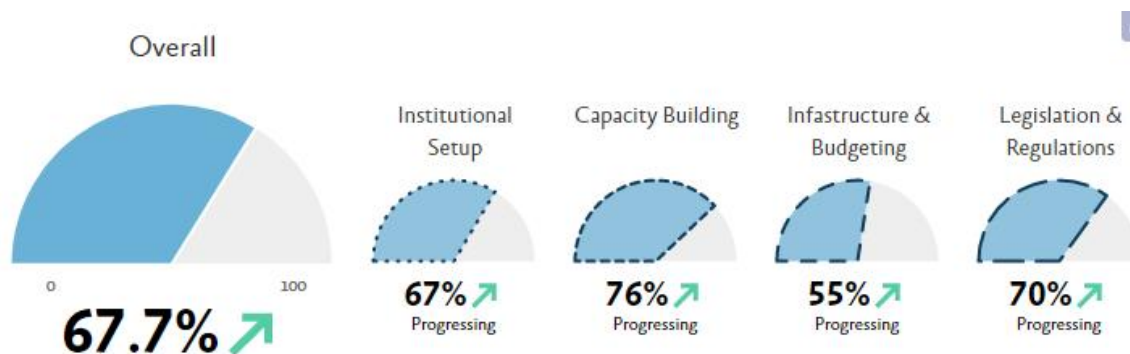


## Capital Market Development

### Phase II

On March 12 2018, the implementation of a capital market development strategy was evaluated during the second phase of ReforMeter.

**Government research** revealed that at this stage, 67.7% of the reforms have implemented. In Phase I, this indicator was 51%.



The greatest progress was achieved in the development of legislative frameworks. Last year, together with other important activities, the German ranking agency Scope was added to the list of agencies (Moody's, S&P and Fitch) recognized by the National Bank of Georgia, which implies that the NBG will consider reliable rankings given by this body to the securities offered as collateral to the NBG. Also, the tax advantage for the so-called free-float was changed in the Tax Code and was replaced with wider advantages that are more convenient to investors. According to this advantage, capital gains are exempt from tax.

With help from IMF experts, a set of tax reforms were developed which imply taxing various financial instruments according to the best international practices. In addition, taxation of instruments such as derivatives, repo and securities lending will be improved. Pension reform is also a part of the capital market development plan; the legislative package for pension reform is already prepared.

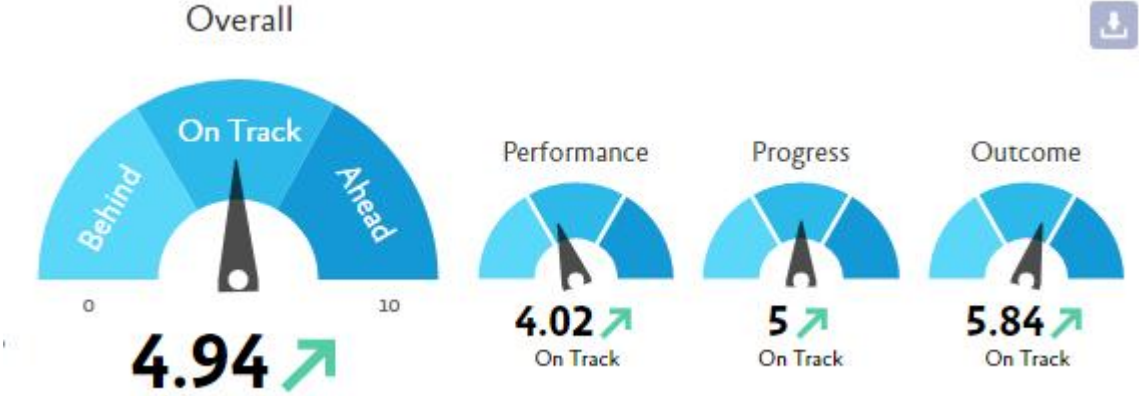
**The stakeholder group** evaluated the reforms with a score of 5.00 out of 10. This evaluation is higher than that of the previous phase, in which the reform implementation received a score of 3.85.



