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ReformMeter

Capital Market Development Reform Assessment Report

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The USAID Economic Governance Program Grant Activity: Support to the Reform Progress Tracking System – ReformMeter

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About the Capital Market Development Reform

The assessment of the progress in capital market development reform is based on the implementation of the initiatives outlined in the 2023-2028 strategy for capital market development. The objective of this strategy is to enhance access to finance through capital market instruments, and to stimulate and mobilize capital for the Georgian market. The strategic vision aims for Georgia to position itself as the leading capital market in the region by 2028.

The 2023-2028 Strategy for Capital Market Development was developed with the active engagement of key stakeholders, including the Ministry of Economy and Sustainable Development of Georgia, the Ministry of Finance of Georgia, the National Bank of Georgia, representatives from the private sector, and experts from the Asian Development Bank. Additionally, the LEPL Insurance State Supervision Service of Georgia and the LEPL Pension Agency are also involved in the implementation of the reform.

According to the strategy, the primary challenge faced by the capital market in Georgia is its underdeveloped state. It is essential to emphasize that the growth potential of the capital market is notably constrained by the current size of the economy and financial standing of the corporate sector. At present, the market suffers from deficiencies in both the issuance of financial instruments on the supply side and the participation of investors from the demand side.

In recent years, substantial measures have been taken to support the development of the capital market in Georgia. Initiatives, including the adoption of a new legal framework for investment funds and the introduction of both mandatory and voluntary pension scheme frameworks, along with other measures, have been implemented to facilitate the mobilization of long-term local capital.

Despite these initiatives, it is noteworthy that the local institutional investor base remains constrained and lacks diversification. The limited participation of investors presents a significant challenge in effectively mobilizing financial resources to promote economic growth. The dominance of commercial banks results in a concentrated investor base, limiting the variety of financial instruments accessible on the market. Thus, it is crucial to broaden and diversify the pool of institutional investors and enhance their engagement in the capital market.

Given the challenges associated with developing institutional investor base, it is evident that reflecting on the outcomes of adopting the legislative framework for investment funds is a crucial aspect of assessing the progress of the reform. Furthermore, in consideration of the results from the government survey, another significant subject covers the recently adopted law on voluntary pension schemes. The progress in these directions was the focal point of the discussion during the second PPD on the assessment of the reform.

Reformeter Methodology

Within the ReforMeter framework, three primary methods are used to evaluate the selected reforms:

1. The government survey evaluates, through a qualitative survey, the activities of the government agencies introducing the reform in the process of reform implementation along four primary dimensions: legal framework, infrastructure and budget, institutional setup, and capacity development. The survey measures, on a scale from 0% to 100%, the proximity of the institutions implementing the reform to the accomplishment of the tasks outlined by the reform.
2. As part of the stakeholder survey, the stakeholders of the reform are evaluating the four main directions: reform content and adequacy; current performance; reform progress; and expected outcomes. Each component is evaluated on a 1-10 rating scale (see Annex 1 for the stakeholder questionnaire).
3. In addition, economic indicators identified in relation to the anticipated outcomes of the reform have been used to evaluate its progress.

The assessment of the capital market development reform includes all three previously mentioned methods. A government survey, reliant on the evaluation of reform implementing agencies, has been conducted to assess the progress in implementing the initiatives outlined in the 2023-2024 Action Plan of the Capital Market Development Strategy. Given that the Strategy spans from 2023 to 2028, the activities outlined in the government survey will be updated following the publication of the Action plans for 2025-2026 and 2027-2028.

On December 20, 2023, the second public-private dialogue took place to evaluate the capital market development reform. During the meeting, participants, except the reform-implementing agencies, assessed the advancement of the reform through an anonymous stakeholder survey.

The indicators employed for tracking the reform align with the impact and outcome indicators specified in the strategy.

Assessment of the Reform Implementation

The ongoing and planned activities of reform, as outlined in the 2023-2024 Action Plan of the Capital Market Development Strategy, are categorized into two objectives and six tasks.

The first direction encompasses activities aimed at enhancing access to finance through capital market instruments, including:

- Developing local bond market;
- Developing local stock market;
- Increasing participation of state-owned enterprises in the capital market.

The second direction involves activities related to capital mobilization and stimulation for local securities, including:

- Developing institutional investors base;
- Increasing engagement of professional and retail investors;
- Increasing foreign investments in the domestic capital market.

Considering the presented directions and the four main domains of the reform assessment (legal framework; infrastructure and budget; institutional setup; and capacity development) as defined in the government survey section, Tables 1 and 2 provide information on the primary reform activities, the responsible agencies, and the status of the progress.

Table 1. Increasing access to finance through capital market instruments

| Objective | Activity | Responsible institution | Status of implementation |
|-------------------------------|---|--------------------------------|--------------------------|
| Legal framework | | | |
| Developing local bond market | Preparation and adoption of the securitization legal and regulatory framework | The National Bank of Georgia | Implemented |
| Developing local bond market | Evaluation of the necessity to extend the tax incentive for public bonds and the extension of associated benefits | Ministry of Finance of Georgia | Implemented |
| Developing local bond market | Development and implementation of regulations for high-risk financial instruments (short selling) and securities lending | The National Bank of Georgia | Planned |
| Developing local bond market | In line with the European Union's best practices, the review of trading venue (exchange) regulations and concentration rules, and the enactment of relevant regulations | The National Bank of Georgia | Planned |
| Developing local stock market | Preparation and adoption of the legal and regulatory framework for possession of dematerialized securities | The National Bank of Georgia | Implemented |

| | | | |
|---|--|--|---------|
| Developing local stock market | Development and implementation of a tax incentives to stimulate real estate investment funds | The National Bank of Georgia | Ongoing |
| Developing local stock market | Preparation and adoption of the dual listing/depository receipt framework | The National Bank of Georgia | Planned |
| Increasing participation of state-owned enterprises in the capital market | Development and adoption of the Public Corporation Law | Ministry of Finance of Georgia | Ongoing |
| Infrastructure and Budget | | | |
| Developing local bond market | Development and pilot implementation of a standardized online system for the placement of a public offering of bonds (shelf-registration) | The National Bank of Georgia | Planned |
| Developing local stock market | Implementation of a shared information technology system for derivative contracts | The National Bank of Georgia | Planned |
| Institutional Setup | | | |
| Developing local bond market | Publication of preliminary and trading prices of government securities | Ministry of Finance of Georgia | Ongoing |
| Developing local bond market | Developing a concept for enhancing the bond market and determining the trading venue (exchange) for retail investors | Ministry of Finance of Georgia | Ongoing |
| Developing local bond market | Development of guidelines for green/environmental, social, and governance/gender equality bonds | The National Bank of Georgia | Ongoing |
| Developing local bond market | Evaluating the organizational, corporate governance, and ownership structure of the Georgian Stock Exchange (GSE) and tracking the implementation of recommendations | The National Bank of Georgia | Planned |
| Developing local stock market | Creation of private equity tools to facilitate the financing of small and medium-sized enterprises | Ministry of Economy and Sustainable Development of Georgia | Ongoing |
| Developing local stock market | Implementation of risk-based supervision and enforcement mechanisms in the capital market | The National Bank of Georgia | Planned |

| | | | |
|---|---|--|-------------|
| Increasing participation of state-owned enterprises in the capital market | Preparation of Statement of Corporate Intent by state-owned enterprises | Ministry of Finance of Georgia | Implemented |
| Capacity Development | | | |
| Developing local bond market | Providing training sessions to enhance the capabilities of securities market supervisors in effectively monitoring market manipulation and implementing relevant enforcement measures | The National Bank of Georgia | Planned |
| Developing local stock market | Providing an informational event to promote initial public offerings at trading venues (exchanges) in order to attract investors | Ministry of Economy and Sustainable Development of Georgia | Planned |
| Developing local stock market | Conducting and publishing an assessment analysis of derivatives and commodity market developments for consultation | Ministry of Economy and Sustainable Development of Georgia | Planned |

The qualitative assessment of the reform implementation, based on discussions with representatives from implementing agencies, indicates significant developments in the legislative framework. Notably, the progress in developing legislation for securitization represents a crucial initiative for enhancing the local bond market. The Draft Law on Conversion into Securities was adopted by the Parliament of Georgia in December 2023 and will be enforced from April 2024. This legislation is designed to regulate the legal and financial aspects of securitization transactions and the roles of the involved parties. The upcoming enforcement of the law is expected to foster the growth of the non-government bond market. Diversifying the financing tools available to companies is crucial, and the introduction of securitization aligns with this goal by offering companies an alternative means to raise additional capital.

To promote the growth of the local stock market, legislation regarding the possession of dematerialized securities was adopted in November 2023. To advance the capital market in Georgia, it is crucial to establish a robust secondary stock market. This entails the implementation of infrastructural measures, including the system for dematerialized securities.

Despite the advancements in the mentioned initiatives, it is important to note that several planned activities for 2023 are still in progress. Aligned with the goal of stimulating the domestic equity capital market, the strategy contains the development of a tax framework to incentivize investments in real estate funds. In terms of progress, the National Bank of Georgia is actively involved in developing these tax incentives, with their expected adoption postponed for 2024.

Another dimension of the reform focuses on increasing the participation of state-owned enterprises in the capital market. This initiative aims to increase the number of potential issuers in the market. To achieve this, the strategy outlines the adoption of the Public Corporation Law in 2023 with the aim to improve corporate governance in state-owned enterprises and prepare them for engagement in the issuance of securities. According to the government survey, the draft of the law has been prepared by the Ministry of Finance of Georgia and is planned to be initiated in the Parliament of Georgia in the coming year.

The second component of the assessment, the institutional setup, encompasses activities crucial for supporting the development of local bond and stock markets. For instance, the National Bank of Georgia has adopted green taxonomy and, in alignment with this framework, is developing guidelines for green/environmental, social, and governance/gender equality bonds. To foster the development of the local stock market, the Action Plan aims to stimulate the establishment of private capital funds and venture funds. The emergence of such investment funds in the market will generate additional capital for SMEs.

Table 2. Stimulation and mobilization of capital for local securities

| Objective | Activity | Responsible institutions | Status of implementation |
|--|---|---|--------------------------|
| Legal framework | | | |
| Developing institutional investors | Preparation and adoption of the legal framework for voluntary private pension system | Ministry of Economy and Sustainable Development of Georgia | Implemented |
| Developing institutional investors | Preparation and adoption of amendments to the law on Funded Pension to broaden the investment mandate of the Pension Agency | LEPL Pension Agency | Implemented |
| Developing institutional investors | Implementing a sector-wide sandbox regime for fintechs by drafting and implementing legislative acts to facilitate open finance | Ministry of Economy and Sustainable Development of Georgia/National Bank of Georgia | Implemented |
| Increasing engagement of professional and retail investors | Developing a management framework for accumulated capital by joining the Hague Trust Convention and establishing family offices | Ministry of Economy and Sustainable Development of Georgia | Ongoing |
| Institutional Setup | | | |
| Developing institutional investors | Creating a Competitiveness Assessment Tool for program implementation and legislative activities | Ministry of Economy and Sustainable Development of Georgia | Planned |

| | | | |
|--|---|---|-------------|
| Developing institutional investors | Examination of open market operation mechanisms in the secondary market | The National Bank of Georgia | Implemented |
| Developing institutional investors | Development of a market-stimulating instrument to facilitate the establishment of venture capital and private equity funds | Ministry of Economy and Sustainable Development of Georgia | Ongoing |
| Developing institutional investors | Development and sale of life insurance products in the local market | State Insurance Supervision Service of Georgia | Planned |
| Increasing engagement of professional and retail investors | Establishing an association comprising market intermediaries, financial advisors, and insurance brokers to boost retail investor engagement | Ministry of Economy and Sustainable Development of Georgia | Planned |
| Capacity Development | | | |
| Developing institutional investors | Conducting research on capital market competition | Ministry of Economy and Sustainable Development of Georgia | Planned |
| Developing institutional investors | Conducting a feasibility study for establishing endowment investment funds | Ministry of Economy and Sustainable Development of Georgia | Planned |
| Developing institutional investors | Conducting informational meetings on derivatives/commodity instruments and risk management tools for market participants | Ministry of Economy and Sustainable Development of Georgia/National Bank of Georgia | Planned |
| Developing institutional investors | Enhancing the capabilities of supervisors overseeing voluntary private pension schemes to effectively monitor market manipulation and implement relevant enforcement measures | LEPL State Insurance Supervision Service of Georgia | Planned |
| Increasing engagement of professional and retail investors | Addition of the capital market segment to FinEdu platform to increase retail investor's awareness | The National Bank of Georgia | Implemented |

| | | | |
|---|--|---|-------------|
| Increasing engagement of professional and retail investors | Promoting benchmark government bonds and investment returns by making this information publicly available and holding informational meetings | Ministry of Finance of Georgia | Ongoing |
| Growth of foreign investment in the domestic capital market | Development and publication of user-friendly tax guidelines on capital market instruments and diverse tax regimes in English | Ministry of Finance of Georgia | Planned |
| Growth of foreign investment in the domestic capital market | Organizing road shows, compiling a list of prospective investors, and maintaining contact with them | Ministry of finance of Georgia/Ministry of Economy and Sustainable Development of Georgia | Implemented |

During the assessment period, efforts to enhance the legislative framework for the development of institutional investors were concentrated on pension schemes. Two legislative acts linked to pension reform were introduced in 2023. The first act entailed amendments to the Funded Pension Law, broadening the investment mandate of the Pension Agency, while the second involved the establishment of the legal framework for the voluntary private pension system. As per the law, asset management companies and insurance companies can implement voluntary private pension schemes. The latter is expected to contribute to the diversification of the financial sector by increasing the total assets of insurance companies.

Moreover, it's important to note that a significant delay in the planned activities for 2023 was associated with the study on capital market competition. This study aims to identify hindering factors in the competitive environment and outline necessary measures to introduce a competitiveness evaluation tool for assessing legislative and regulatory activities. According to the implementing agency, the study will commence in 2024.

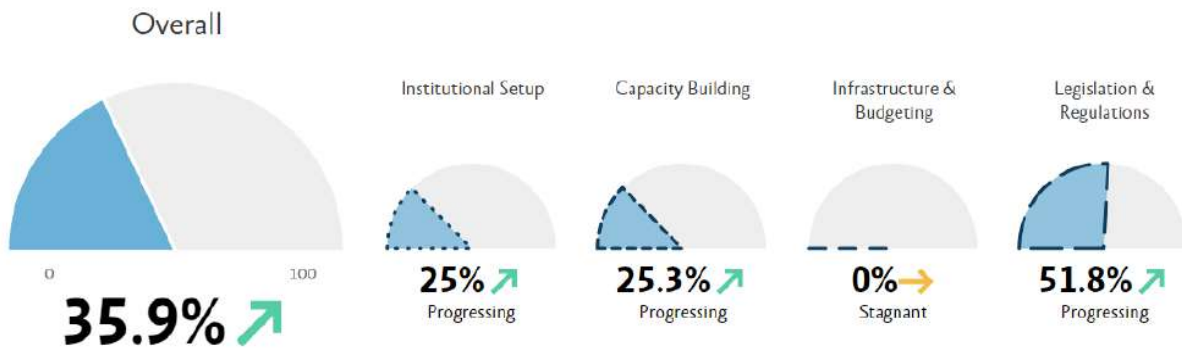
From 2023 to 2028, the reform directions are set to be implemented progressively. Presently, the action plan outlines detailed activities only for the period of 2023-2024. Therefore, when evaluating the progress of reform implementation through government surveys beyond 2024, it will be crucial to take into account additional directions that are not outlined in the action plan for 2023-2024.

Following the government survey methodology, weights have been assigned to the four domains of assessing reform progress, considering both the quantity and significance of activities within each domain. The distribution of weights across the components is as follows: legal framework - 45%; institutional setup - 30%; infrastructure and budget - 5%; capacity development - 20%.

According to the government survey, 35.9% of the proposed reform activities have been completed. It is noteworthy that these results reflect a significant advancement from the previous assessment in June 2023, which reported a completion rate of 11.7%. Among the survey components, the legislative

framework has demonstrated the highest progress, reaching 51.8%. Positive evaluations were also given to activities related to institutional setup and capacity development. However, the indicator concerning infrastructure and budget, which includes only two planned activities for 2024, indicated a low level of performance.

