The EBRD in

GEORGIA

European Bank for Reconstruction and Development

Impact case study

Supporting local capital market development

July 2023

SDG contribution

Context

Despite significant progress in recent years, Georgia's capital markets remain nascent. Key reforms have strengthened the legal and regulatory framework, including the creation of a funded pension fund (an important addition to the local institutional investor base), the adoption of derivatives legislation and the introduction of a covered bond regulatory framework. Money-market activity has been growing steadily and financial instruments indexed to the reformed interest-rate benchmark are becoming established.

Still, a high dollarisation rate, a lack of diversity of capital market products, low liquidity, a shallow investor base and the absence of sufficient knowledge of capital markets instruments are limiting long-term local-currency funding options for Georgian issuers. For instance, at the end of 2021, the size of the overall corporate bond market (including financial institutions) was equivalent of just €190 million, spread among 12 issuers. The EBRD thus recognises the need for continued, steadfast policy engagement with local market participants and authorities to deepen market liquidity and expand the availability of products. Designing appropriate capital market support measures to channel funding to companies will be a defining factor on the path to economic recovery and will enable the Georgian authorities to build an active capital market ecosystem in the country over time.

How we work

To help overcome these challenges, the EBRD has been engaged in policy dialogue and the provision of technical assistance, with an observable impact on money and debt capital market development. Key examples of successful reform in these areas include Georgia's adoption of derivatives legislation in 2019, providing for the enforceability of derivatives transactions, including netting, close-out netting and financial collateral, and the reform of the local benchmark rate (Tbilisi Interbank Rate, TIBR). In 2021, the EBRD and the National Bank of Georgia (NBG) launched a technical assistance project to create a legal and regulatory framework for covered bonds. Thanks to their dual recourse nature, covered bonds are among the safest securities in the capital market, so banks can use them as a cost-effective and efficient means of raising funds. What is more, in 2021, with the financial support of the European Union (EU), the EBRD launched a Capital Market Support programme aimed at increasing companies' access to the local securities market and building the capacity of Georgian enterprises to better understand capital markets and the products most relevant to their business needs. Last but not least, the Bank has been supporting NBG with the design and re-estimation of a sovereign bond yield curve, as well as the development of a new corporate securities yield curve, benefitting from the support of the EBRD Shareholder Special Fund. The yield curves serve as a robust pricing reference point for participants in local capital markets.

Achievements and results

Thanks to the fruitful cooperation between the EBRD and the NBG, and with the support of local market participants and stakeholders, Georgia adopted a covered bond law in autumn 2022. The country thus became the first non-EU EBRD investee economy to put this new instrument into operation. Local banks will be able to raise longer-term lower-cost funding from local and international markets and investors will benefit from attractive risk-adjusted returns. The new instruments will also support important adjustments of the NBG's monetary policy operational framework. The central bank estimates a potential local covered bond market volume of around GEL 3 billion in the short to medium term, with first issuances expected by end 2023/early 2024.

In July 2023 the EU-funded EBRD Capital Market Support programme successfully concluded achieving some stellar results. As a first step, the programme addressed the lack of awareness of capital markets by designing seven thematic webinars, in which more than 110 participants received educational content and capacity building from top industry experts. Selected candidates also attended two workshops on the topics of initial public offerings and environmental, social and governance (ESG) issuance. Moreover, a surprising 21 Georgian firms (including 15 potential new market entrants) from 13 different sectors of the economy applied for the programme's grant component to reimburse part of their issuance-related fees. Of those applicants, 11 (5 of which debut issuers) successfully placed securities on the local capital market with a total bond issuance volume of EUR 250+ million (GEL 700+ million), more than doubling the outstanding size of the corporate bond market. Moreover, the programme supported 7 of those issuances with grants, helping companies to raise EUR 150+ million (GEL 400+ million) on the local capital market, including through novel green and social bonds and two inaugural issuances by SMEs. The EBRD invested USD 14 million in the first issuance (Green bond) of the programme.

Partnerships

The Capital Market Support programme has received generous support from the EU under the Digital RE4M programme and the EBRD's Shareholder Special Fund. The NBG and Georgia's Ministry of Economic and Sustainable Development are among the key partners with which the EBRD is collaborating to advance the capital markets development agenda.