Together with stakeholders, Deputy Minister of Finance Nikoloz Gagua and representatives of the National Bank of Georgia participated in a **discussion** wherein several important issues regarding the implementation of the reforms were voiced, in particular:

- The National Bank of Georgia believes that it is necessary to improve the legislative and regulatory framework of the capital market at the initial stage. In addition, harmonization with EU legislation is in progress, and this process is planned to finish by 2024.
- The Ministry of Finance thinks that the low level of financial literacy is a challenge, which causes a low level of confidence in the financial market.
- In order for Georgia to become a financial hub, it is necessary to obtain a competitive advantage. This can be achieved, for example, by creating a liberal tax environment and improving infrastructure. Focus should also be placed on neighbouring countries in order to integrate them in Georgia’s financial market. However, the first stage objective is to develop the local market.
- Low liquidity is the largest challenge for the capital market;
- State companies should place their securities on Georgia’s Stock Exchange, which will encourage its development;
- A pension fund will create a large institutional investor, i.e. demand on the capital market will grow;
- Banks’ profit on corporate loans is minimal and this increases their interest in development of alternative sources of investment;
- Before placing stocks on foreign stock exchanges, Georgian companies should be obliged to be listed on the Georgian Stock Exchange, as this will develop the Georgian Stock Exchange itself;
  - o Pension funds should be invested in Georgia, in securities denominated in GEL;
- The capital market development strategy is focused on development of banking instruments and less attention is paid to the development of nonbanking liquid instruments;

**ReformVerdict** – the government’s overall evaluation increased and achieved 4.94%.All components of the ReformVerdict have increased.





# ReforMeter

Tracking Progress - One Reform at a Time



ISET  
International School of Economics at TSU  
Policy Institute



## Government Survey

Capital Market Development

2018 - II



ReforMeter  
Tracking Progress - One Reform at a Time



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## What is Government Survey?

The **Government Survey** – measures progress in the implementation of reform based on questionnaire agreed upon with the government

The questionnaire covers the following 4 dimensions

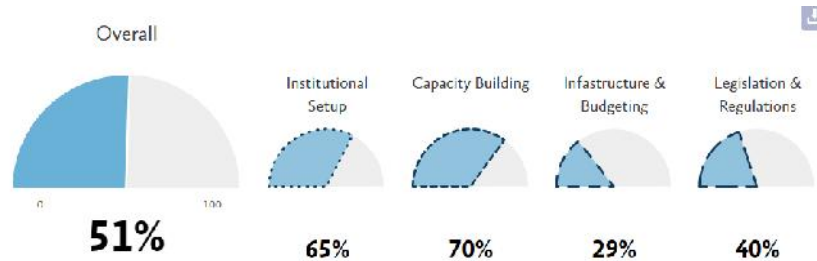
Reform Dimension	Description	Example Input Indicator	Example Output Indicator
<b>1. Institutional Setup</b>	<ul style="list-style-type: none"> <li>Governance systems</li> <li>Roles and responsibilities</li> <li>Strategy and Action Plans</li> </ul>	Strategy	Number of actions in line with the timeline
<b>2. Capacity Building</b>	Mobilization and development of adequate human capital	Operationality of the implementation agency	Trainings
<b>3. Infrastructure &amp; Budgeting</b>	<ul style="list-style-type: none"> <li>Budget and physical capital</li> <li>Building and equipment</li> </ul>	Mobilized budget	Grants for SME
<b>4. Legislation &amp; Regulations</b>	Legislative and regulatory framework	Analysis of intellectual property rights	New law on intellectual property rights