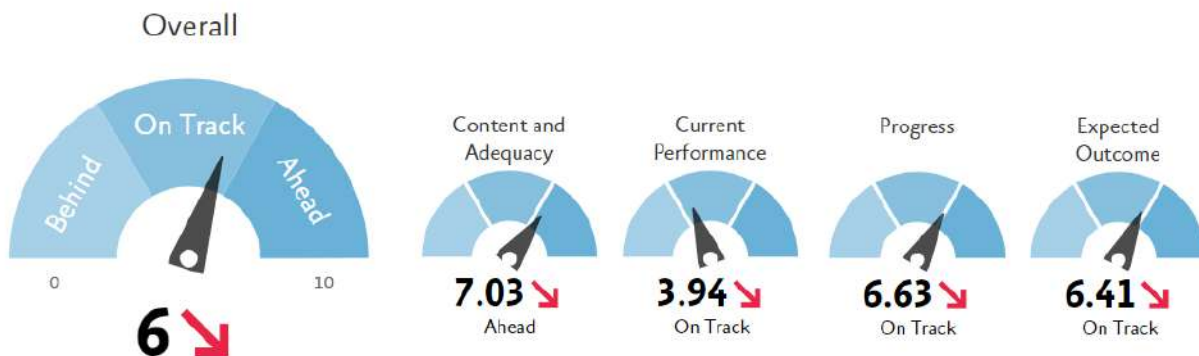
Figure 1. Government survey results



Stakeholder Assessment

During the second public-private dialogue meeting on capital market development strategy, an anonymous stakeholder survey, excluding state agencies involved in the reform implementation, yielded a rating of 6 out of 10 points. This suggests a moderate evaluation of the reform's progress by the participants. Figure 2 represents the survey outcomes, highlighting a positive assessment only in the area of content and adequacy of the reform. The evaluation reflects a moderate overall outcome concerning the current performance, progress of the reform, and expected outcomes. Notably, there is a decline in scores across all aspects compared to the stakeholder assessment conducted during the first public-private dialogue in June 2023.

Figure 2. Results of stakeholder survey on capital market development reform evaluation



Public-Private Dialogue

The Second public-private dialogue on capital market development reform was held on December 20, 2023. The meeting was attended by the representatives of the Ministry of Economy and Sustainable Development of Georgia (MoESD), LEPL Insurance State Supervision Service of Georgia, National Bank of Georgia, Pension Agency, Georgian Parliamentary Research Center (GPRC), Bank of Georgia, Banking Association of Georgia, Gazelle Financing Int. Investment Bank, Georgian Registrar, Georgian Small and Medium Enterprises Association, Operational Research Institute, Policy and Management Consulting Group – PMCG/PMC Research, TBC Asset Management, TBC Insurance, the USAID Financial Innovation Program and the USAID Economic Governance Program (EGP).

Following the introductory speeches, ReforMeter team, presented the findings of reform progress assessment and discussed the outcomes of the government survey and general indicators about the sector's performance. According to the assessment, at this stage, 35.9% of the activities planned under the 2023-2024 Action Plan of the Capital Market Development Strategy have been completed, which is the improvement from the 11.7% number for the evaluation presented at the first Public-private Dialogue event on Capital Market Development in June 2023.

The presentation was followed by the overview of the Voluntary Pension Reform by representative of MoESD. Speaker presented the goals of the Law on Voluntary Private Pension, positive aspects of the reform and advantages compared to the existing voluntary pension system. According to him, the existing voluntary private pension system is ineffective and does not offer competitive tax mechanisms, which would encourage individuals to take part in private pension schemes. For the development and attractiveness of the voluntary private pension system, a similar structure of tax benefits to the existing mandatory funded pension was developed. Tax benefits imply exemptions of pension contributions, profits, and pension withdrawal. As for supervision related to pension schemes, according to the law this function will mainly be the responsibility of the Insurance State Supervision Service of Georgia.

Next the representative of the Capital Market Supervision Department at the National Bank of Georgia presented the activities and important achievements related to the capital market development and reviewed the future potential of developing the investment funds market. Important achievements included the establishment of the Funded Pension System, the adoption of the Law on Investment Funds, as well as the Law on Mortgage-backed Securities, and the Law on Possession of Dematerialized Securities, and the Law on Conversion into Securities.

Finally, Director of the Operational Research Institute presented the cost-benefit analysis of the Law on Investment Funds, which showed that overall benefits to cost ratio is very high, indicating generation of around 4 times larger benefits compared to costs. Sensitivity analysis shows that the reform will have a positive outcome even in the worst-case scenario. Moreover, securitization reform and Real Estate Investment Funds create substantial additional impacts on development of investment funds.

After reviewing the progress of the Capital Market Development Reform and the presentations about new developments, the participants engaged in discussion concerning the current state of the sector. This section of the report provides a summary of the opinions shared at the PPD event:

- Representative of Policy and Management Consulting Group – PMCG and PMC Research Center, addressed MoESD regarding the current action plan of capital market development strategy and raised a concern that the goals of the 2023-2024 Action Plan may not be fulfilled within the envisioned timeframe. According to representative of MoESD, the ongoing activities will contribute to the fulfillment of the goals. In addition, activities that cannot be completed on time may be moved to subsequent years or, if the completion of the activities is not possible, they may be removed from the strategy. In Addition, there will be a mid-term review of the strategy and the target indicators will be updated accordingly. Speaker also added that benchmarks for the Action Plan indicators were set optimistically, to motivate more active efforts at the early phases of strategy execution.
- Representative of TBC Insurance raised several questions regarding the Voluntary Private Pension System. One of the questions concerned the advantages of the private pension system and why an individual should prefer saving money in a pension scheme rather than in a bank savings account. Representative of MoESD highlighted that the aim of the voluntary private pension reform is to ensure sufficient savings for retirement age, therefore, it is beneficial to have a long-term savings scheme in place. On the other hand, bank saving deposits offer only short-term management of savings. Additionally, the Law on Voluntary Private Pension System allows for exceptions from the personal income tax, which should be regarded as an additional benefit.
- Representative of TBC Insurance raised another important issue about the creation of group pension schemes for employees by small, limited liability companies. Representative of MoESD clarified that there are two options: i) the employer can establish an independent legal entity, a pension company or ii) contractually transfer the administrative and asset management functions to an asset management company or an insurer. More specifically Law on Voluntary Private Pension dictates that: “The employee becomes a participant in the group pension scheme established by the employer for its own employees: a) by signing a private pension agreement with the asset management company or insurer, which, based on the relevant agreement with the employer, establishes the group pension scheme of the said employer; b) by signing a private pension agreement with a pension company established by the employer to provide a group pension scheme for his employees.”¹
- Finally, the representative of TBC Insurance commented on the matter of minimum capital requirements for the insurance companies. In the event of creating a group pension scheme, the law sets a minimum capital requirement. Speaker also raised the question whether any changes to the law are planned in this regard. The representative of the Insurance State Supervision Service of Georgia addressed the question and highlighted that requirements in the law are set according to the international standards and no changes are planned regarding loosening minimal capital requirements.
- On the topic of voluntary private pension reform, ReforMeter project manager asked to clarify the potential costs associated with one-time total withdrawal of accumulated pension savings. Representative of MoESD underlined that, according to the law, in this case only the original pension

¹ [Law on Voluntary Private Pension](#)

contributions are subject to income tax, while the accrued interest from the investing of funds will not be taxed.

- Deputy Chief Investment Officer at Pension Agency addressed the issue of communicating the developments of Voluntary Private Pension Reform with individuals. Representative of MoESD explained that during 2024 communication meetings are planned with employer’s organizations and large employers in cooperation with Asian Development Bank experts, who were involved in the process of developing the voluntary private pension system.
- Financial Sector Reforms Manager at USAID Financial Innovation Program raised the topic of investment funds at the discussion. Specifically, he suggested that the regulations for investment funds based on the current legislative framework could seem strict for small or non-existent funds considering the current market conditions. Representative of National Bank of Georgia highlighted that legal framework includes the possibility of establishing several types of funds, which are fully adapted to the challenges of the local market. More specifically, speaker mentioned that one of the important factors in working on the legal framework was the adoption of the UCITS (Undertakings for the Collective Investment in Transferable Securities) regulation, that allows retail investors to have transparent, regulated, and cross-border investment opportunities in EU Market, therefore it will allow local investment funds to have full access to EU investors. However, the law also allows for the establishment of other types of funds, which are relatively lightly regulated and therefore create a more favorable environment for the establishment of small new funds on the local market. “In accordance with this Law, an investment fund shall be established in Georgia as: a) an authorized investment fund (a UCITS or a retail investment fund); b) a registered investment fund. An authorized investment fund shall have the right to make public offerings in accordance with this Law. A registered investment fund shall have the right to make private offerings only.”²

Reform Tracking Indicators

To assess the implementation of the capital market development reform, the Reformeter team has selected indicators based on the analysis of impact and outcome indicators specified in the 2023-2028 Strategy for Capital Market Development. The aspects of information availability and the capacity to update data were also considered in the selection process. Data required for monitoring these indicators was gathered from various sources, including the National Bank of Georgia, the Ministry of Finance of Georgia, the Stock Exchange of Georgia, Geostat, the Pension Agency, and the Insurance State Supervision Service of Georgia. The first set of indicators relates to the first objective of the strategy, which aims to broaden access to finance through capital market instruments. The second set aims to track progress in capital stimulation for domestic securities.

1. Increasing access to finance through capital market instruments

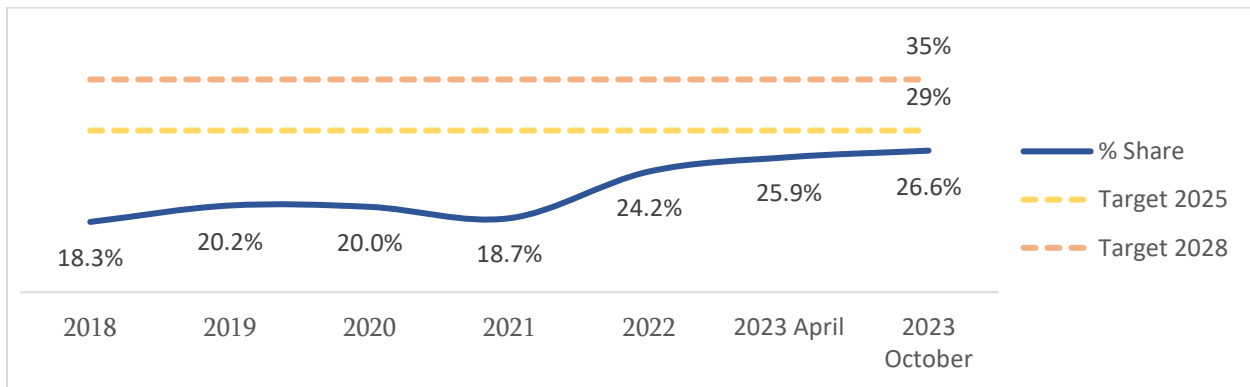
The share of domestic debt in total public debt is an impact indicator specified in the capital market development strategy. This indicator encompasses the ratio of the state's domestic debt balance at the

² [Law of Georgia on Investment Funds](#)

end of the period to the government's total debt balance (Eurobonds, foreign debt, and domestic debt). In this context, it is crucial to recognize that the predominance of foreign debt in total public debt hinders the development of a domestic bonds market and constrains the issuance of state securities on the local market, impacting their liquidity on the secondary market.

As per Graph 1, the share of domestic debt was 18.7% in 2021. By October 2023, the share of domestic debt had increased to 26.6%. Over the period from 2021 to 2023, the rise in the share of domestic debt was accompanied by a 41.8% increase in domestic debt and a 10% decrease in external debt. The strategy sets the target for the domestic debt share to reach 29% by 2025 and 35% by 2028.

Graph 1. Share of domestic debt in the total public debt

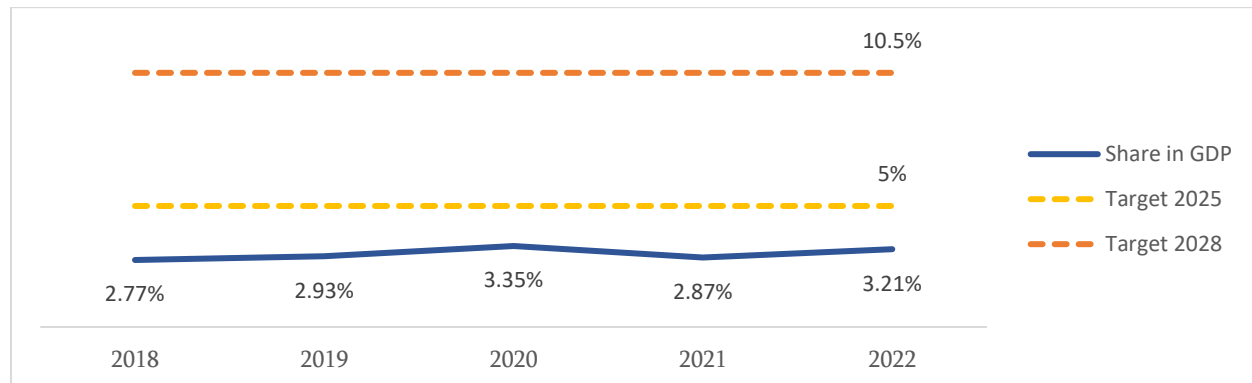


Source: Ministry of Finance of Georgia

In the direction of expanding access to finance, another impact indicator of the reform is the outstanding balance of corporate bonds denominated in GEL relative to GDP. This indicator includes the balance on bonds issued by international financial institutions. It is essential to highlight that international financial institutions currently dominate the market for non-governmental bonds, accounting for 85% of the GEL-denominated corporate bonds, totaling 2.2 billion, as of October 2023.

A positive trend was observed between 2021 and 2022, as the share of corporate bonds denominated in GEL relative to GDP increased from 2.87% to 3.21%. The target rate for this indicator is set at 5% for 2025 and 10.5% for 2028. The development of the non-government bond market is expected to contribute to the creation of an additional source of financing for companies and the mobilization of financial resources for economic growth.

Graph 2. Outstanding corporate bonds denominated in GEL to GDP Ratio



Source: The National Bank of Georgia, *GEOSTAT*

The market capitalization of listed stocks serves as another pivotal indicator within the capital market development strategy. In the absence of publicly accessible data for 2022 in this sphere, the ReforMeter team selected the total stock market capitalization-to-GDP ratio as an indicator for assessing the progress of the reform. Based on a 20% increase in total stock market capitalization, Table 3 showcases a positive development from 2018 to 2020. However, during 2021-2022, a downturn in market capitalization resulted in the stock market's contribution to GDP contracting by 0.78 percentage points (from 3.9% to 3.2%).

In line with the strategy, the goal is to increase the market capitalization of listed stocks to 6.5% of GDP by 2025 and to achieve a level of 9% by 2028. Given the strategic intent for the stock market to emerge as a substantial alternative financing source for the private sector, the current negative dynamics in capitalization underscore the challenges confronting the effective mobilization of required financial resources for development.

Table 3. Total market capitalization in relation to GDP (in millions of GEL)

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------|--------|--------|--------|--------|--------|
| Total Capitalization | 1.963 | 1.963 | 2.366 | 2.368 | 2.290 |
| GDP | 44.599 | 49.253 | 49.267 | 60.003 | 72.265 |
| Share in GDP | 4.4% | 4% | 4.8% | 3.9% | 3.2% |

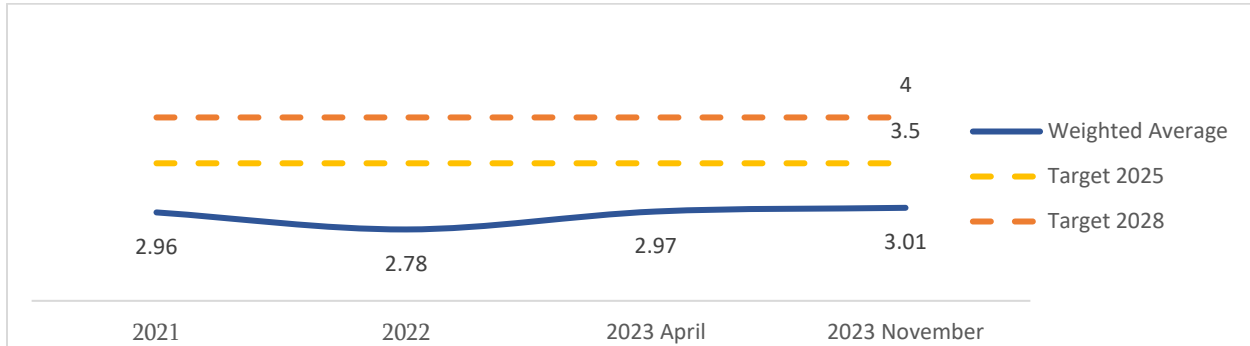
Source: *Georgian Stock Exchange, Geostat*

1.1. Developing local bond market

Furthermore, in accordance with the Objective 1.1, the weighted average maturity of government securities is defined as a key indicator of the local bond market development. As presented in Graph 3, following a slight decline in the maturity rate in 2022 compared to the previous year, it progressed to exceed the 2021 rate by November 2023, demonstrating an increase from an average of 33 months to 36 months. Importantly, the strategy underscores the implementation of a policy aimed at enhancing the average maturity of bonds. The primary aim of the state's issuance of a substantial quantity of long-term bonds is to secure the country's placement within international governmental bond indices and to foster

an expansion in the share of non-resident investors. According to the strategy's targets, the average maturity of government securities is anticipated to elevate to 3.5 years by 2025 and further to 4 years by 2028.

