

FEATURES OF FUNCTIONING AND REGULATION OF THE SECURITIES MARKET IN GEORGIA

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Abstract

The paper presents discussions of peculiarities on securities market formation and functioning in the post-independence period of Georgia. It provides assessment of the legislative acts of regulation and the ways of their perfection.

Keywords: *securities, stock exchange, regulation*

JEL Codes: *D53, E22, E44, G10, O16*

INTRODUCTION

Securities market development is an important task and is treated with utmost priority by the Government. Securities markets become integrated when economies strongly depend on one other. This process not only reduces transaction costs, but also improves the efficiency of information sharing. However, although financial integration increases overall market efficiency, it reduces the diversification benefits available to prospective investors. Thus, investigating the dynamic process of formation and regulation Securities market allows us not only to measure the interdependence of economies, but also to provide useful information for investors. Georgia has a great potential, to become a regional financial center.

LITERATURE REVIEW

This research is based on the methods (quantitative qualitative, synthetic, component and comparative analysis of scientific literature) and practical approaches, which are in practice and generalized in the Georgian and foreign economic writings and specially touch on the matters of budget relations and budgetary policy. Informational background of this research includes legislative and normative acts adopted by the government of Georgia in the modern day, in

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particular: the National Statistics Office of Georgia, the Economic Development and Finance Ministries, the National Bank of Georgia, the Georgian stock exchange.

The study of the existing literature on the development of the securities market as a result is considered that they address the peculiarities and problems associated with the development of the capital market were mainly considered in the context of accelerating economic growth (Abuselidze, 2018; Mirkin, 2002; Dementyev, 2009; Bessarabova, 2013), as well as from the point of view of the development of certain segments of the securities market, regional markets or market development in foreign countries (Abuselidze et al., 2018; Majewska & Olbryś, 2017; Kudinova, 2005; Vakhrushin, 2009). The problems associated with the regulation of the securities market were considered mainly in the context of the regulation of the entire financial system (Fabozzi et al., 2009), as well as from the point of view of self-regulation mechanisms in financial markets (Ilyin, 2012) and the regulation of the services of professional securities market entities.

SECURITIES MARKET FORMATION AND REGULATION

The functioning of the market economy requires the creation of the securities market. Both securities and the securities market are constantly developing areas. They develop from the period of origination and gradually achieve perfection, at the same time increasing their scale in different countries of the world.

The development of securities market in Georgia can be divided into two stages:

- I. It covers the period from 1990 to August 1997;
- II. It covers the period from August 1997 to present.

The regulation on "Release, Placement, Circulating, Registration and Payment of State Treasury Bills of the Ministry of Finance" was approved on the order of 194/45 of the Ministry of Finance of Georgia and the National Bank of Georgia issued in 1997. In December of the same year, the amendment was made in the regulation #288/72.

In August 1997, a new structure of inspection was approved. It was separated from the Ministry's central staff and currently, the organization is closely cooperating with the Ministry of Finance.

The purpose of the inspection establishment is to accelerate the formation and development of organized securities market in Georgia. A consultative council of experts in the field of securities market is established within the inspectorate including in itself the Ministry of Finance, National Bank, employees of the Ministry of State Property Management, representatives of Commercial Banks, Exchanges, Lawyers and Independent Experts.

The primary function of the Inspection is not only promoting the formation and development of the securities market, but also its regulation and control.

On the basis of the Law of Georgia on Securities Market, adopted on 24 December 1998, a unified regulatory service of securities market was established in the country - a joint commission of securities of Georgia (Abuselidze, 2013, p. 9).

The only organized market for securities in Georgia is Georgian Stock Exchange. It was formed in 1999. A normative legislative base was developed, the regulatory body was established - the Securities Commission, securities central depository, brokerage companies, the securities registrar, or in other words the entire system required for the functioning of the stock market, though it is still at the condition of initial stage development.

At the end of 2006, the most important event was held on the Georgian securities market- the National Bank's securities and financial corporation embedded corporate bonds. It's hard to estimate its role in the financial market stability and general economic processes, but one thing is clear, it activated the melting process in the securities market.

2007-2014 was hard for Georgia's equity market. In 2007-2008, there were three events that prevented the possibility of realizing the possibility that this market was already in the process of construction. In our opinion, the following three events are: a) Global financial crisis, b) a war with short-term but long-term effect of the August 2008 Russia-Georgia and c) "third event", which took place before 2007, a short period before the Securities Market About the Law of Radical Changes Package. Despite the fact that the changes were made in the context of "liberalization", the adoption adopted a dramatic decline in trade transparency (Abuselidze, Surmanidze, 2018, p. 339).