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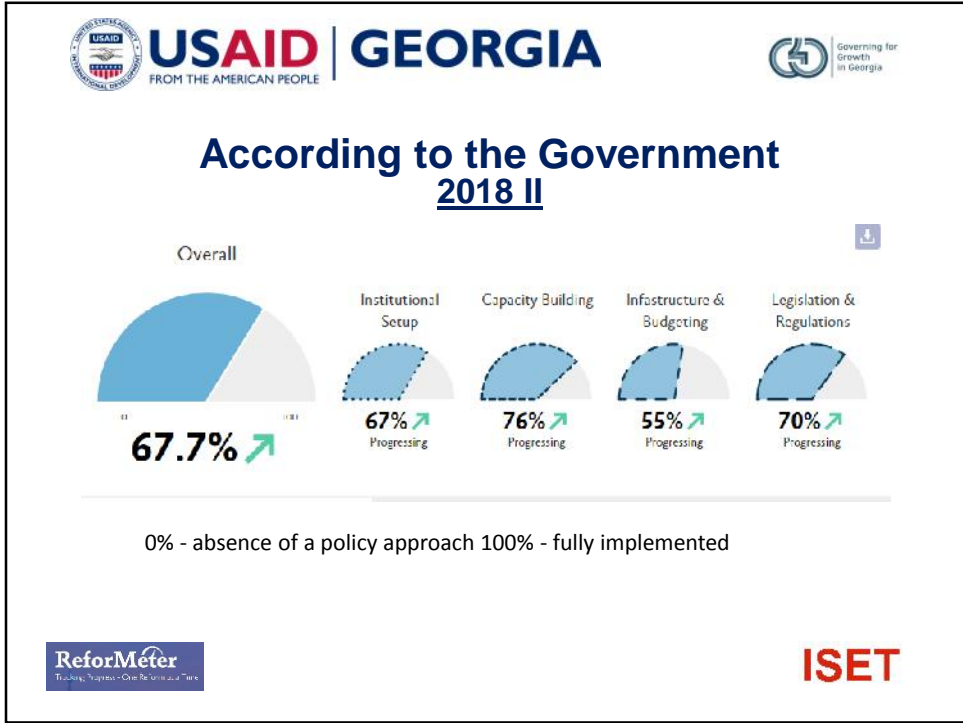


## According to the Government 2017 I



0% - absence of a policy approach 100% - fully implemented





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Governing for Growth in Georgia

### Money Market

	Status	Coordinator
Preparation of ICMA Legal Opinion	Done	NBG
Implementation of GMRA in Local Markets	Ongoing	NBG
Inclusion of corporates into financial collateral	Done	NBG
ICMA training on GMRA and Repos	Done	NBG

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## Treasury Market

	Status	Coordinator
Amendment to the Debt Law to allow debt issuance for market development purposes	Done	MOF
Government to continue increasing the volume of Treasuries up to 10% of GDP	Ongoing	MOF
Publishing of the Debt Management Strategy	Ongoing	MOF
Roadshows with foreign investors	Ongoing	NBG
Review of the existing practice of Private entities access to market	Ongoing	MOF
Conduct of the study regarding the possibility of introduction of the Primary Dealers	Done	MOF
Preparation of the proposals regarding the issuance of the Inflation Linked Bonds	Done	MOF
Conduct Study regarding the Benchmark Bonds	Done	MOF
Preparation and Distribution of the Analytical Study Papers	Ongoing	NBG



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## Corporate Bond Market

	Status	Coordinator
Creation of Bond Market Association (BMA)	Ongoing	NBG
Accepting corporate bonds as a collateral by NBG	Done	NBG
Adding Bonds to the NBG Settlement System	Ongoing	NBG
Discussions with Rating Agencies on ratings for local companies and local branch setup	Done	MOESD
Preparation of the Local Credit Scoring system	Ongoing	NBG
Accepting 4th Credit Rating Agency "Scope Rating" on the Georgian market	Done	
Adding local Bonds to the Clearstream Link	Ongoing	NBG
Review of issue registration Fee	Done	MOF



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## Derivatives Market

	Status	Coordinator
Preparation of the changes in Legislation	Ongoing	NBG
Analyse and Identify the gaps in existing Infrastructure	Done	NBG
Trainings for the Market Participants, Regulators, Judges	Done	NBG
Preparation of the ISDA Legal Opinion	No	NBG



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## Stock Exchange

	Status	Coordinator
Adding Stocks to the NBG Settlement System	Ongoing	NBG
Implementation of the Stock Exchange new trading platform	Ongoing	
Planning of the EU Directives Harmonization Process	Ongoing	MOESD
Resolve the Issue of Free floating	Done	MOF
Review of the Tax Policy in accordance to the International Best Practices	Done	MOF
Organization of the Technical Assistance Mission in respect to the Public Companies	Ongoing	NBG
Abolish Advance Depositing Practice	No	Market
Update stock exchange Web-site	Ongoing	NBG



