

# Capital Market Development in Georgia

George Paresishvili  
CEO  
Georgian Stock Exchange

## Structural reforms

Tax Reform	<ul style="list-style-type: none"> <li>No capital gain or interest income tax on listed securities</li> <li>Corporate income tax deferral (Estonian Model)</li> <li>Automated VAT refund, enhancing easiness of tax compliance, International Company status introduction</li> </ul>
Capital Market Reform	<ul style="list-style-type: none"> <li>Capital Market development strategy being reviewed with international donors' help</li> <li>Local bond market development: Rating agencies, REPO facility with Central Bank, new bond listings, Clearstream</li> <li>MiFID adoption; Market infrastructure upgrade</li> </ul>
Accounting Reform	<ul style="list-style-type: none"> <li>New accounting &amp; audit supervisory body established</li> <li>Public companies required to publish IFRS-compliant annual reports and Management Reports</li> <li>Corporate Governance standards are improving, new CG Code being drafted</li> </ul>
Legislative Reform	<ul style="list-style-type: none"> <li>Law on Entrepreneurs and Securities Market Law amended, new Law on Investment Funds and new Insolvency Law drafted</li> <li>Independent board members and audit committee</li> <li>Disclosure requirements for related party transactions and management compensation</li> <li>Protection of minority investors</li> </ul>

## Pension Reform: Pillar II System

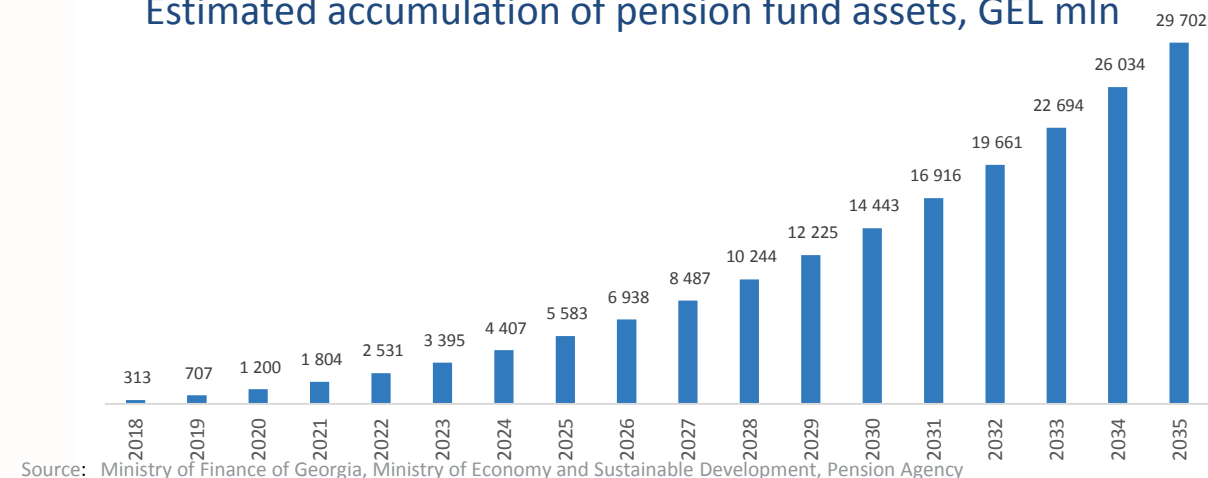
**Pension reform design (launched on 1 January 2019): 2% + 2% + 2%, truly tax-free**

- Mandatory for every formally employed person under age of 40
- Employees contribute 2% of their salary to their individual pension savings account
- Employers match this contribution with another 2% and the State with additional 2%
- Contributions, reinvestment income and withdrawals are tax-exempt (unique EEE model)