Graph 3. Weighted average maturity of government securities (in years)



Source: Ministry of Finance of Georgia

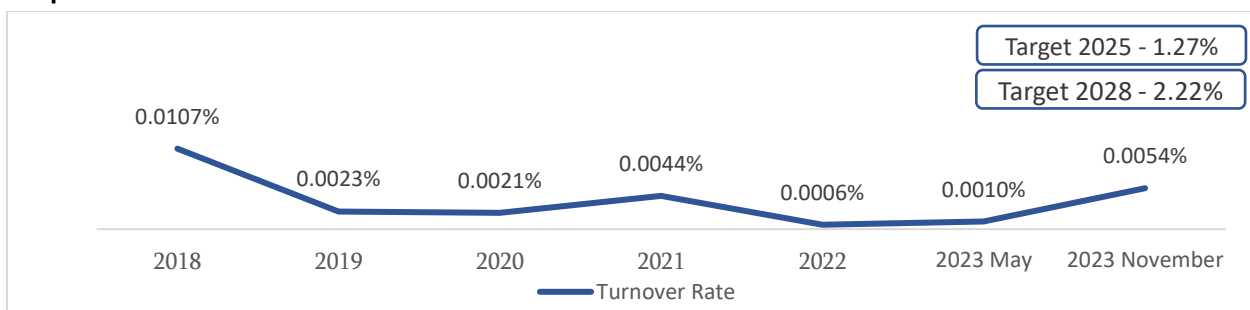
1.2. Developing local stock market

Considering that the underdeveloped state of the stock market was identified as a primary challenge to capital market advancement during both public-private dialogues, the analysis of the stock turnover ratio is important to assess the reform's outcomes. The indicator related to Objective 1.2, reflecting the local stock market growth, encompasses equity market liquidity. This metric is derived by comparing the value of transactions executed during a stock exchange's trading session with the average rate of the stock exchange's overall market capitalization.

Graph 4 reveals a downward trend in the stock turnover rate since 2018, indicating a notably low level of turnover. Between 2018 and 2022, the value of transactions conducted during trading sessions decreased by 95%, paralleled by an 11% reduction in the average market capitalization. It should be noted that during 2023, a positive trend was observed, and the stock turnover rate increased from 13,619 GEL in 2022 to 158,429 GEL in the period of January-November 2023.

In this context, the strategy's target indicators are quite ambitious, aiming to increase the share turnover rate to 1.27 percent by 2025 and 2.22 percent by 2028.

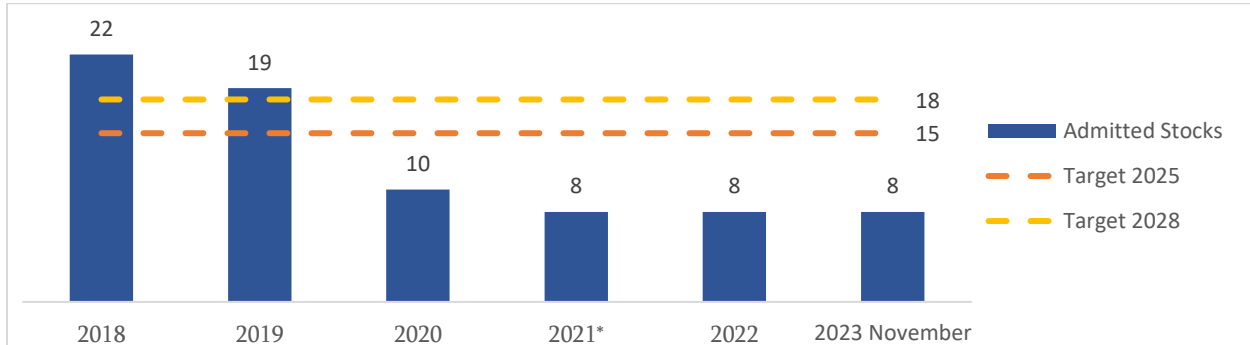
Graph 4. Stock turnover ratio



Source: Georgian Stock Exchange

The quantity of stocks admitted into the trading system of the stock exchange stands as another important indicator of progress in this domain. During the period from 2018 to 2023, a decrease is evident in the number of authorized issuers, declining from 22 companies in 2018 to 8 companies in November, 2023. In accordance with the strategy, 9 companies were enlisted on the stock exchange in 2021. The targeted figures stand at 15 companies for the year 2025 and further increase to 18 companies by 2028.

Graph 5. Total listed companies on the stock exchange



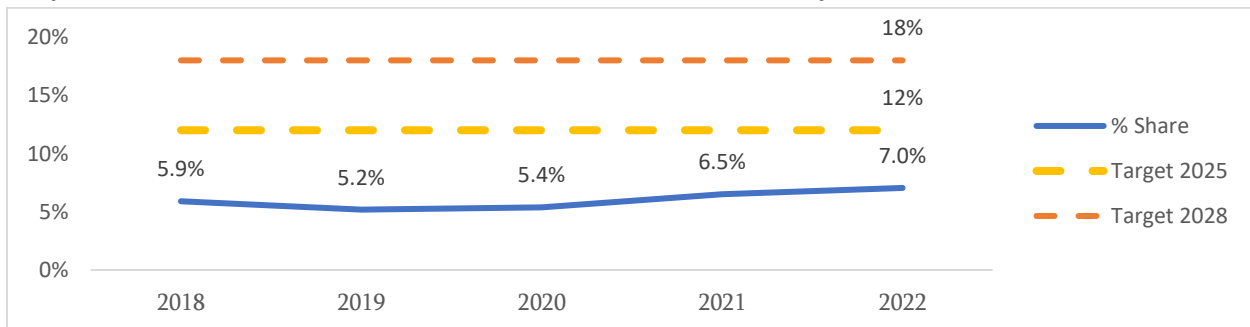
* Based on the strategy - 9

Source: Georgian Stock Exchange

2. Stimulation and mobilization of capital for local securities

The direction of capital mobilization for local securities is connected to the diversification of the financial sector. Consequently, the expansion of the non-banking sector within the financial market stands as one of the impact indicators for accomplishing the objectives of the strategy. Graph 6 reveals a small share of nonbank financial institutions' (brokerage firms, insurance firms, asset management firms, and pension funds) assets in the financial sector's total assets over the period of 2018-2021. It should be noted that from 2018 to 2022, the non-banking financial sector's assets increased from 3.2 billion GEL to 6.7 billion GEL (a 111% increase), resulting in a 1.1% increase in the sector's share in the total financial sector. The strategy seeks to double this number by 2025 and reach 18% by 2028.

Graph 6. Nonbank financial sector's share in the total assets held by the financial sector.

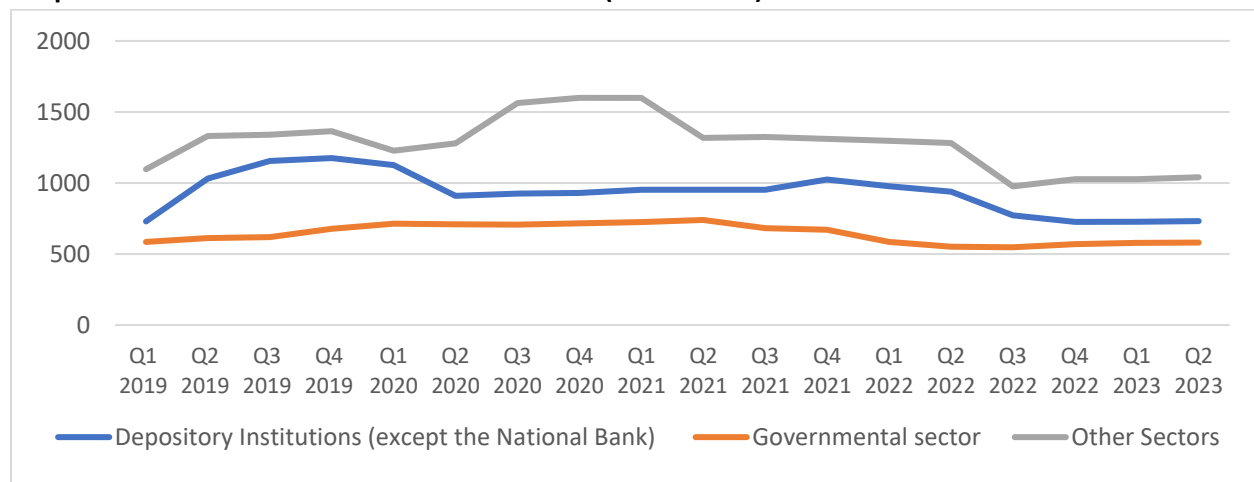


Source: The National Bank of Georgia

Foreign portfolio investment growth serves as another impact indicator in the direction of capital stimulation and mobilization. The advancement of foreign investments represents a notable marker of growing interest and involvement in the domestic capital market. It is pivotal to underscore that the current presence of foreign investors in the Georgian capital market is relatively limited. Graph 7 presents the quarterly indicators of portfolio investments in debt securities from 2019 to the second quarter of 2023. The data presented reveals that in the second quarter of 2023, in comparison with the last quarter of the baseline year, portfolio investments in debt securities experienced a 38% reduction in deposit corporations (excluding the National Bank), a 14% decline in the governmental sector, and a 24% decrease across all other sectors.

According to the capital market development strategy, foreign portfolio investments accounted for 4% of the GDP in 2021. The target is to increase this indicator to 8% by 2025 and further to 10% by 2028. Notably, the pursuit of incorporating the nation into international indices increases the significance of this direction. Following the country's integration into international indices, it is anticipated that there will be an increase in portfolio investment interest in Georgia.

Graph 7. Portfolio investments in debt securities (million USD)

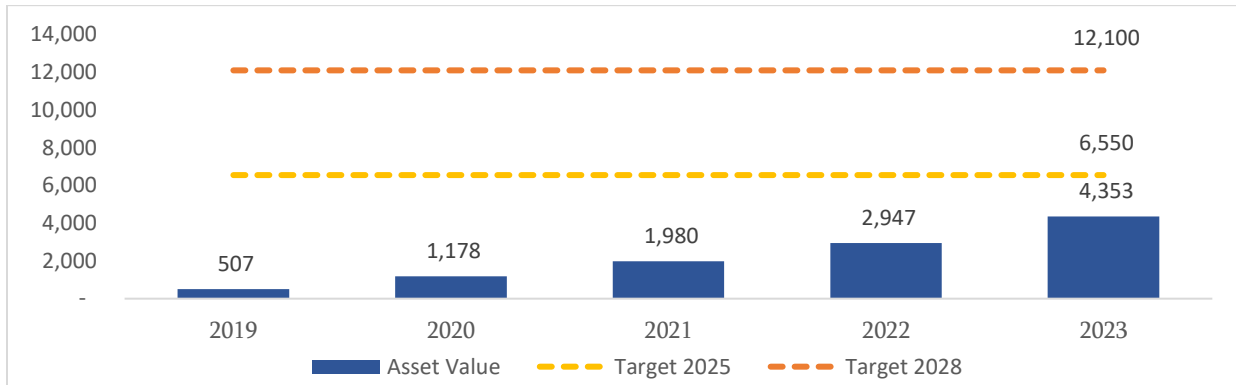


Source: The National Bank of Georgia

2.1. Developing institutional investors

To mobilize capital for local securities, it is essential to increase institutional investors' participation in the market. Given that the strategy encompasses the development of pension fund activities, monitoring the pension funds' asset value has been established as a progress indicator. From 2019 to 2023, pension fund assets exhibit a sharp upward trend, as presented in Graph 8. During this period, the average annual growth rate was 74%. Furthermore, in 2023 compared to 2022, assets of pension funds increased by 48% and totaled 4.4 billion GEL. The strategy aims to increase the value of pension fund assets to 6.5 billion GEL by 2025, reflecting a 1.5-fold increase from the amount recorded in 2022.

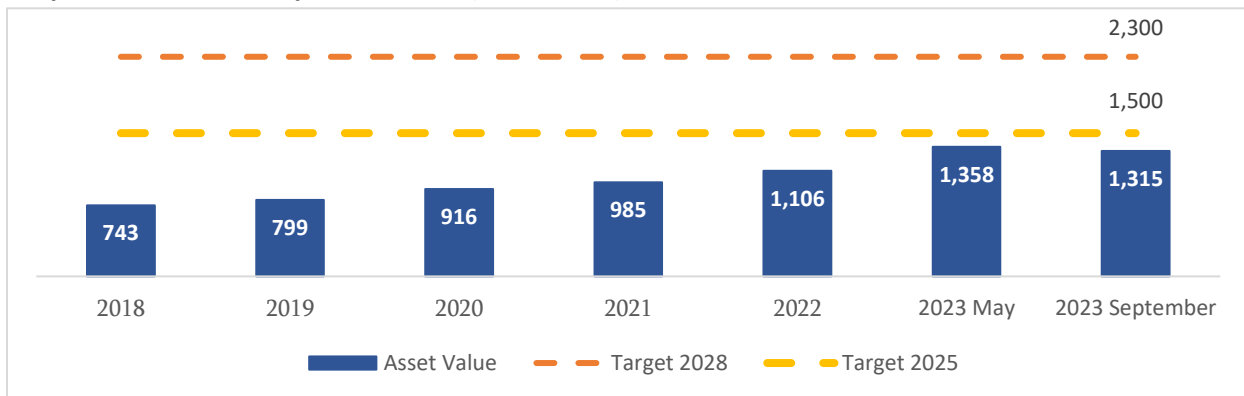
Graph 8. Pension funds' assets (million GEL)



Source: Pension Agency

Additionally, the development of insurance companies is an essential direction for the diversification of institutional investors and the financial sector. As illustrated in Graph 9, the value of insurance companies' assets has been rising since 2018, but at a substantially slower rate than the assets of pension agency. From 2018 to 2022, the average annual increase in the value of insurance companies' assets was 10%. In addition, the first nine months of 2023, in comparison with 2022, also revealed a positive trend with a 19% increase, reaching 1.3 billion GEL. At the same time, it should be emphasized that the insurance sector's activity on the capital market is relatively modest. The objective of the strategy is to increase insurance company assets to 1.5 billion GEL by 2025.

Graph 9. Insurance companies' assets (million GEL)



Source: The National Bank of Georgia, State Insurance Supervision Service of Georgia

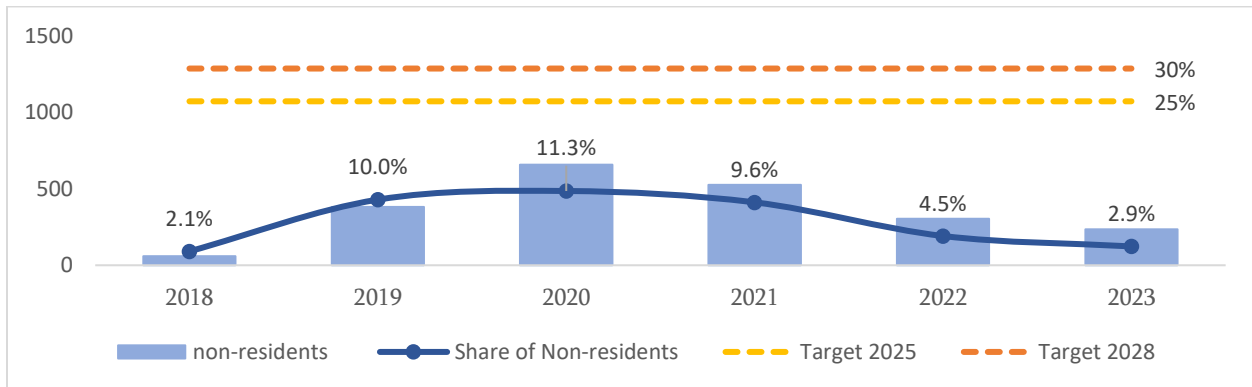
2.2. Increasing foreign investments in Georgian capital market

Promoting increased engagement of foreign investors in the local capital market is pivotal for developing higher trade volumes, improving liquidity, and attracting additional financial resources to foster economic development. As part of the strategy, efforts to promote foreign investor participation include increasing their interest in government securities, with the proportion of non-resident investors holding treasury securities established as an outcome indicator.

According to Graph 10, the peak in the share of non-resident holders of treasury securities occurred in 2020, reaching 11.3%. However, a subsequent downward trend resulted in a significant 64% decrease in the ownership of treasury securities by non-residents from 2020 to 2023. Consequently, this decline led to an 8.4 percentage point reduction in the overall share.