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## Pension Reform

	Status	Coordinator
Adopt the Law of Private Pension Savings system	Done	MOESD
Adopt the Law of Private Cumulative Pension system	Ongoing	MOESD
Preparation of the Pension Funds Law, its Structure and Functions	Done	MOESD
Passing the Pension Funds Law, its Structure and Functions	Ongoing	MOESD
Establish the Rules of the Management of the Pension Funds' Assets, its risk management system and investment parameters	Done	MOESD
Passing the laws of the Management of the Pension Funds' Assets, its risk management system and investment parameters	Ongoing	MOESD
Pension system reform group to organize set of educational activities	Ongoing	MOESD



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## Regulatory Environment

	Status	Coordinator
Preparation of concept for regulatory environment	Ongoing	NBG
Georgia to become IOSCO member	Ongoing	NBG
Adoption of new Investment Funds Law	Ongoing	MOESD
Legal GAP analyses for Asset backed securities	Ongoing	NBG
Conduct self assessment of corporate governance code (for issuers)	No	NBG
Mandatory Life Insurance for Mortgage Loans	No	MOESD
Commercial Court for Financial Transaction Disputes	NO	MOESD



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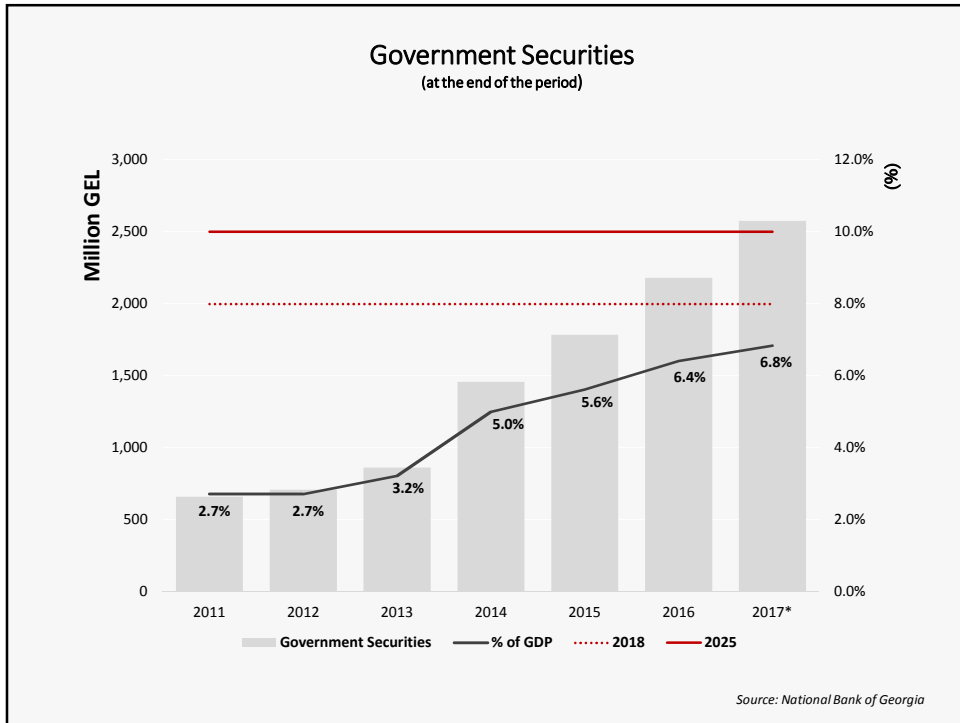
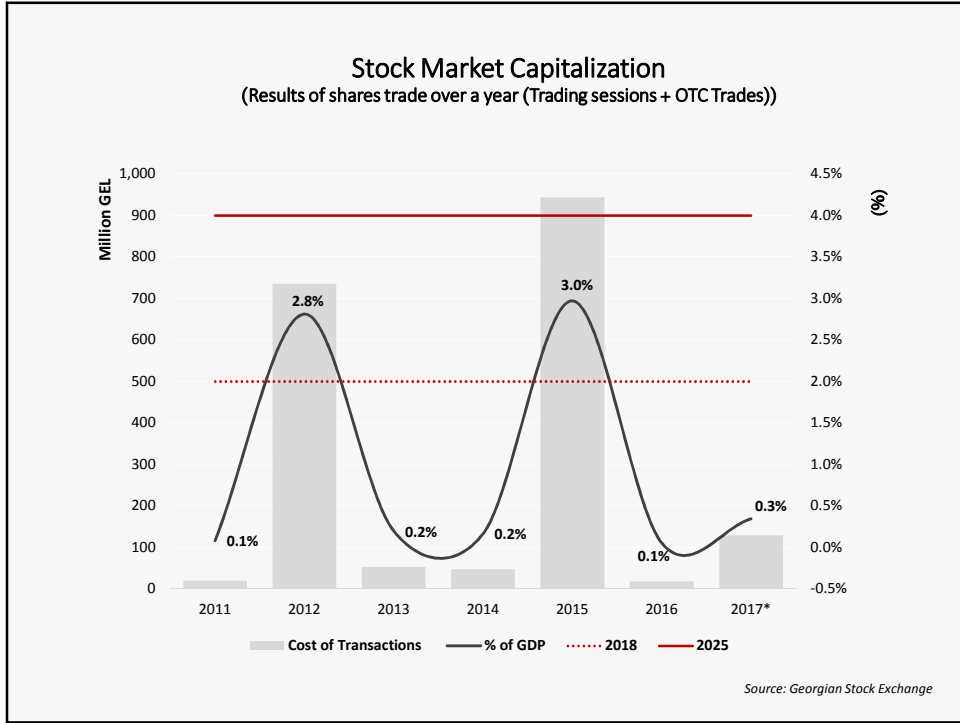
Capital Market  
Development

