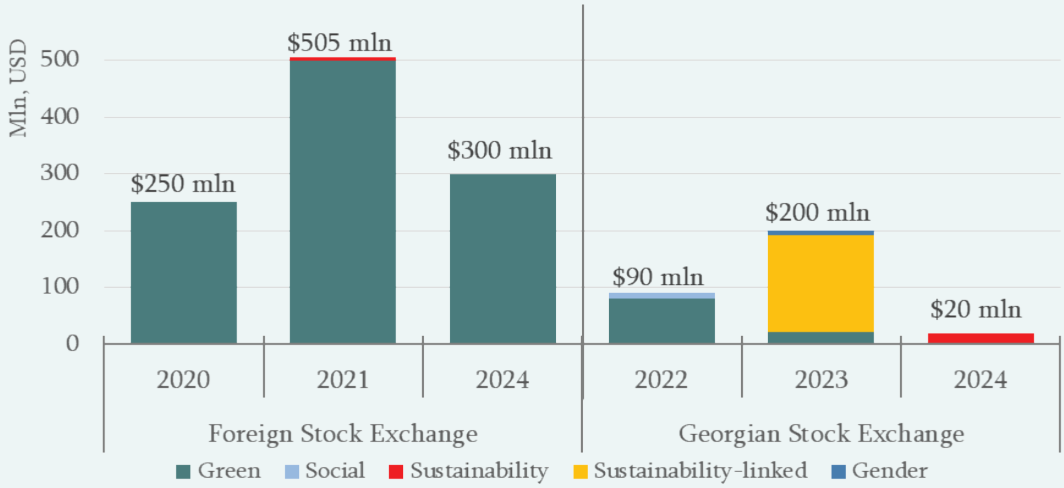
Source: NBG

Diagram 13. Distribution of corporate bond balances by industry (2023)



Source: NBG

Diagram 14. GSS+ Bonds total amount issued by Georgian Companies as of August 2024 [5]



Source: NBG

Below are brief descriptions of GSS+ bonds issued by Georgian companies during the second half of 2023 and the first half of 2024[6]:

- ✓ LLC Prime Concrete issued inaugural public Green/Blue Bond – In September 2023, LLC Prime Concrete, marine and infrastructure contractor and material producer in Georgia, issued inaugural green/blue bonds amounting USD 7.5 million. Supported by technical assistance from the IFC, these notes have a 4-year maturity and are listed exclusively for versed investors. The CICERO Shades of Green, an internationally recognized rating agency and member of S&P Global, provided the second party opinion for the company's Green/Blue Bond Framework, confirming that the bonds align with the International Capital Market Association's Green Bond Principles. The proceeds from the bond issuance will be used to partially refinance existing loans and fund green/blue projects, including optimizing concrete mix by using recycled slag to reduce emissions, developing solar panels to power company facilities, reducing fossil fuel usage and increasing fleet efficiency, investing in capacity building, and constructing wastewater treatment plants.

- ✓ Geosteel LLC issued the second Sustainability-linked Bond – In December 2023, Geosteel LLC, a leading steel producer, issued the second sustainability-linked bond, amounting to USD 5 million. The notes are listed on the Georgian Stock Exchange. The DNV Business Assurance Norway AS, independent ESG research and analytics company, provided the second-party review of Geosteel's Sustainability-Linked Bond Framework. The proceeds, amounting USD 5 million from the first tranche along with the full amount of the second tranche, are utilized for optimizing production processes and purchasing new energy-efficient equipment. These capital investments are expected to significantly reduce the company's natural gas consumption during production, leading to a substantial decrease in carbon dioxide emissions.

[5] Bonds issued in GEL are converted using GEL/USD issuance date exchange rate
[6] For the description of the GSS+ bonds issued in previous years, please refer to Sustainable Finance Status Report 2021, 2023: https://nbg.gov.ge/en/page/sustainable-finance-in-georgia

- ✓ JSC Georgia Global Utilities issued a Green Eurobonds – In July 2024, JSC Georgian Global Utilities (GGU), a leading holding company managing water supply and energy infrastructure in Georgia, successfully issued USD 300 million in green bonds. The notes were listed on the Official List of the Irish Stock Exchange plc, trading as Euronext Dublin (GEM). A second-party opinion was provided by DNV Business Assurance Norway AS, confirming that the bonds align with the International Capital Market Association's Green Bond Principles. International financial institutions played a significant role in supporting GGU's second green Eurobond issuance. The European Bank for Reconstruction and Development (EBRD) invested USD 40 million, the International Finance Corporation (IFC) contributed USD 60 million, and the Asian Development Bank (ADB) invested USD 40 million. Additionally, Germany's Development Finance Institution for the private sector (DEG), a subsidiary of KfW Group, provided support. The proceeds from the green bonds will be used to refinance GGU's existing liabilities and fund capital investments in the water supply sector.

- ✓ JSC Basisbank issued the Sustainability Bond – In August 2024, JSC Basisbank issued a 3-year public sustainability bond, amounting to USD 20 million. This bond marks the first certified sustainability bond issued by a commercial bank on the Georgian Stock Exchange. The bond aligns with the sustainability bond framework under the International Capital Market Association's Sustainability Bond Guidelines and has been validated by Det Norske Veritas. The issue was arranged by TBC Capital and Galt and Taggart. The ADB participated as an anchor investor in the transaction and subscribed to USD 15 million. The rest of the bonds were subscribed by various private investors. The proceeds from the bonds will be utilized to finance green and social projects such as green buildings and construction, energy efficiency, renewable energy, green transportation, healthcare, education and access to finance.

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