The strategy sets ambitious targets for 2025 and 2028, aiming for non-resident investors to constitute 25% and 30%, respectively, of the holders of treasury securities. Given the current state of the sector, achieving these targets is perceived as challenging.

Graph 10. Share of non-resident investors in treasury securities



Source: The National Bank of Georgia

Annex N1. Stakeholder Survey Questionnaire

Content and Adequacy

1. How well do the objectives of capital market development reform align with the sector's challenges?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

2. Is the policy-making and legal-drafting process conducted in an inclusive manner that enables the active participation of stakeholders?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

Progress

3. How would you assess the current measures implemented within the framework of the capital market development reform?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

4. To what extent do the implemented and planned measures within the framework of the strategy contribute to overcoming capital market development's limiting factors?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

Current Performance

5. How would you evaluate the present state of the capital market industry?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

Expected Outcomes

6. Will the reform reach its targets?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

7. Does the reform propose efficient measures to reach its targets?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

Annex N2. Capital Market Development Reform PPD Event Presentations



ReformMeter

Tracking progress – one reform at a time

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AGENDA



- Capital Market Development Strategy - Assessment of the planned activities and Progress Indicators
- Promoting the development of an institutional investor base through a voluntary private pension system
- Assessment of the "first generation" capital market reform and review of the investment funds market
- Cost-benefit analysis of the Law on Investment Funds



About ReforMeter

- Reformeter aims to track the progress of selected economic reforms, facilitate dialogue among reform stakeholders, and support the implementing agencies in increasing awareness and efficiency of these reforms.
- The first phase of the project: 2015-2019.
- The new phase of the project: 2021-2024.
- **Selected reforms:**
 - Capital market development reform
 - Insolvency reform
 - Water resources management reform
 - E-commerce reform
 - Tourism reform
 - Regulatory Impact Assessment(RIA) Institutionalization reform
 - Small and Medium sized enterprises development reform

ReforMeter Methodology



- 1. Governmental surveys:** The responsible governmental institutions evaluate the reform implementation process.
- 2. Stakeholder surveys:** Reform stakeholders assess the progress of the reforms
- 3. Economic indicators:** The ReforMeter project team identifies economic indicators to track the progress and results of the reforms.

Objectives of the 2023-2028 Strategy for Capital Market Development in Georgia



Increasing access to finance through capital market instruments

- Developing local bond market
- Developing local stock market
- Increasing participation of state-owned enterprises in the capital market

Mobilizing capital for domestic securities

- Developing institutional investors
- Increasing engagement of professional and retail investors
- Increasing foreign investors in the domestic capital market

Important reform activities planned under the 2023-2024 Action Plan of the Capital Market Development Strategy



Legal framework

| Implemented | Ongoing | Planned |
|---|--|--|
| <ul style="list-style-type: none"> Adoption of the legal and regulatory framework for possession of dematerialized securities Preparation and adoption of the legal framework for voluntary private pension system Preparation and adoption of amendments to the law on Funded Pension to broaden the investment mandate of the Pension Agency | <ul style="list-style-type: none"> Preparation and adoption of the securitization legal and regulatory framework Development and implementation of a tax incentives to stimulate real estate investment funds Adoption of the Public Corporation Law Developing a management framework for accumulated capital by joining the Hague Trust Convention and establishing family offices | <ul style="list-style-type: none"> Development and implementation of regulations for high-risk financial instruments (short selling) and securities lending |



Important reform activities planned under the 2023-2024 Action Plan of the Capital Market Development Strategy



Institutional setup

| Implemented | Ongoing | Planned |
|---|---|---|
| <ul style="list-style-type: none"> Preparation of Statement of Corporate Intent by state-owned enterprises | <ul style="list-style-type: none"> Creation of private equity tools to facilitate the financing of small and medium-sized enterprises Development of a market-stimulating instrument to facilitate the establishment of venture capital and private equity funds Development of guidelines for green/environmental, social, and governance/gender equality bonds | <ul style="list-style-type: none"> Evaluating the organizational, corporate governance, and ownership structure of the Georgian Stock Exchange (GSE) and tracking the implementation of recommendations Establishing an association comprising market intermediaries, financial advisors, and insurance brokers to boost retail investor engagement |

Important reform activities planned under the 2023-2024 Action Plan of the Capital Market Development Strategy

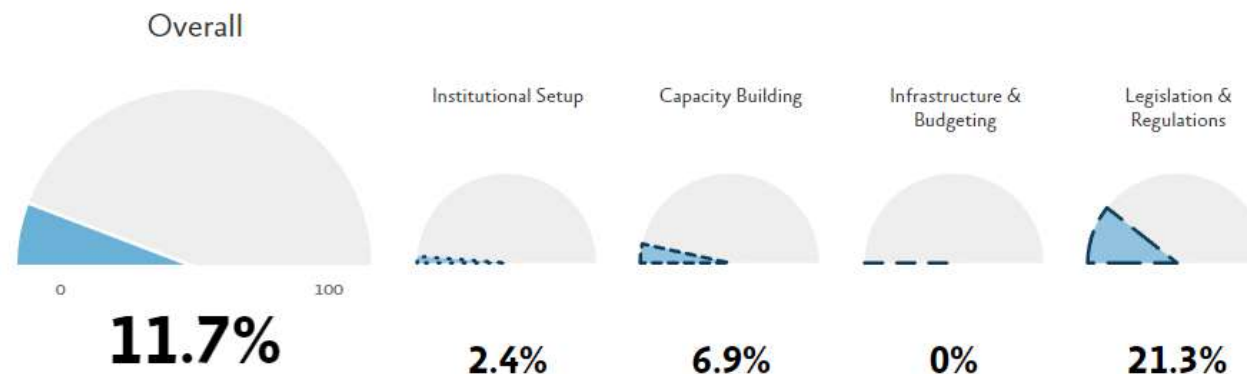


| | Implemented | Ongoing | Planned |
|----------------------------------|--|--|---|
| Infrastructure and Budget | | | <ul style="list-style-type: none"> Development and pilot implementation of a standardized online system for the placement of a public offering of bonds (shelf-registration) Implementation of a shared information technology system for derivative contracts |
| Capacity Development | <ul style="list-style-type: none"> Addition of the capital market segment to FinEdu platform to increase retail investor's awareness Organizing road shows, compiling a list of prospective investors, and maintaining contact with them | <ul style="list-style-type: none"> Promoting benchmark government bonds and investment returns by making this information publicly available and holding informational meetings | <ul style="list-style-type: none"> Providing training sessions to enhance the capabilities of securities market supervisors in effectively monitoring market manipulation and implementing relevant enforcement measures Enhancing the capabilities of supervisors overseeing voluntary private pension schemes to effectively monitor market manipulation and implement relevant enforcement measures Conducting research on capital market competition |

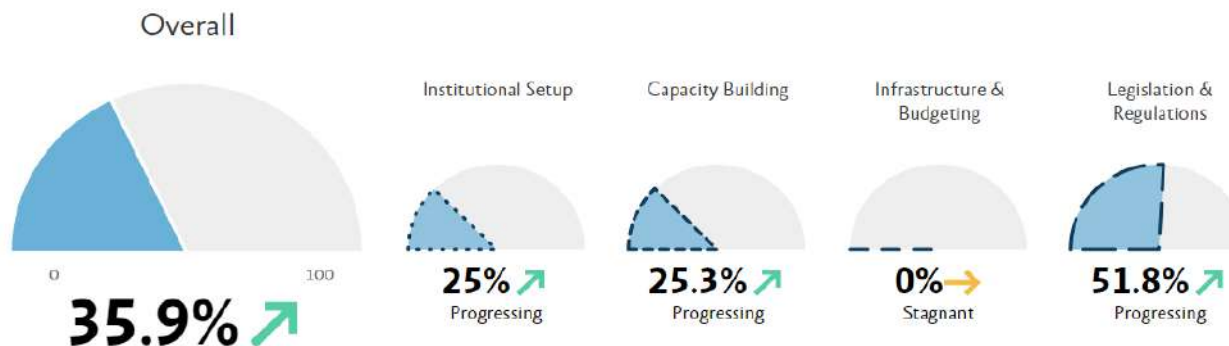
Progress assessment of the 2023-2024 Action Plan of the Capital Market Development Strategy in Georgia



June 2023



December 2023



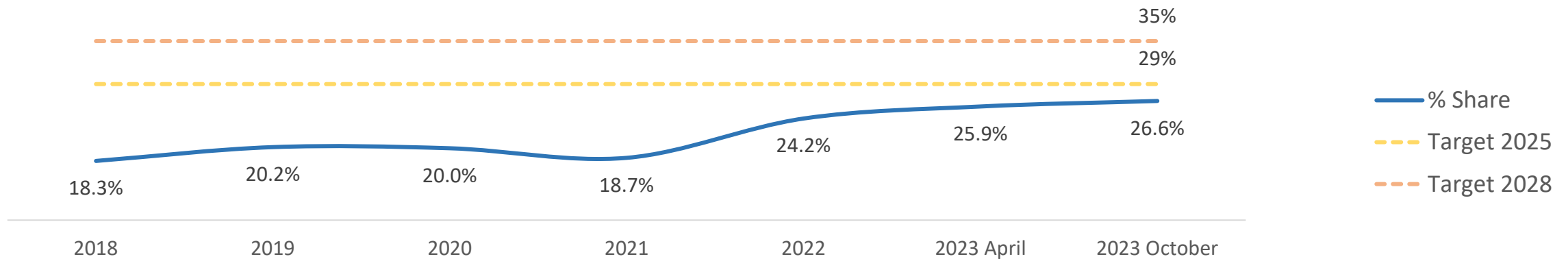
| | | | | |
|--|-----|-----|----|-----|
| Weight of the component in the assessment: | 30% | 20% | 5% | 45% |
|--|-----|-----|----|-----|

Objective 1. Increasing access to finance through capital market instruments



Share of domestic debt in the total public debt

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 April | 2023 October |
|-------------------------|--------|--------|--------|--------|--------|------------|--------------|
| Domestic Debt (Mln GEL) | 3,250 | 4,166 | 6,186 | 5,845 | 7,195 | 7,452 | 8,290 |
| Foreign Debt (Mln GEL) | 14,545 | 16,464 | 24,690 | 25,417 | 22,550 | 21,354 | 22,830 |
| Share % | 18% | 20% | 20% | 19% | 24% | 26% | 27% |



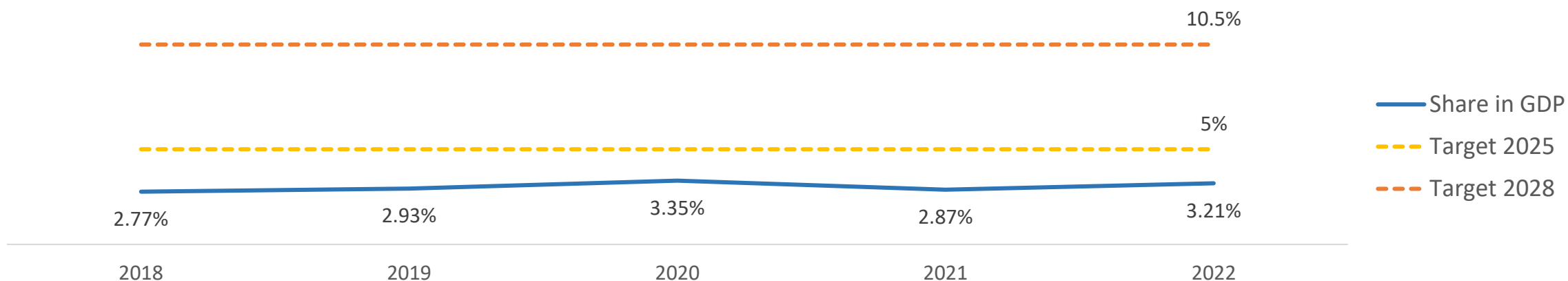
Source: Ministry of Finance of Georgia

Objective 1. Increasing access to finance through capital market instruments



Outstanding corporate bonds denominated in GEL to GDP Ratio

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 April | 2023 October |
|---|--------|--------|--------|--------|--------|------------|--------------|
| Corporate bonds (Mln GEL) | 62 | 140 | 279 | 273 | 344 | 472 | 378 |
| International financial institution bonds (Mln GEL) | 1,172 | 1,302 | 1,369 | 1,451 | 1,974 | 2,156 | 2,158 |
| GDP (Mln GEL) | 44,599 | 49,253 | 49,267 | 60,003 | 72,266 | 16,623 | 19,666 |
| Share in GDP | 2.77% | 2.93% | 3.35% | 2.87% | 3.21% | | |



Source: The National Bank of Georgia, GEOSTAT

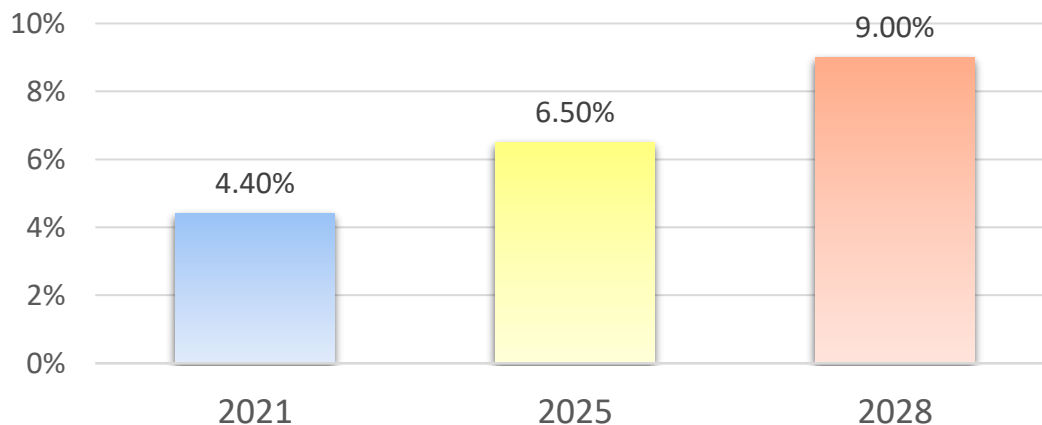
Objective 1. Increasing access to finance through capital market instruments



Stock Market Capitalization-to-GDP Ratio (Mln. GEL)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 November |
|----------------------|--------|--------|--------|--------|--------|------------------|
| Total Capitalization | 1,963 | 1,963 | 2,366 | 2,368 | 2,290 | 3,537 |
| GDP | 44,599 | 49,253 | 49,267 | 60,003 | 72,266 | |
| Share in GDP | 4.4% | 4.0% | 4.8% | 3.9% | 3.2% | |

The market capitalization of the listed stocks

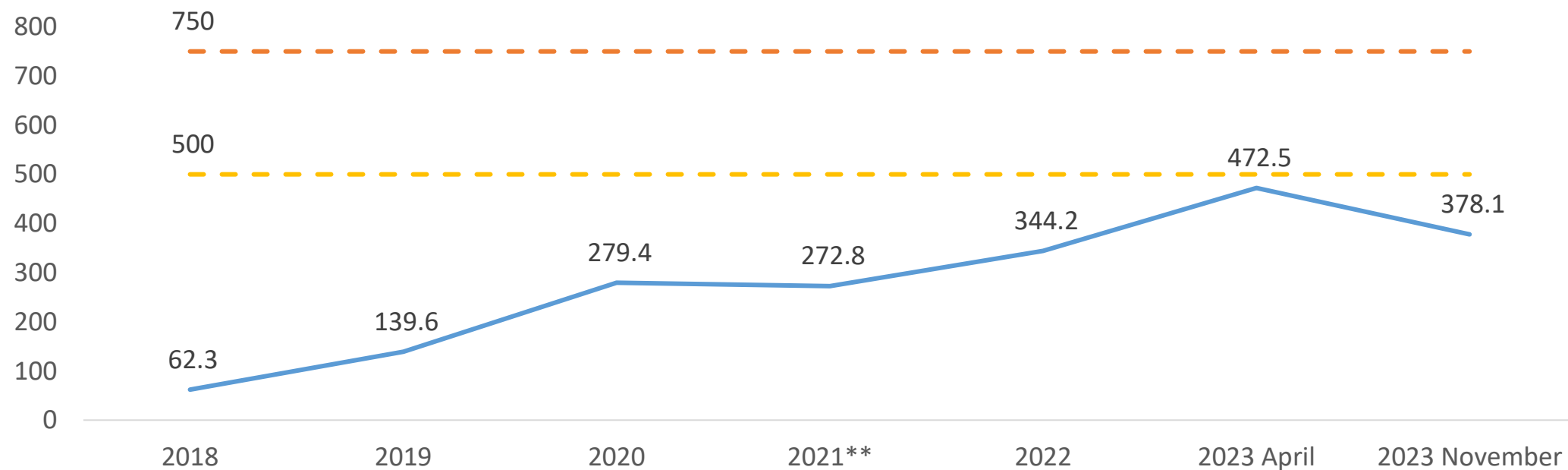


Source: Georgian Stock Exchange, GeoStat



Task 1.1 Developing Local Bond Market

Outstanding corporate bonds denominated in GEL (Mln. GEL)*



*Outstanding corporate bonds denominated in GEL (excluding international financial institutions and including environmental, social, governance and gender bonds)