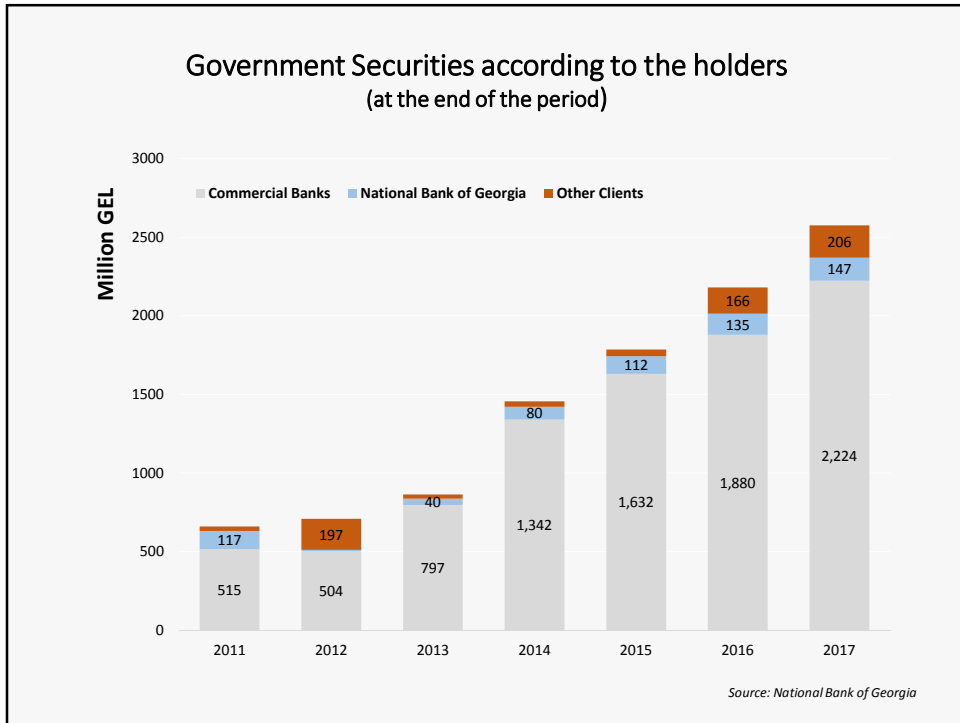
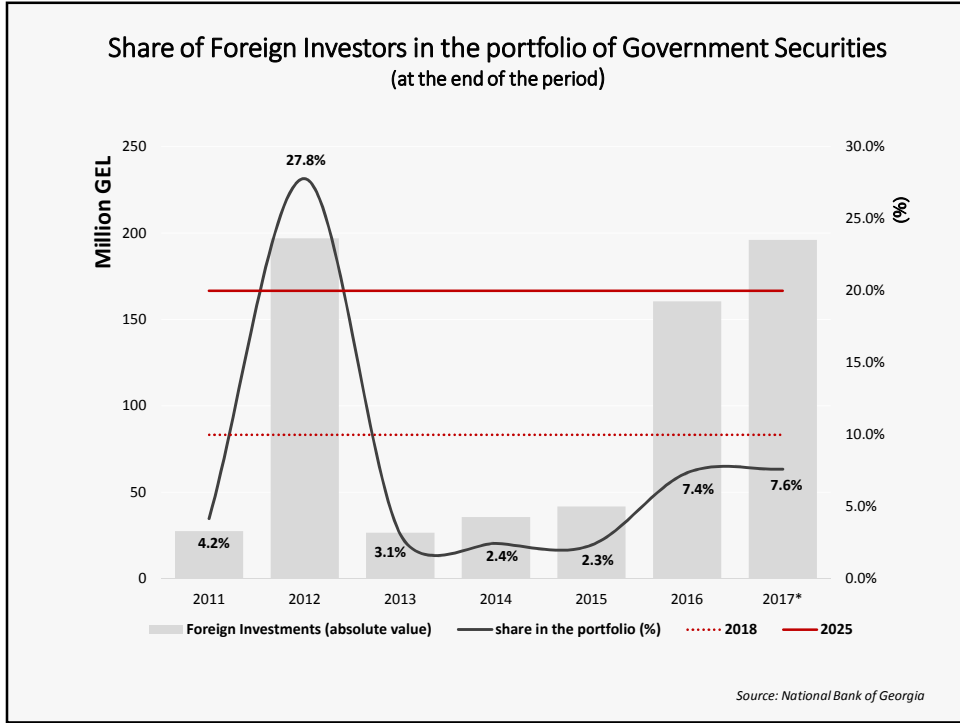
Phase 2