**Thus total monthly contribution is 6% of employee's gross salary**

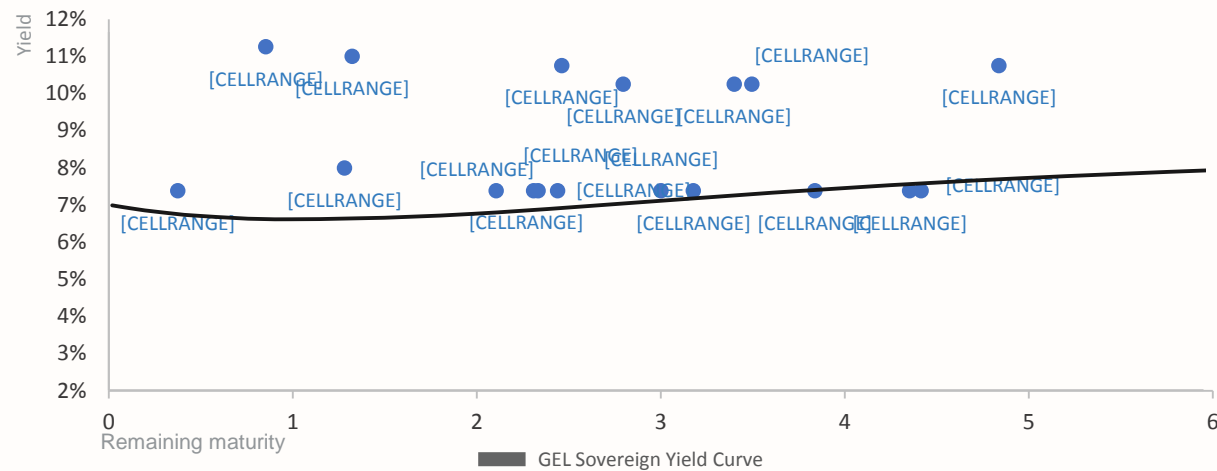
Source: Ministry of Economy and Sustainable Development of Georgia

### Estimated accumulation of pension fund assets, GEL mln



**Significant funding source for domestic economy through debt and equity issuances by companies (long-term GEL funding, dedollarization)**

# BOND MARKET – GEL Denominated bonds



## Eurobonds

	BOG	EBRD III
Issue Size	500 mln	120 mln
Currency	GEL	GEL
Issue Date	Jun-17	Apr-17
Tenor	3 Y	5 Y
Coupon	Fixed	Floating
Issuer rating Fitch/S&P/ Moody's/Scope	BB-/Ba3	AAA
Coupon Rate	11.00%	3 m GEL/CD/ NBG
Listed on	LSE	LSE