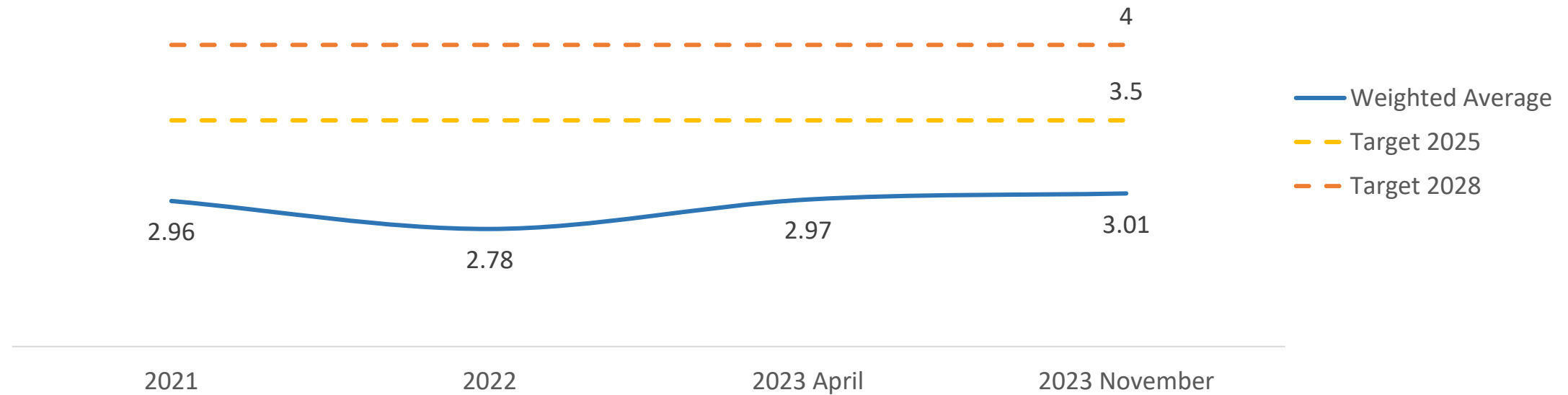
** According to the strategy - 350 million GEL

Source: NBG, Georgian Stock Exchange

Task 1.1 Developing Local Bond Market



Weighted Average Maturity of Government Securities



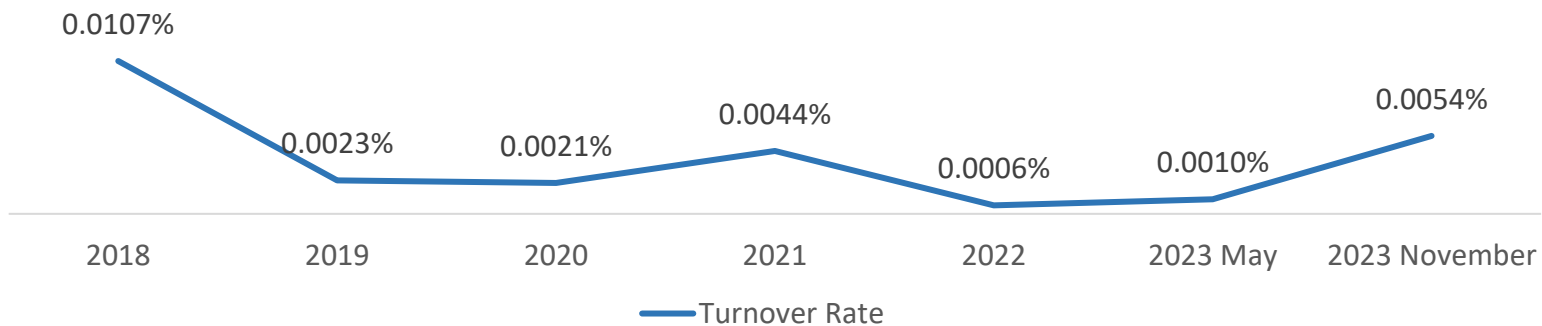
Source: Ministry of Finance

Task 1.2 Developing local stock market



Stock Turnover Rate

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 May | 2023 November |
|--|---------|---------|---------|---------|---------|----------|---------------|
| Trading volume during the trading sessions | 278,031 | 45,717 | 46,135 | 104,078 | 13,619 | 23,195 | 158,430 |
| Market Capitalization (Mln. GEL) | 2,607 | 1,952 | 2,150 | 2,372 | 2,329 | 2,290 | 2,914 |
| Turnover Rate | 0.0107% | 0.0023% | 0.0021% | 0.0044% | 0.0006% | 0.0010% | 0.0054% |



Target 2025 - 1.27%

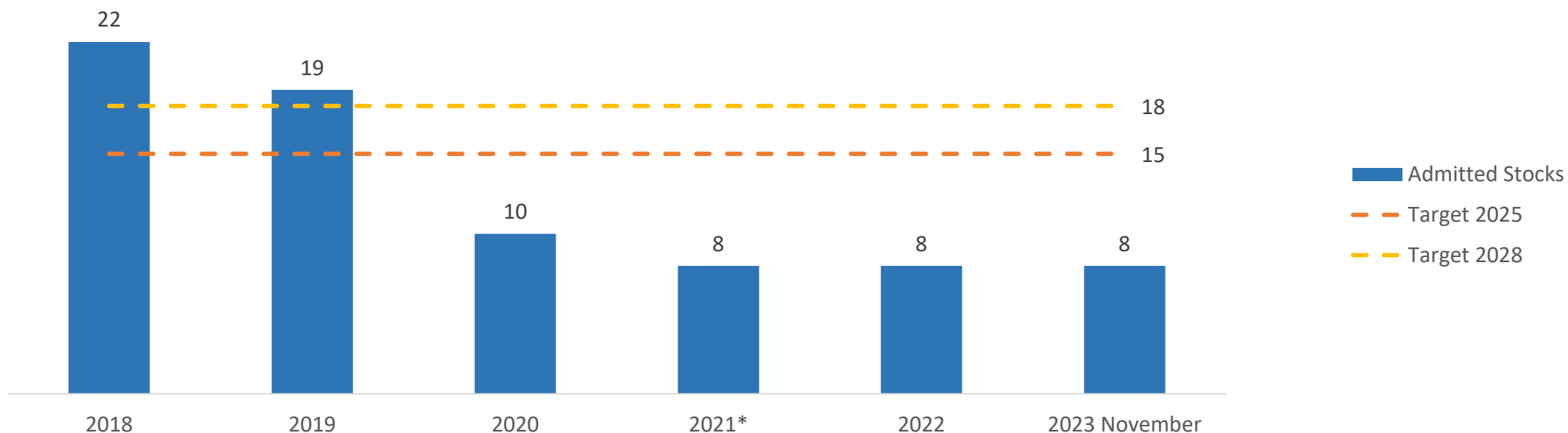
Target 2028 - 2.2%

Source: Georgian Stock Exchange



Task 1.2 Developing local stock market

Total Listed Companies on the Stock Exchange/Admission of Stocks to the Trading System of the Georgian Stock Exchange



* According to Strategy - 9

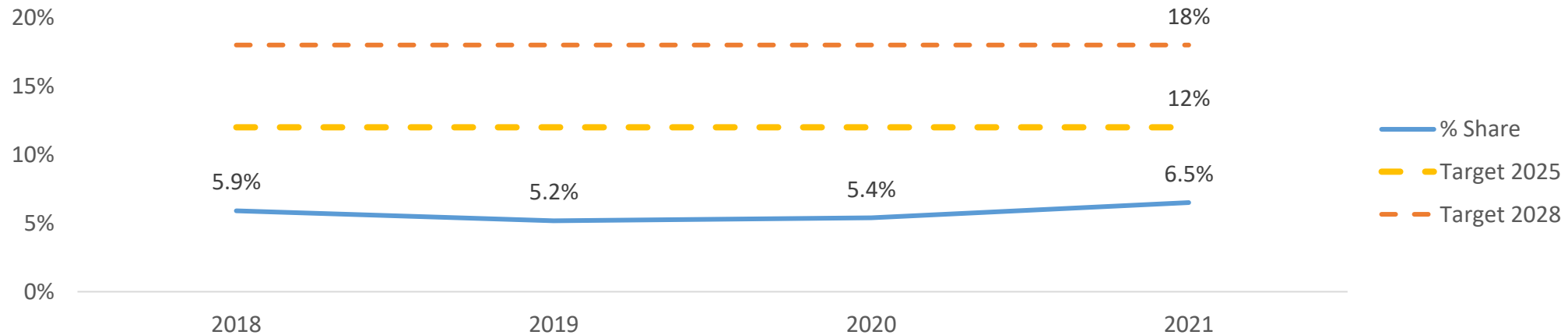
Source: Georgian Stock Exchange

Objective 2. Stimulation and mobilization of capital for local securities



Non-bank financial sector's share in the total assets held by the financial sector (Mln. GEL)

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|--------|--------|--------|--------|--------|
| Non-bank Sector assets | 3,216 | 3,364 | 4,240 | 5,487 | 6,789 |
| Financial Sector assets | 39,694 | 47,185 | 56,872 | 60,569 | 70,353 |
| NBG assets | 11,501 | 14,356 | 17,528 | 18,316 | 19,221 |
| Share % | 5.9% | 5.2% | 5.4% | 6.5% | 7.0% |

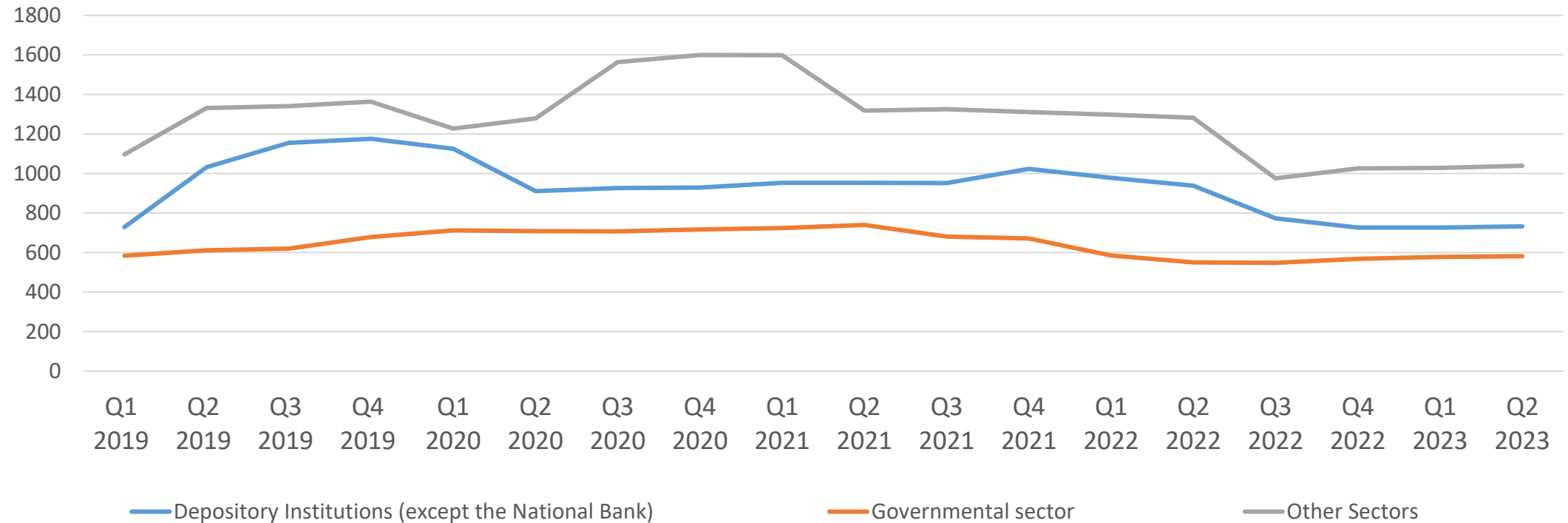


Source: NBG

Objective 2. Mobilizing capital for domestic securities



Portfolio Investment in Debt Securities (Mln. USD)

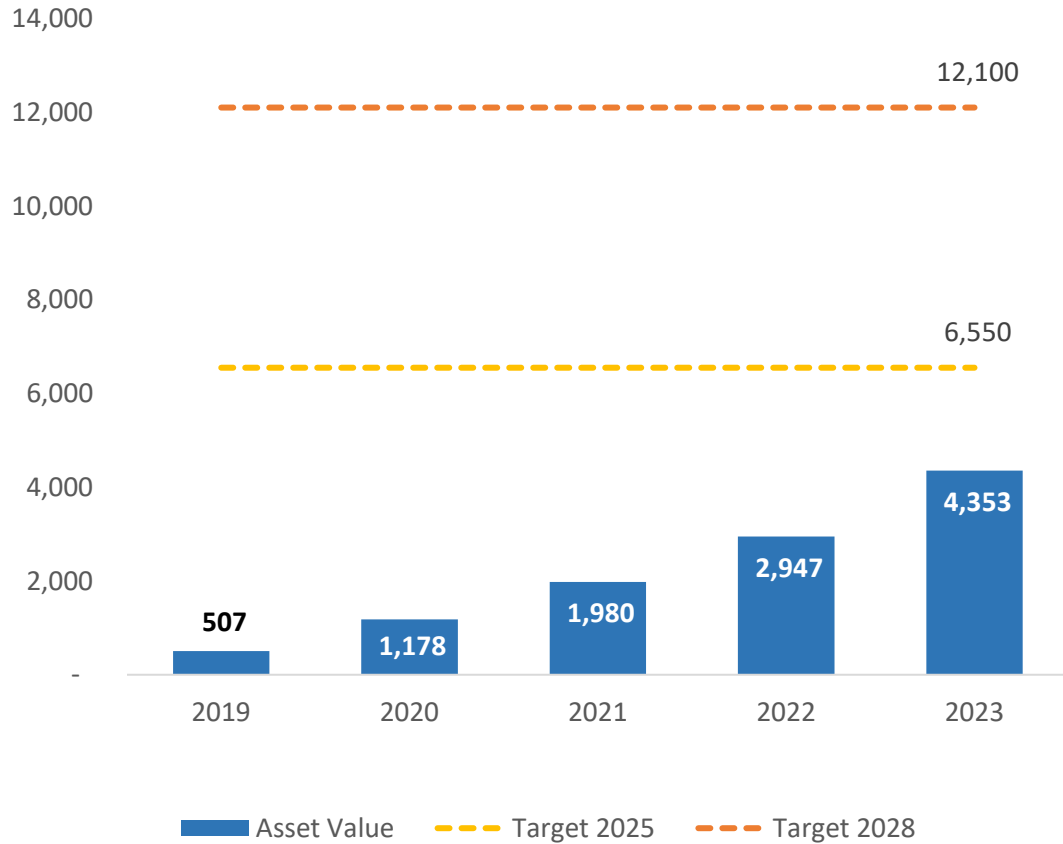


Source: The National Bank of Georgia

Task 2.1 Developing institutional investors

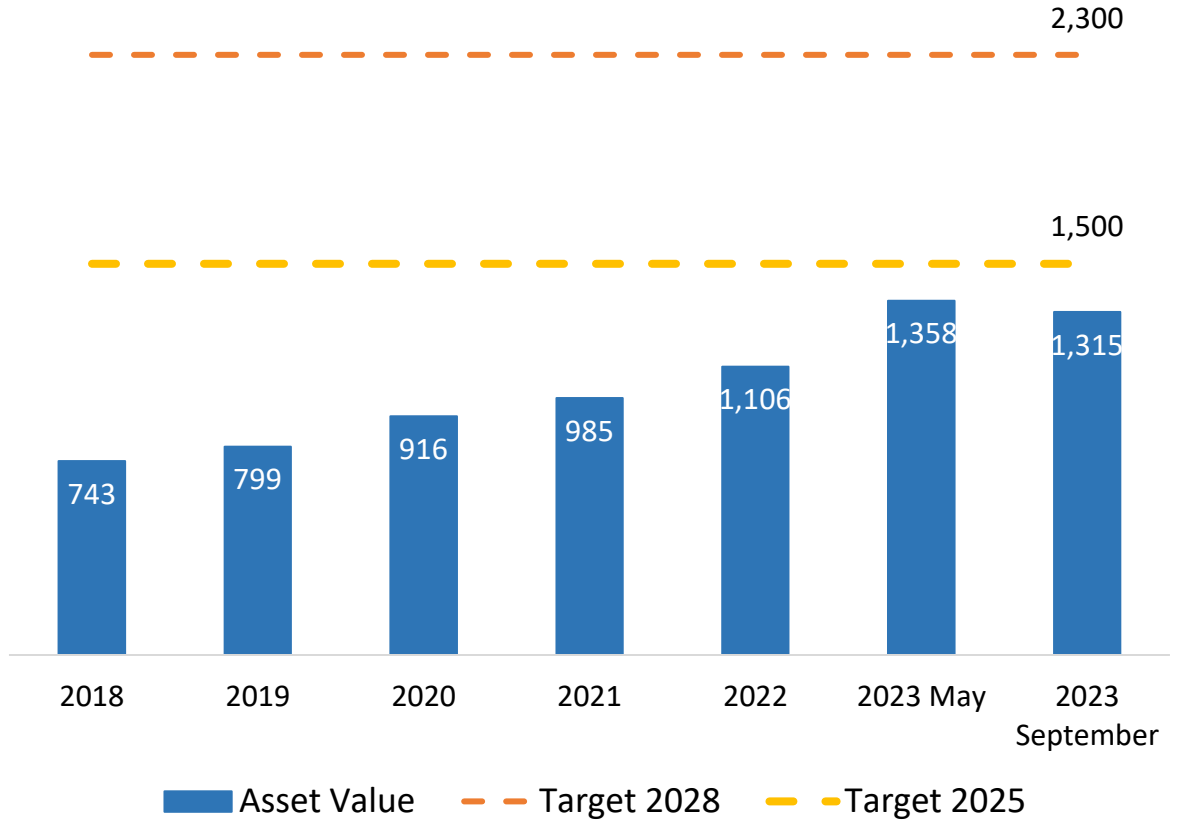


Pension Fund Assets (Mln. Gel)