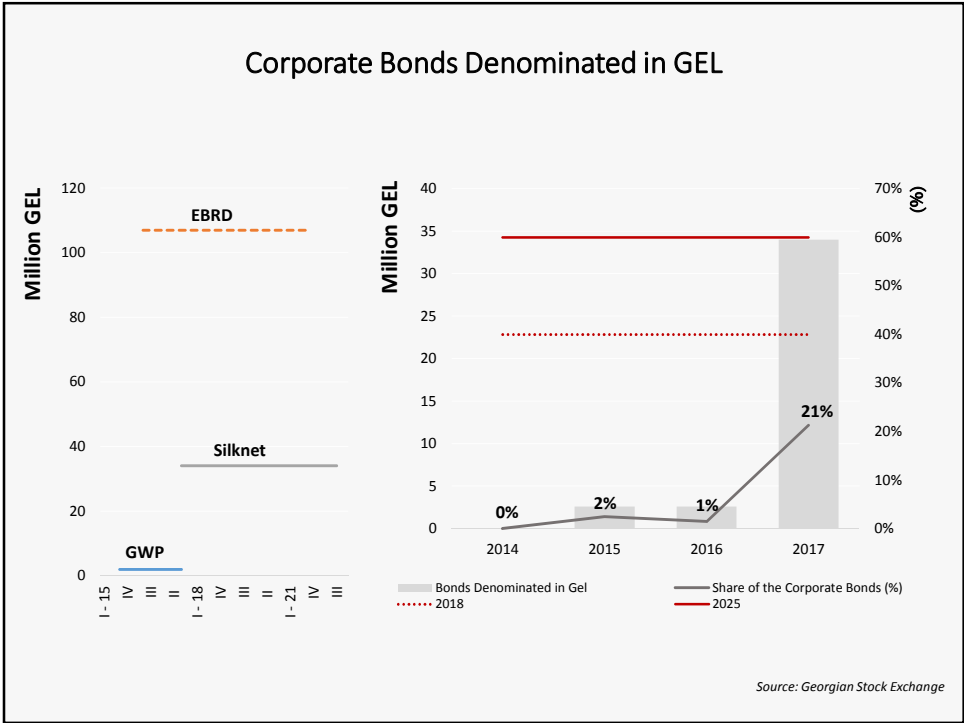
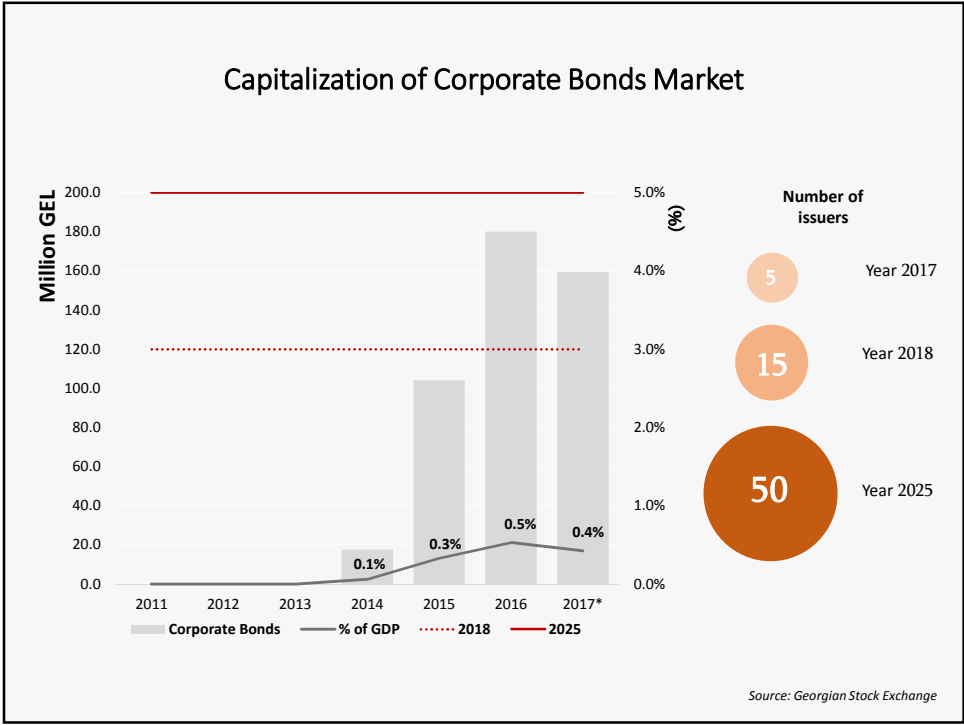