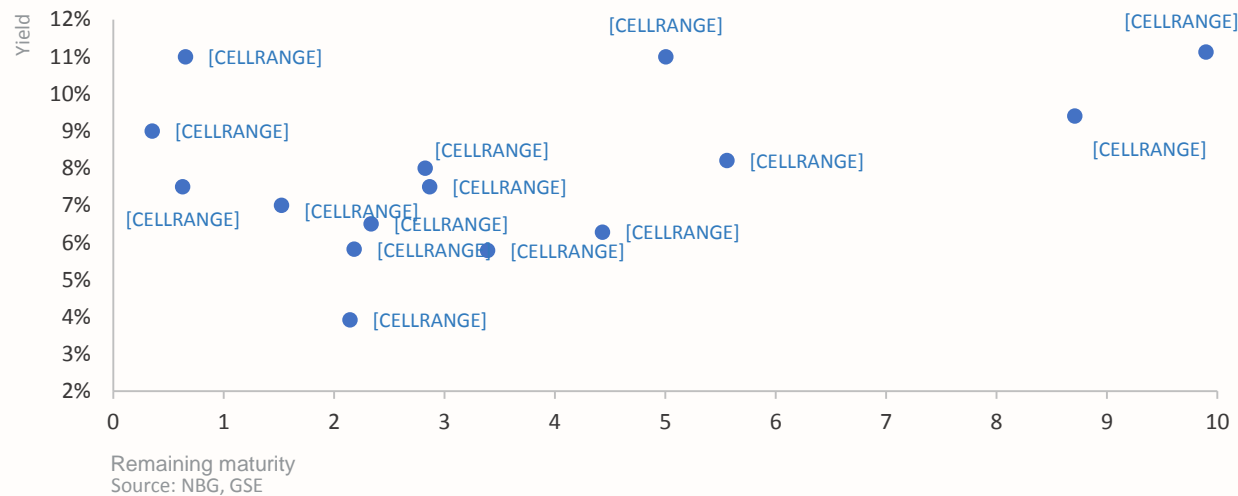
## Corporate

GWP	Silknet	Evex	MFO Crystal	Nikora Trade	Georgian Beer Company
30 mln	34 mln	90 mln	10 mln	25 mln	25 mln
GEL	GEL	GEL	GEL	GEL	GEL
Dec-16	Aug-17	Jul-17	Dec-17	Aug-18	Dec18
5 Y	5 Y	5 Y	2 Y	3 Y	5 Y
Floating	Floating	Floating	Floating	Floating	Floating
BB-	B+		B	B+	BB
NBG Ref Rate + 3.5%	NBG Ref Rate + 3.5%	NBG Ref Rate + 3.5%	NBG Ref Rate + 4.5%	NBG Ref Rate + 4%	NBG Ref Rate + 4%
-	GSE		GSE	GSE	GSE

## IFI issues

EBRD II	EBRD I	ADB	BSTDB III	IFC	BSTDB II	BSTDB IV	BSTDB V	FMO	FMO II
135 mln	107 mln	64 mln	25 mln	108.3 mln	60 mln	120 mln	50 mln	160 mln	103 mln
GEL	GEL	GEL	GEL	GEL	GEL	GEL	GEL	GEL	GEL
Dec-17	Jun-16	Jul-16	Mar-18	Jun-17	Aug-16	Jun-18	Jun-18	Jul-18	Nov-18
5 Y	5 Y	3 Y	3 Y	3 Y	5 Y	3 Y	5 Y	5 Y	5 Y
Floating	Floating	Floating	Floating	Fixed	Floating	Floating	Floating	Floating	Floating
AAA	AAA	AAA	A2/A-	AAA	A2/A-	A2/A-	A2/A-	AAA/AAA	AAA/AAA
3 m GEL/CD/ NBG	3 m GEL/CD/ NBG	3 m GEL/CD/ NBG + 20 bps	3 m GEL/CD/ NBG	7.99%	3 m GEL/CD/ NBG	3 m GEL/CD/ NBG	3 m GEL/CD/ NBG	3 m GEL/CD/ NBG	3 m GEL/CD/ NBG
-	GSE	-	GSE	-	-	GSE	GSE	GSE	GSE

# BOND MARKET – USD Denominated Bonds



## Eurobonds

	GoG	GOGC	GRAIL	GEBGG	GEOCAP	Silknet	BoG II
Issue Size	500 mln	250 mln	500 mln	350 mln	300 mln	200 mln	100 mln
Currency	USD	USD	USD	USD	USD	USD	USD
Issue Date	Apr-11	Apr-16	Jul-12	Jul-16	Mar-18	Mar-19	Mar-19
Tenor	10 Y	5 Y	10 Y	7 Y	6 Y	5 Y	Perpetual
Coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
Issuer rating Fitch/S&P/ Moody's/Scope	BB/BB-/Ba2/-	BB-/B+/-	BB-/B+	BB-/-/Ba2	B2/B+	B+/B1	BB-/-/Ba3
Coupon Rate	6.88%	6.75%	7.75%	6.00%	6.38%	11.00%	11.125%
Listed on	LSE	LSE	LSE	LSE	-	Euronext Dublin	LSE

## Corporate

GLC I	GLC II	m2 Real Estate I	m2 Real Estate II	Nikora	Green Development	Bakhvi Hydro Power	Lisi Lake Development
10 mln	5 mln	25 mln	30 mln	10 mln	2 mln	1.265 mln	12 mln
USD	USD	USD	USD	USD	USD	USD	USD
Aug-17	Jun-18	Oct-16	Dec-18	Jun-17	Oct-17	Nov-17	Dec-18
3 Y	3 Y	3 Y	3 Y	2 Y	2 Y	10 Y	3 Y
Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
-	-	-	-	BB	-	-	-
7.00%	6.50%	7.50%	7.50%	9.00%	11.00%	9.40%	8.00%
GSE	GSE	GSE	GSE	GSE	-	-	GSE

## New system advantages

### Advantage

Clearing and settlement in Central Bank's money

Better access to secondary market by institutional investors  
(including pension and mutual funds)

NBG and commercial banks are able to electronically conduct  
REPO operations using rated corporate bonds; Securities lending  
and borrowing becomes available