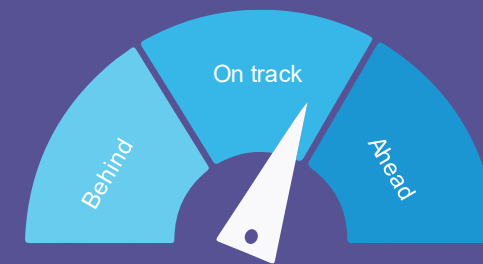


Source: Pension Agency

Insurance Company Assets (Mln. Gel)



Source: NBG, Insurance State Supervision Service



Thank you



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ReforMeter

Tracking progress – one reform at a time

ნებაყოფლობითი კერძო პენსიის რეფორმა

მესამე სვეტი



საქართველოს ეკონომიკისა და
მდგრადი განვითარების სამინისტრო
დეკემბერი 2023

არსებული საპენსიო სისტემა

საქართველოში დღეს არსებული საპენსიო უზრუნველყოფა მოიცავს შემდეგ კომპონენტებს:

- საყოველთაო პენსია ~220 ლარის ოდენობით (250 ლარი 70+ ასაკის მოქალაქეებისათვის და 300 ლარი მაღალმთიან დასახლებებში მცხოვრებ პირთათვის), საყოველთაო პენსია ინდექსირებულია;
- დაგროვებითი პენსია, რომელიც მოიცავს შემდეგი კონტრიბუციების შედეგს - დასაქმებულის მხრიდან მისი დასაბეგრი ხელფასის 2%-ს, ასევე მისი დამსაქმებლის მხრიდან 2%-ს, ხოლო სახელმწიფოს კონტრიბუციებს შემდეგი წესებით - დასაქმებულის წლიური შემოსავლის 24,000 ლარამდე - დასაბეგრი ხელფასის 2%-ს ან 24,000-დან 60,000 ლარამდე - 1%-ს;
- ნებაყოფლობითი პენსია, რომლის სარგებელიც დამოკიდებულია საპენსიო სქემის პირობებზე.

არსებული ნებაყოფლობითი კერძო პენსიის სისტემა არის უმოქმედო, არაეფექტური და არ ახასიათებს ის კონკურენტული მასტიმულირებელი სავადასახადო მექანიზმები, რომლებიც დაინტერესებს გამოიწვევდა მოქალაქეებში დაგროვებითი საპენსიო სისტემის პარალელურად.

პირისათვის, რომელიც 35 წლის განმავლობაში მონაწილეობს დაგროვებით საპენსიო სქემაში და სარგებლობს საყოველთაო პენსიით, ჩანაცვლების კოეფიციენტი არსებულ ყოველთვიურ საშუალო ხელფასთან მიმართებით (~ 1,368 ლარი) იქნება შემდეგი (არსებული ნებაყოფლობითი საპენსიო სქემების გამოკლებით):

| საშუალო ხელფასის ჯერადი | 0.5 | 1.0 | 1.5 |
|---|-----|-----|-----|
| მიახლოებითი ჩანაცვლების კოეფიციენტი (220 ლარის გაანგარიშებით) | 55% | 39% | 34% |

პენსიაზე გასვლისას სათანადო ცხოვრების ხარისხის შესანარჩუნებლად საჭირო ჩანაცვლების კოეფიციენტი მერყეობს 60%-დან 70%-მდე. შესაბამისად, აშკარაა პოტენციური დამატებითი საპენსიო დანაზოგების შესაქმნელად.

ნებაყოფლობითი კერძო საპენსიო სქემა

მესამე სვეტის პენსია

მხოლოდ განსაზღვრული შენატანის საპენსიო
სქემები

ინდივიდუალური საპენსიო სქემები

დამფუძნებელი

მზღვეველი

აქტივების მმართველი
კომპანია

ასეთი აქტივების მმართველი კომპანიის
ლიცენზირების და მისი საქმიანობის
ზედამხედველობა, ნებაყოფლობითი კერძო
საპენსიო სქემის ზედამხედველობის გარდა

აქტივების
მმართველი
კომპანია/
მზღვეველი

აღმინისტრაციული/
აქტივების მართვის
უფლებამოსილება

აქტივების მართვა

საპენსიო
კომპანია

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იურიდიული პირის შექმნა

აქტივების მმართველი და აქტივების მმართველი
ფუნქციების დაქირავება ხელშეკრულებით

აქტივების მართვა რეგისტრაციას

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საინვესტიციო წესები - Prudent
Man's Principles

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დეპოზიტარი

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ნებაყოფლობითი კერძო საპენსიო სისტემის განვითარებისა და მიმზიდველობისათვის შემუშავებულ იქნა დაგროვებითი პენსიის მსგავსი საგადასახადო შეღავათების სტრუქტურა, რომელიც გულისხმობს სამი რანგის გადასახადისაგან გათავისუფლებას - შენატანების, მოგებისა და პენსიის გატანის ნაწილში. შენატანების ნაწილში კანონი ითვალისწინებს წლიურ ზღვრულ თანხას, რომელიც სარგებლობს საგადასახადო შეღავათებით, რაც აზღვევს საგადასახადო ვალდებულებისაგან თავის არიდების მიზნის შემთხვევებს. კანონი ასევე განსხვავებულ მიდგომას აყალიბებს პენსიის ერთიანი გატანის შემთხვევაში, რათა დაცულ იქნას კანონის ძირითადი მიზნები.

საშემოსავლო გადასახადისაგან გათავისუფლებულია:

- ნებაყოფლობითი კერძო საპენსიო სქემის მონაწილის მიერ ან/და მის სასარგებლოდ წლის განმავლობაში ჯამურად 6,000 ლარამდე განხორციელებული საპენსიო შენატანი. აღნიშნული შეღავათი გულისხმობს სქემის მონაწილის დაუბეგრავი შემოსავლის თანხის მიმართებას მის საპენსიო ანგარიშზე;
- საპენსიო სქემაში მონაწილეობის შედეგად საპენსიო აქტივებზე ინვესტირების შედეგად დარიცხული სარგებელი. აღნიშნული გულისხმობს მონაწილის საპენსიო აქტივების ინვესტირებით გამოშვებული სარგებლის საშემოსავლო/მოგების გადასახადისაგან გათავისუფლებას;
- მონაწილის მიერ საპენსიო ასაკის მიღწევას, საპენსიო ასაკის მიღწევამდე 5 წლით ადრე (თუ სქემა ასეთ წესს ითვალისწინებს) ან შესაძლებლობის შემლუღვისას მონაწილის ინდივიდუალურ საპენსიო ანგარიშზე აღრიცხული საპენსიო აქტივების გატანა პროგრამული გატანით ან ანუიტეტის თორმით მიღებისას არ დაიბეგრება საშემოსავლო გადასახადით. ამასთან, პენსიის ერთიანი გატანის შემთხვევაში, გარდა ბენეფიციარის/მემკვიდრის მიერ პენსიის გატანისა, საშემოსავლო გადასახადით დაბეგრავს ექვემდებარება განხორციელებული შენატანი, ხოლო საპენსიო აქტივებზე ინვესტირების შედეგად დარიცხული სარგებელი ასეთ შემთხვევაში არ იბეგრება;
- ყველა სხვა შემთხვევაში, როდესაც საპენსიო აქტივების გატანა ხორციელდება კანონით დაშვებული შემთხვევების გათვალისწინების გარეშე, საპენსიო აქტივები ექვემდებარება სრულ დაბეგრავს, როგორც შენატანების, ასევე მოგების და გატანის ნაწილებში.

ზედამხედველობა

საპენსიო სქემებთან დაკავშირებული ზედამხედველობა

ნებაყოფლობითი კერძო საპენსიო სისტემის ეფექტური და მარტივი საზედამხედველო ჩარჩოს შემდგომი განვითარების მიზნით, კანონის მიხედვით ზედამხედველობა ძირითადად კონცენტრირებულია დაზღვევის სახელმწიფო ზედამხედველობის სამსახურში. დაზღვევის სახელმწიფო ზედამხედველობის სამსახური წინასწარი განჭვრეტის და რისკზე დამყარებული მიდგომის საფუძველზე ახორციელებს:

- საპენსიო კომპანიის ლიცენზირებას;
- საპენსიო სქემის რეგისტრირებას;
- ნებაყოფლობითი კერძო საპენსიო სისტემის თვარგლებში საინვესტიციო და არასაინვესტიციო საქმიანობის ზედამხედველობას;
- საპენსიო სქემის მონაწილეთა ინტერესების დაცვას.

სპეციალიზებული დეპოზიტარის და აქტივების მმართველი კომპანიის დამატებითი რეგულირება და ზედამხედველობა

- ეროვნული ბანკი უცვლელად ინარჩუნებს ზედამხედველობას აქტივების მმართველ კომპანიებსა და სპეციალიზებულ დეპოზიტარებზე. იმ შემთხვევაში თუ აქტივების მმართველი კომპანია გადაწყვეტს განახორციელოს ნებაყოფლობითი კერძო საპენსიო საქმიანობა, მან უნდა დაიცვას ნებაყოფლობითი კერძო საპენსიო სქემის მიმართ დანესებული ყველა მოთხოვნა. ნებაყოფლობითი კერძო საპენსიო საქმიანობის თვარგლებში აქტივების მმართველი კომპანია დაეყვემდება კანონით განსაზღვრულ დაზღვევის სახელმწიფო ზედამხედველობის სამსახურის ზედამხედველობას მხოლოდ აღნიშნული საქმიანობის თვარგლებში, ისე, რომ ეს არ იქნება წინააღმდეგობრივი ეროვნული ბანკის საზედამხედველო უფლებამოსილებებთან;
- კანონით განსაზღვრული მიზნების მისაღწევად და ეფექტური ზედამხედველობის განსახორციელებლად, დაზღვევის სახელმწიფო ზედამხედველობის სამსახური და ეროვნული ბანკი საკუთარი კომპეტენციის თვარგლებში თანამშრომლობენ და აკოორდინირებენ საკუთარ საზედამხედველო საქმიანობას ინფორმაციის გაცვლის და სხვა კანონმდებლობით დაშვებული ფორმებით.

შენიშვნები





საქართველოს ეროვნული ბანკი
National Bank of Georgia

“პირველი თაობის” რეფორმის შეფასება და საინვესტიციო ფონდების ბაზრის მიმოხილვა

ანა ხინჩიაშვილი

ფასიანი ქაღალდების ბაზრის ზედამხედველობის
დეპარტამენტი

ძირითადი საკითხები

- ❑ **გაცარებული რეფორმები და მნიშვნელოვანი მიღწევები**
- ❑ **საინვესტიციო ფონდების ბაზრის პოტენციალი**

გაზარებული რეფორმები და მნიშვნელოვანი მიღწევები

„პირველი თაობის“ რეფორმა (2018-2020)

- ❑ 2018 წელს ჩამოყალიბდა დაგროვებითი საპენსიო სისტემა (**Pillar II**) და დამტკიცდა საპენსიო სააგენტოს საინვესტიციო საქმიანობის მარეგულირებელი & საზედამხედველო ჩარჩო;
- ❑ 2019 წელს ეროვნული ბანკი გახდა **IOPS**-ის მმართველი წევრი;
- ❑ 2020 წელს დამტკიცდა საინვესტიციო ფონდების შესახებ კანონი და მარეგულირებელი ჩარჩო (**AIFM & UCITS** დირექტივებზე დაყრდნობით);
- ❑ მარეგულირებელი ჩარჩო დაახლოვდა ევროკავშირის სტანდარტებთან (**MiFID, Transparency Directive, MAR, Prospectus Regulation**).

გაზარეზული რეფორმები და მნიშვნელოვანი მიღწევები

„მეორე თაობის“ რეფორმა (2021-2023)

- ❑ 2021 წელს დამტკიცდა შუამავლებისათვის ეთიკის კოდექსი და ემიტენტებისათვის კორპორაციული მართვის კოდექსი;
- ❑ 2021 წელს ეროვნული ბანკი გახდა IOSCO-ს წევრი (ordinary member) და MMoU-ს მხარე;
- ❑ 2022-2023 წლებში დამტკიცდა:
 - ❑ „იპოთეკური ობლიგაციების შესახებ“ კანონი;
 - ❑ „დემატერიალიზებული ფასიანი ქაღალდების ფლობის შესახებ“ კანონი და დაკავშირებული ცვლილებები „ფასიანი ქაღალდების ბაზრის შესახებ“ კანონში;
 - ❑ „ფასიან ქაღალდებად გარდაქმნის შესახებ“ კანონი (სეკიურიტიზაცია) [დამტკიცდება მესამე მოსმენით წლის ბოლომდე];