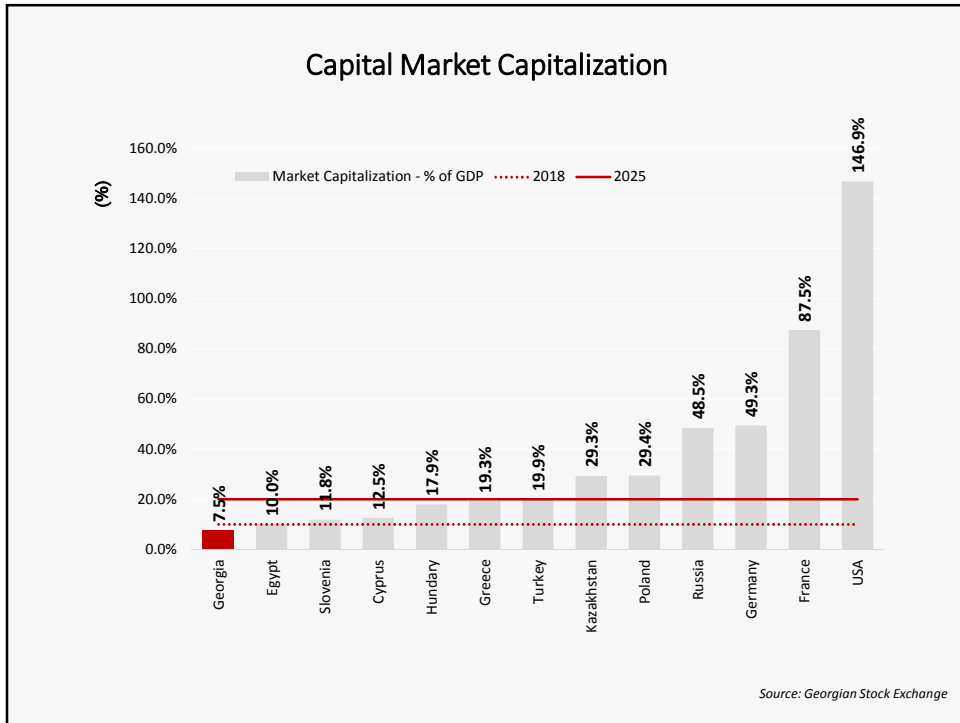
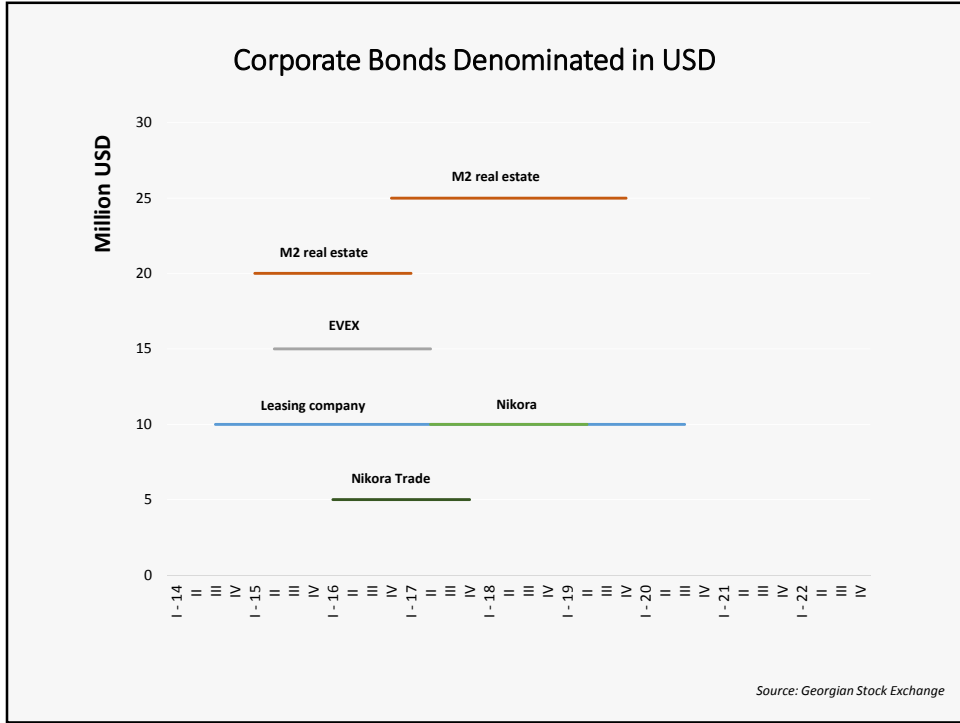
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The image shows a light gray rectangular area containing the title "Capital Market Development" and "Phase 2" centered in a black sans-serif font. At the bottom, there are three logos: the ReforMeter logo on the left, a circular logo with a stylized 'G' and 'E' in the center, and the ISET MA Program in Economics Policy Institute logo on the right.



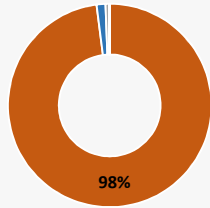






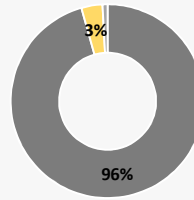
### The Main Indicators of Stock Market Trading according to the broker companies and registrars

**Broker Companies**



- Galt and Taggart
- TBC Capital
- Heritige Securities
- Caucasus Capital group
- Cartu Broker

**Registrars**



- Kavkasreestri
- National register
- United Securities Registrar Of Georgia

Source: Georgian Stock Exchange