DVP and T+ 2 becomes available

Access to foreign investors

### Impact

Higher speed, lower operational risks and costs, reliable

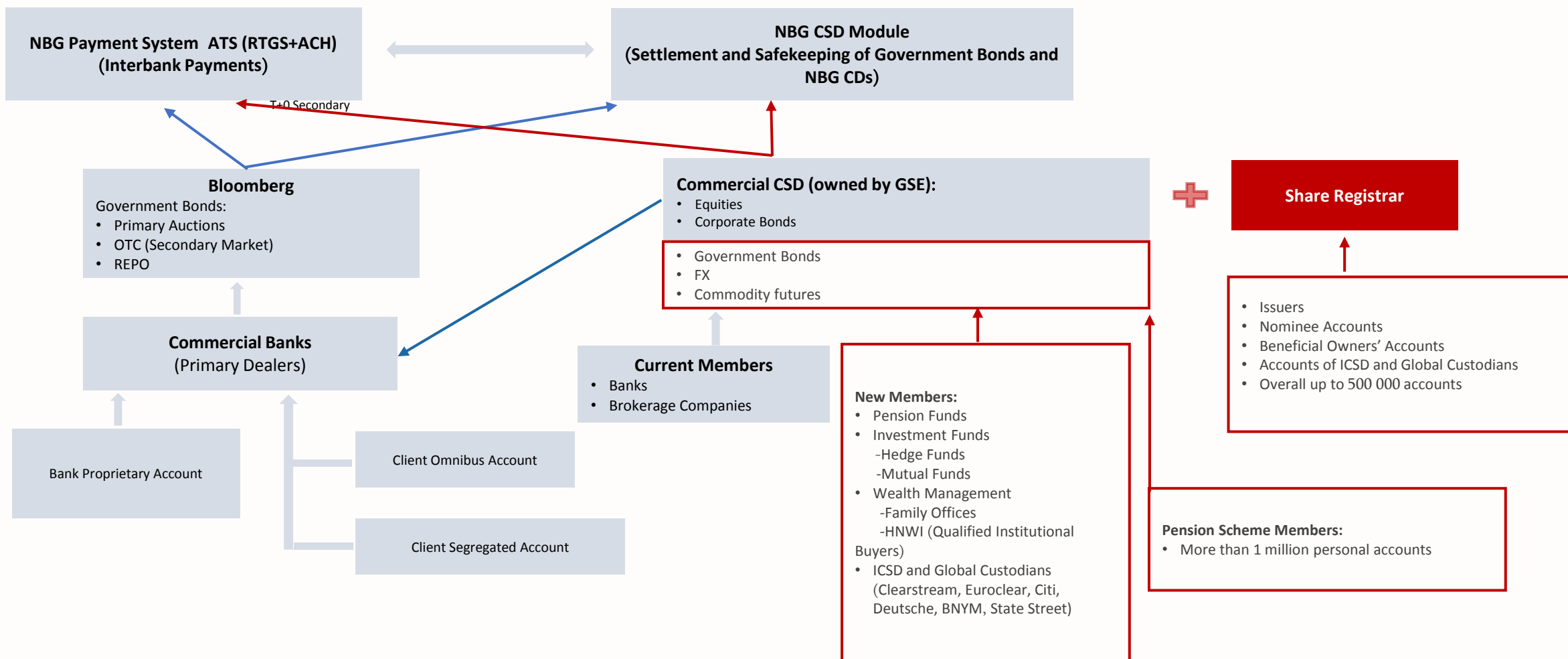
Institutional investors will be able to trade and hold government  
securities through GSE and GCSD, thus increasing liquidity of  
government bond market; DMA

Corporate bonds are now accepted as collateral electronically,  
directly from market participants (banks, brokers, pension  
funds) in semi-automated manner

Reduced counterparty risk for OTC trades as settlements will  
take place in DVP (Delivery vs Payment) mode. No pre-funding  
and pre-validation will be required for executing trades

Foreign investors are able to hold local securities in Georgia  
through Clearstream. This should increase demand and improve  
market liquidity

# NEW CSD CLEARING AND SETTLEMENT SYSTEM



# Thank you