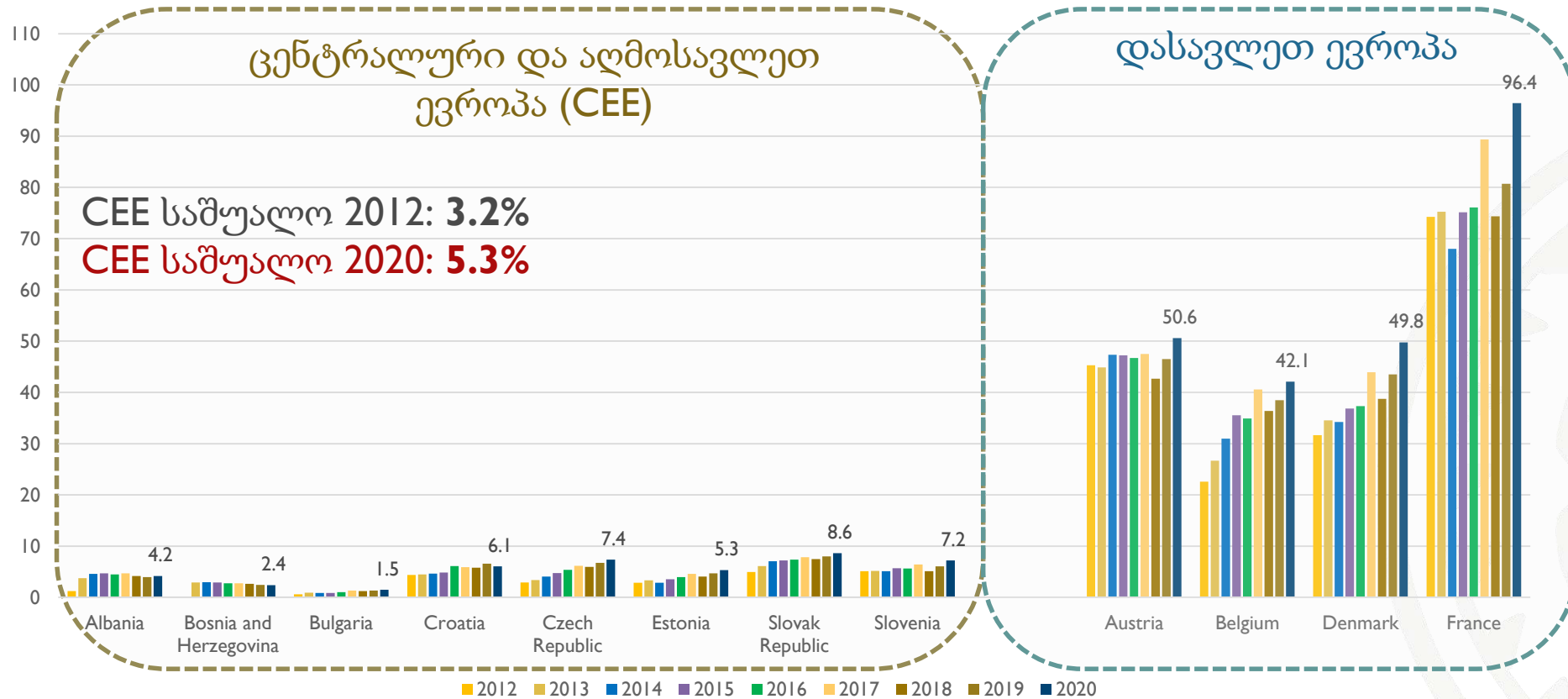
გაზარებული რეფორმები და მნიშვნელოვანი მიღწევები

| | 2018 | 2023 | |
|---|------|-------|-------------|
| დაგროვებითი საპენსიო სქემა | | | |
| საპენსიო ფონდის მოცულობა (მლნ. ლარი) | 0 | 4,200 | |
| საინვესტიციო ფონდების სექტორი | | | |
| არსებული საინვესტიციო ფონდები | 0 | 12 | |
| არსებული აქტივების მმართველი კომპანიები | 0 | 7 | |
| არსებული სპეციალიზებული დეპოზიტარები | 0 | 3 | |
| საინვესტიციო ფონდების პორტფელის მოცულობა (მლნ. ლარი) | 0 | 92* | |
| სავალო ფასიანი ქაღალდები | | | |
| ემიტენტი კომპანიების რაოდენობა | 13 | 22 | |
| საჯარო სავალო ფასიანი ქაღალდები | 15 | 29 | |
| ESG კატეგორიის | 0 | 7 | |
| კერძო სავალო ფასიანი ქაღალდების მიმდინარე მოცულობა (მლნ. ლარი) | 238 | 0 | CAGR |
| საჯარო სავალო ფასიანი ქაღალდების მიმდინარე მოცულობა (მლნ. ლარი) | 379 | 1,796 | ▲ 37% |
| ჯამურად მიმდინარე მოცულობა (მლნ. ლარი) | 617 | 1,796 | ▲ 24% |

* 2022 წლის 31 დეკემბრის მონაცემებით

საინვესტიციო ფონდების & აქტივების მართვის ბაზრის კონტენციალი

საინვესტიციო ფონდების (Mutual Funds) ბაზრის მოცულობა: % მშპ



წყარო: მსოფლიო ბანკი

საინვესტიციო ფონდების ჯამური მოცულობა კავკასიის და ცენტრალური აზიის (CCA) რეგიონში საკმაოდ დაბალია და ცენტრალური და აღმოსავლეთ ევროპის ქვეყნების (CEE) გამოცდილებების შესაბამისად, პოტენციური აქვს, რომ მიაღწიოს საშუალოდ მშპ-ს 5%-ს.

საინვესტიციო ფონდების & აქტივების მართვის ბაზრის კონვენციული

- ❑ მზარდი მოთხოვნა ალტერნატიული დაფინანსების პროდუქტებზე (მაგ. კერძო კაპიტალი);
- ❑ **Middle class & ინსტიტუციური ინვესტორების** გაფართოებასთან ერთად, მზარდი მოთხოვნა საინვესტიციო პროდუქტების მიმართ;
- ❑ რეგიონის დონეზე მომსახურების გაფართოების პერსპექტივა;
- ❑ 2025 წლის პირველი იანვრიდან **Pillar II**-ის მონაწილეების შესაძლებლობა, აირჩიონ აქტივების მმართველი კომპანია საპენსიო აქტივების სამართავად.

მადლობა

კითხვები ?



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USAID Economic Governance Program

Cost-Benefit Analysis of Investment Funds

Operational Research Institute, 2023

Stakeholder consultations – Questionnaire

Fund Type and Investor Profile:

- Type of investment fund (closed-end, open-end, interval)
- Costs associated with setting up the investment fund
- Main investors and prospective shareholders (resident/non-resident, legal entities/individuals)

Financial Aspects:

- Total assets in USD
- Investment shares in Georgia and abroad
- Industries invested in within Georgia and abroad
- Average rates of return on investments

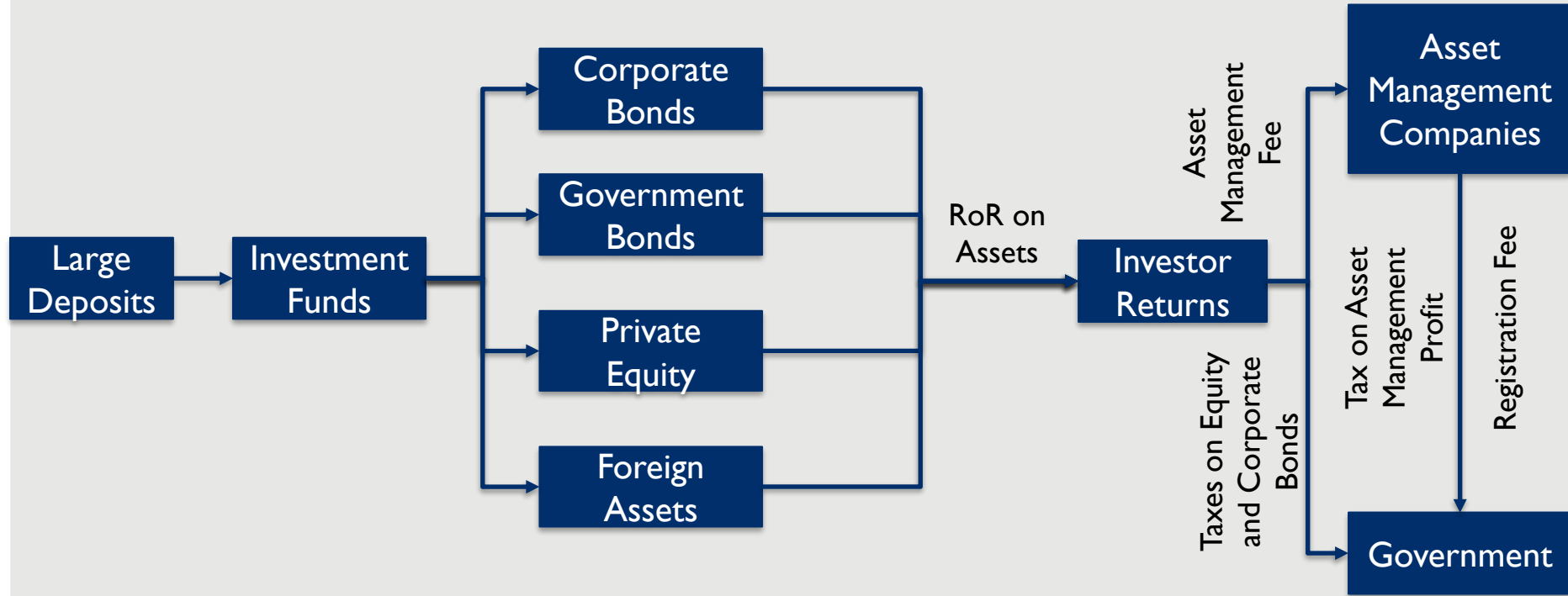
Strategic and Operational Considerations:

- Future investment plans and industries of interest
- Main constraints for setting up and developing investment funds in Georgia
- Impact of new legal framework on investment opportunities/volume

Stakeholder consultations – Key takeaways

- Total assets **of the interviewed funds** amount to **5.2 mln USD**.
- Majority of the assets are **situated in Georgia**, spanning various industries such as real estate, healthcare, agriculture, trade, energy (including renewables), finance, manufacturing, and education.
 - Some investment funds diversify their portfolios by investing in foreign government bonds or NYSE stocks.
- A substantial portion of the setup costs is allocated to **market research, legal consulting and Audit**
- All interviewees noted that they would not have initiated an investment fund under the previous law, underscoring the impact of the current legislation.
- Challenges faced by these funds include regulatory ambiguity, specialized depository issues, low investor awareness, and the absence of a secondary market.

Model Structure



Monetized Benefits and Costs for Stakeholders

| Stakeholder | Benefits | Costs |
|-----------------------------------|--|---|
| Investor | <ul style="list-style-type: none">✓ Return on Investment | <ul style="list-style-type: none">✓ Asset Management Fee✓ Taxes on Private bonds and Equity |
| Government | <ul style="list-style-type: none">✓ Taxes on equity and private bonds✓ Taxes on profits of AMCs✓ Registration Fees | <ul style="list-style-type: none">✓ Staff costs of the regulator |
| Asset Management Companies (AMCs) | <ul style="list-style-type: none">✓ Asset Management Fees | <ul style="list-style-type: none">✓ Fund Registration Fees✓ Fixed costs of setting up funds✓ Variable and labour costs✓ Profit Tax |

Major Parameters

| Parameters | Base Value | Variability | Worst Case | Best Case |
|---|------------|-------------|------------|-----------|
| Inflation | 3% | 2% | 1% | 5% |
| Nominal Social Discount Rate | 8.81% | 2.76% | 11.57% | 6.05% |
| Real Social Discount Rate | 5.64% | - | 10.46% | 1.00% |
| Growth Rate of GEL Deposits | 6% | 2% | 4% | 8% |
| Growth Rate of USD Deposits | -8% | 2% | -10% | -6% |
| Growth Rate of EUR Deposits | -9% | 2% | -11% | -7% |
| Share of Deposits invested in investment Funds | 5% | 2% | 3% | 7% |
| Growth of share of deposits invested in investment funds | 1% | 0.5% | 0.5% | 1.5% |
| RoR on Corporate Bonds | 11% | 2% | 9% | 13% |
| RoR on Government Bonds | 8% | 2% | 6% | 10% |
| RoR on Equity | 15% | 2% | 13% | 17% |
| RoR on Foreign Investment (S&P 500 Average Annual) | 12% | 2% | 10% | 14% |

Major Parameters

| Parameters | Base Value | Value at Period 10 |
|--|---------------|--------------------|
| Number of Investment Funds | 11 | 59 |
| Taxes on Equity Investment | 15% | 15% |
| Taxes on Corporate Bonds | 5% | 5% |
| Asset Management Fee | 1.5% | 1.5% |
| Cost of setting up the investment fund (GEL) | 40,000 | 40,000 |
| Value Large GEL Deposits (GEL) | 2,739,160,000 | 4,898,252,368 |
| Value Large USD Deposits (USD) | 232,767,000 | 105,202,887 |
| Value Large EUR Deposits (EUR) | 60,668,000 | 24,467,388 |
| Value of corporate bonds purchased by investment funds (flow) | 54,751,256 | 25,520,349 |
| Value of government bonds purchased by investment funds (flow) | 27,375,628 | 12,760,175 |
| Value of investment in fixed assets invested as equity (flow) | 74,353,557 | 34,657,264 |
| Value of investment in foreign funds (flow) | 26,023,745 | 12,130,043 |

Major Parameters

| Parameters | Base Value | Value at Period 10 |
|--|------------|--------------------|
| Maturity of Corporate bonds | 3 | 3 |
| Maturity of Government bonds | 10 | 10 |
| Share of corporate bonds purchased by investment funds | 30% | 30% |
| Share of government bonds purchased by investment funds | 15% | 15% |
| Share of investment in fixed assets invested as equity | 41% | 41% |
| Share of foreign investments made by investment funds | 14% | 14% |
| Share of foreign investors in total investment fund assets | 13% | 23% |

Expected Case

Main Parameters

| | |
|------------------------------|-------------|
| Nominal Discount Rate | 8.81% |
| Period | 2024 - 2033 |
| Target inflation rate | 3.00% |
| Real Discount rate | 5.64% |

| Total Benefits and Costs | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Benefits (1000 GEL) | 23,032 | 26,910 | 30,498 | 28,897 | 31,457 | 33,889 | 36,349 | 38,702 | 40,987 | 65,440 |
| Costs (1000 GEL) | 6,267 | 6,740 | 7,686 | 7,567 | 8,005 | 8,715 | 9,045 | 9,637 | 10,343 | 12,047 |
| NPV (1000 GEL) | 16,766 | 20,171 | 22,813 | 21,330 | 23,452 | 25,174 | 27,304 | 29,065 | 30,644 | 53,392 |
| Benefits to Cost ratio (BCR) | 3.7 | 4.0 | 4.0 | 3.8 | 3.9 | 3.9 | 4.0 | 4.0 | 4.0 | 5.4 |

Sensitivity Analysis

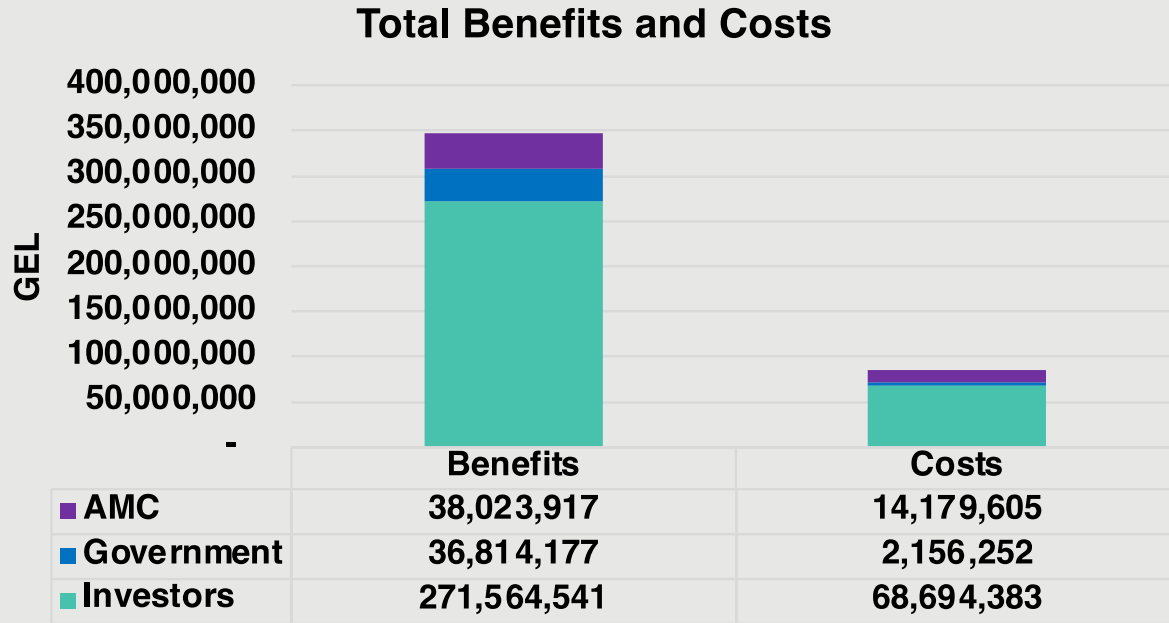
Alternative - 2 - Worst Case Scenario

| Total Benefits and Costs | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Benefits (1000 GEL) | 11,006 | 11,737 | 12,186 | 10,403 | 10,529 | 10,541 | 10,563 | 10,496 | 10,375 | 14,400 |
| Costs (1000 GEL) | 3,877 | 3,642 | 3,834 | 3,492 | 3,341 | 3,402 | 3,170 | 3,129 | 3,157 | 3,266 |
| NPV (1000 GEL) | 7,129 | 8,095 | 8,352 | 6,912 | 7,188 | 7,139 | 7,394 | 7,367 | 7,218 | 11,134 |
| Benefits to Cost ratio (BCR) | 2.8 | 3.2 | 3.2 | 3.0 | 3.2 | 3.1 | 3.3 | 3.4 | 3.3 | 4.4 |

Alternative 3 – Best Case Scenario

| Total Benefits and Costs | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Benefits (1000 GEL) | 39,468 | 49,824 | 60,865 | 62,825 | 73,249 | 84,484 | 96,803 | 110,105 | 124,523 | 224,165 |
| Costs (1000 GEL) | 9,201 | 10,958 | 13,449 | 14,315 | 16,435 | 19,130 | 21,576 | 24,645 | 28,191 | 35,892 |
| NPV (1000 GEL) | 30,267 | 38,866 | 47,416 | 48,510 | 56,814 | 65,354 | 75,227 | 85,461 | 96,332 | 188,273 |
| Benefits to Cost ratio (BCR) | 4.3 | 4.5 | 4.5 | 4.4 | 4.5 | 4.4 | 4.5 | 4.5 | 4.4 | 6.2 |

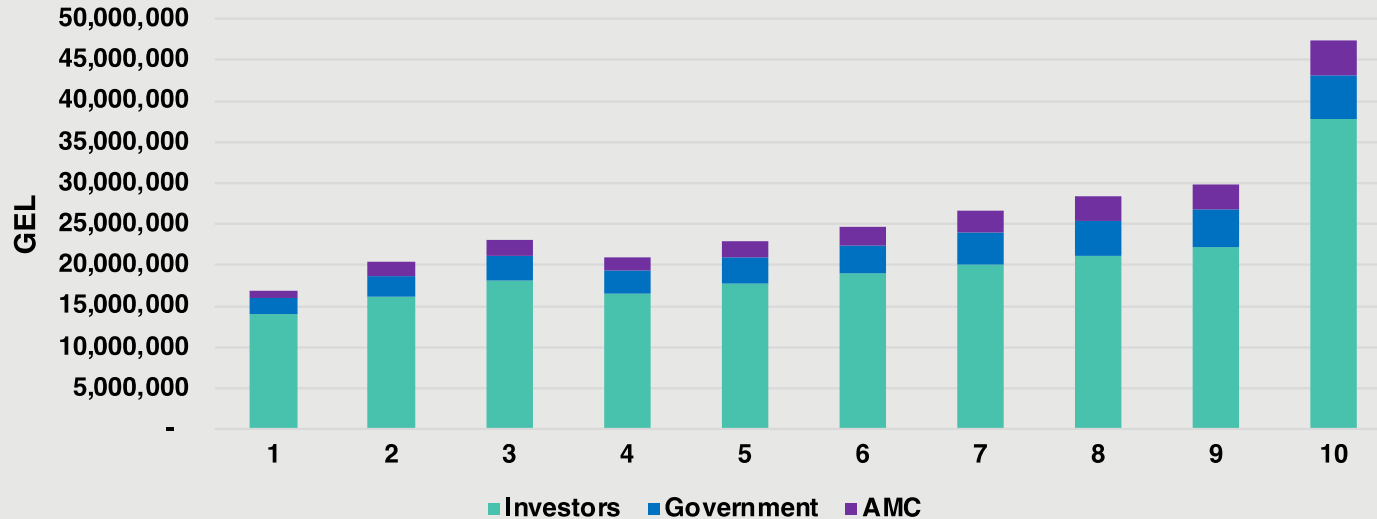
Cummulative Benefits and Costs (GEL)



- ✓ Investors are the major beneficiary of the reform
- ✓ AMCs and Government also benefit substantially
- ✓ Substantial Benefits at AMCs are vital for development of these services and investment funds at large

Results – NPV of Net Benefits

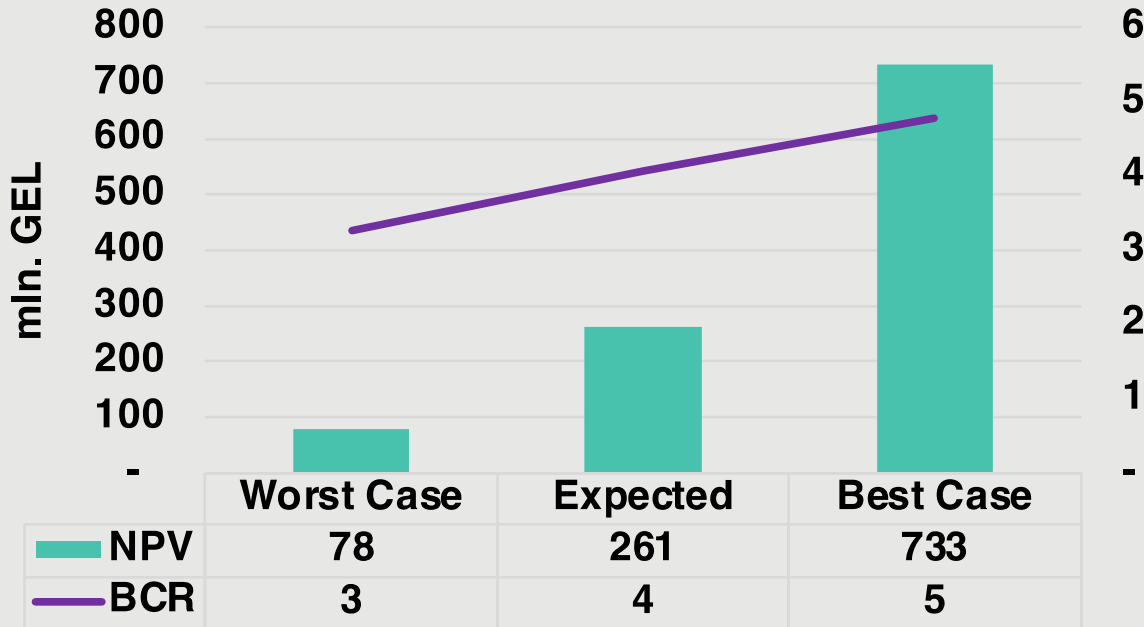
Net Benefits By Stakeholders



- Large benefits to investors in the final period are associated with accounting of terminal value of remaining assets in corporate and government bonds
- Calculations show, that all stakeholders have positive gains in each period

Summary – Sensitivity Analysis

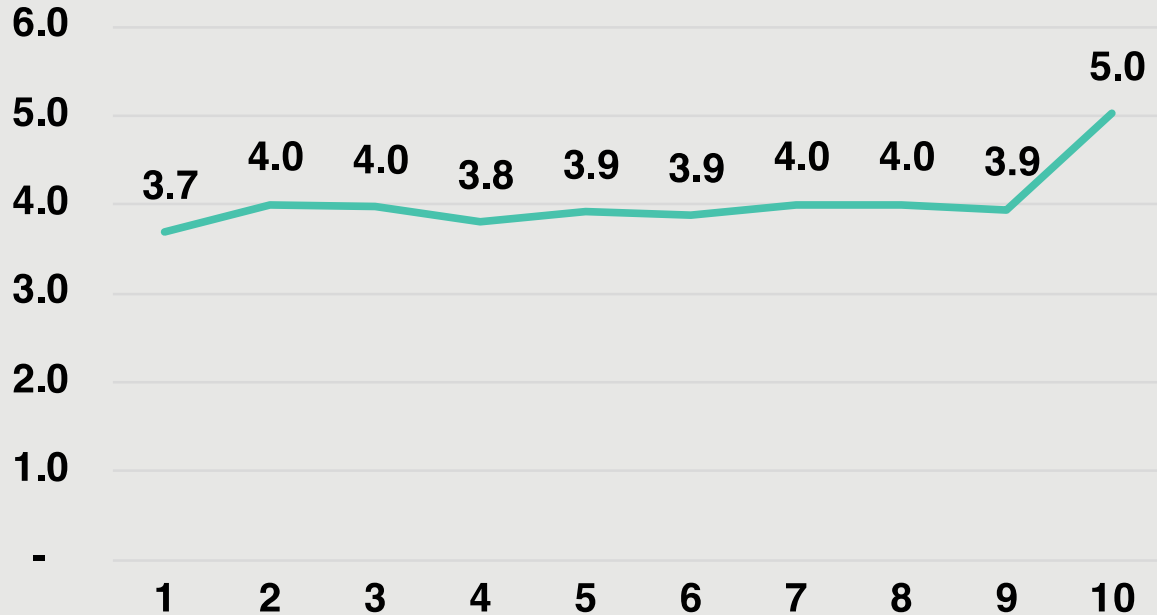
NPV of Net Benefits



- ✓ Sensitivity analysis shows, that the reform will have a positive outcome even even in the worst-case scenario
- ✓ In case of good performance of the sector, the potential increase in NPV is substantia

Results

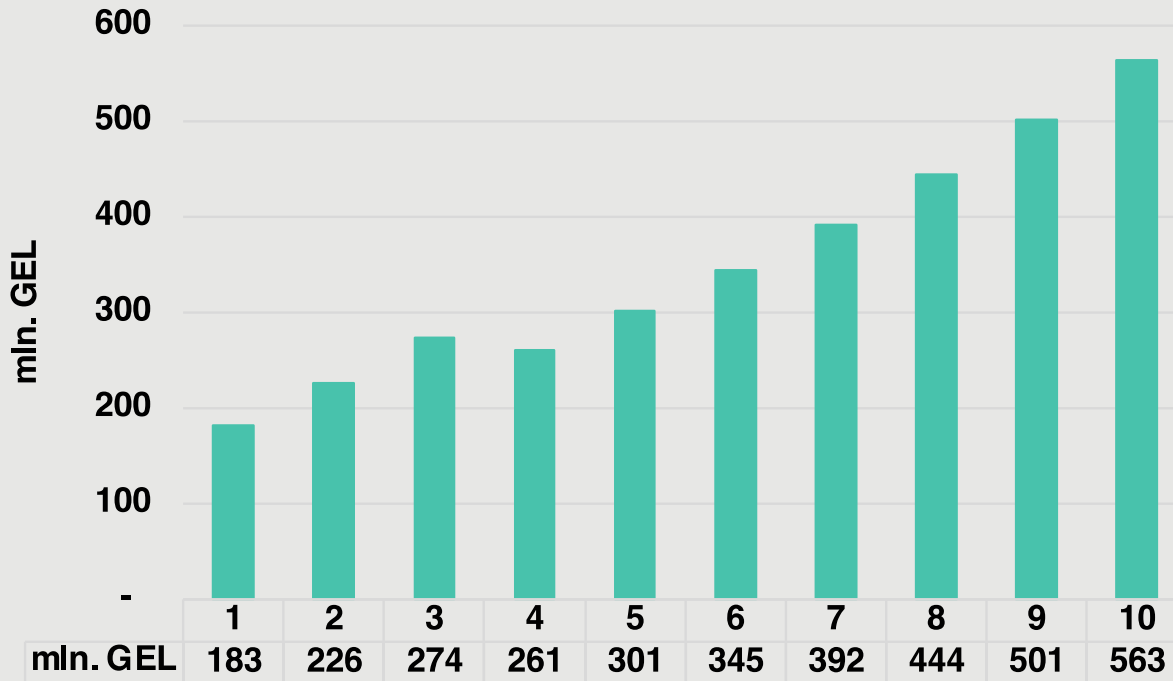
Benefits to Cost Ratio



- ✓ Large increase in benefits to cost ratio in final period is the result of accounting of remaining assets in bonds
- ✓ Overall benefits to cost ratio is very high indicating generation of around 4 times larger benefits compared to costs

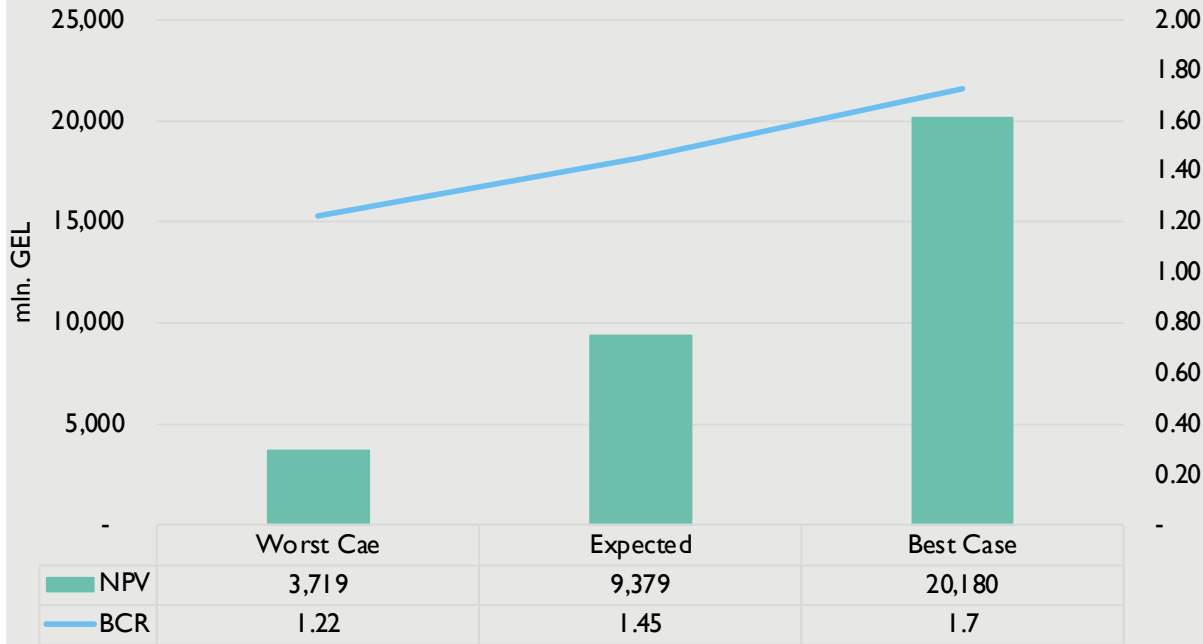
Total Assets in Investment Funds

Total Stock of Assets in Investment Funds



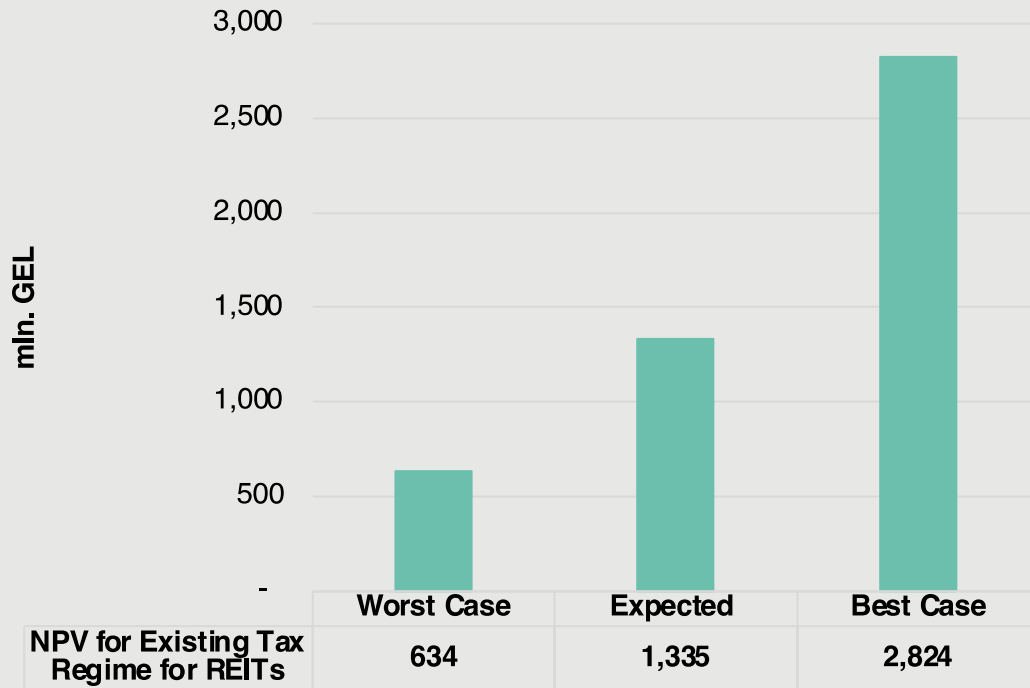
- ✓ Total stock of investment increases substantially over years around 3 fold in 10 years
- ✓ Total assets in investment funds will represent around 1% of GDP by the 10th year, that is comparable to Eastern European Experience

Impact of Securitization



- ✓ There are additional impacts from investment in securities, impact of securitization is presented in the Figure
- ✓ Securitization reform creates substantial additional opportunity for development of investment funds, presented in over GEL 9 bln over 10 years

Impact of Real Estate Investment Funds



- ✓ There are additional impacts from investment in REITs, that is not included in this assessment of investment funds
- ✓ REITs have the potential of generating up to 1.3 bln. GEL in net benefits over the next 10 years

Conclusions and Recommendations

1. The reform of the legislation for investment funds, has overwhelmingly positive impact on the development of the sector.
 1. **Recommendation I** – the regulator should proactively work on refining the legislative framework and drive transparency on the market to minimize regulatory risks for investors
2. The model shows, that even with standardized portfolio assumed, the utilization of the existing supply of financial derivatives on the market reaches its limits, especially in the best-case scenario
 1. **Recommendation II** – securitization and development of the secondary market for derivatives can have substantial positive impact on development of investment funds
 2. **Recommendation III** – creating incentives for development of real estate investment Trusts (REITs) could also play an important role in the fund development

Thank You!



Share of Total Investable Universe Purchased by Investment Funds