Interestingly, the weakest sphere of the Georgian economy and the most important one for the rest of the world - the securities market is characterized by the peculiarity and development of the specificity in Georgia. What are the peculiarities and characteristics of its development in Georgia? What kind

processes are going on in the stock exchange, which is now the official exchange market for securities in the country? How actively the state or private organizations use financial instruments such as bonds.

Table 1. Georgian stock exchange, securities

A Listing								
Ticker	Issuer	Type of Security	Volume	Nominal Currency	Nominal Value	Trading Currency	Charter Capital	ISIN
#BSB03L	Black Sea Trade and Development bank	Bond	90	GEL	500,000	GEL		GE8790603616
#BSB04L	Black Sea Trade and Development bank	Bond	240	GEL	500,000	GEL		GE8790603640
#BSB05N	Black Sea Trade and Development bank	Bond	100	GEL	500,000	GEL		GE8790603624
#EBR03L	European Bank for Reconstruction and Development (EBRD)	Bond	107	GEL	1,000,000	GEL		GE8790603384
#FM001N	Netherlands Development Finance Company	Bond	160	GEL	1,000,000	GEL		GE8790603665
#SLK01M	Silknet JSC	Bond	34,000	GEL	1,000	GEL		GE2700603527
GEB	Bank of Georgia JSC	Stock	27,821,150	GEL	1	GEL	43,308,125	GE1100000276

B Listing								
Ticker	Issuer	Type of Security	Volume	Nominal Currency	Nominal Value	Trading Currency	Charter Capital	ISIN
#CRS01J	MFO Crystal JSC	Bond	100	GEL	100,000	GEL		GE2700603592
#NKR02L	Nikora Trade JSC	Bond	5,000	GEL	5,000	GEL		GE2700603675
\$GLC02K	Georgian Leasing Company LTD	Bond	10,000	USD	1,000	USD		GE2700603535
\$GLC03L	Georgian Leasing Company LTD	Bond	5,000	USD	1,000	USD		GE2700603659
\$M204J	M2 Real Estate JSC	Bond	25,000	USD	1,000	USD		GE2700603436
\$NKR01J	Nikora JSC	Bond	1,000	USD	10,000	USD		GE2700603493
BANK	Liberty Bank JSC	Stock	5,502,254,354	GEL	0.01	GEL	75,000,000	GE1100000300

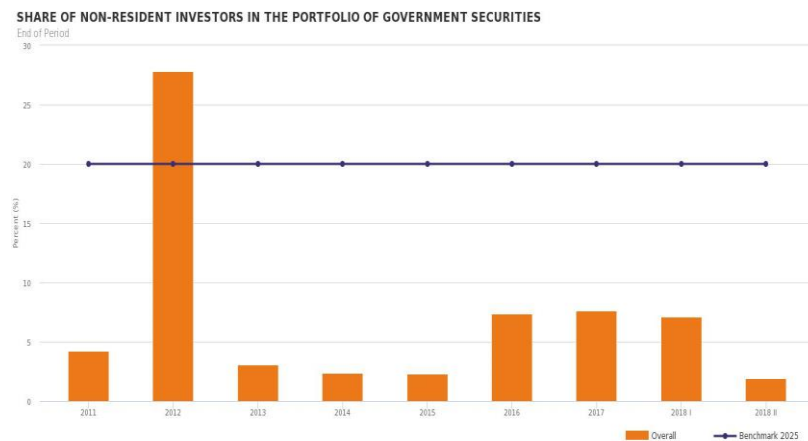
Source: <http://www.gse.ge/en/securities>

In Georgia, public securities buying and selling process is implemented through the brokerage companies licensed by the Georgian Securities National Commission. According to the law of Georgia “On Equity Market” commercial banks participate at equity market through subsidiary brokerage companies. Six subsidiary brokerage companies are established by means of the whole shares of commercial banks. “TBC Broker”, “SB Invest” and “Galt & Targart Securities” are the leaders in transactions quantity among the brokerage companies participating in exchange trade. These companies have concluded 738, 171 and

151 exchange transactions respectively. “Bona”, “TBC Broker”, “Duka” are the leaders in quantity of transmitted shares; “Oden”, “TBC Broker” and “Georgian Fund Company” are leaders in transactions volume. Volume of transactions concluded by these latests at the stock exchange made up about 66% of total volume of exchange transactions. The owners of Brokers companies are not only physical and legal residents of Georgia but also investors from Great Britain, Ireland and the United States. From the list of the Brokerage Companies 33 are Limited Liability Companies, 2 Joint Stock Companies (“Kabargina” and “Industrial-Invest”). “Industrial-Invest” is an accountable enterprise and its securities are allowed to trade in the “Georgian Stock Exchange” Trading System (Abuselidze, 2013, p.10).

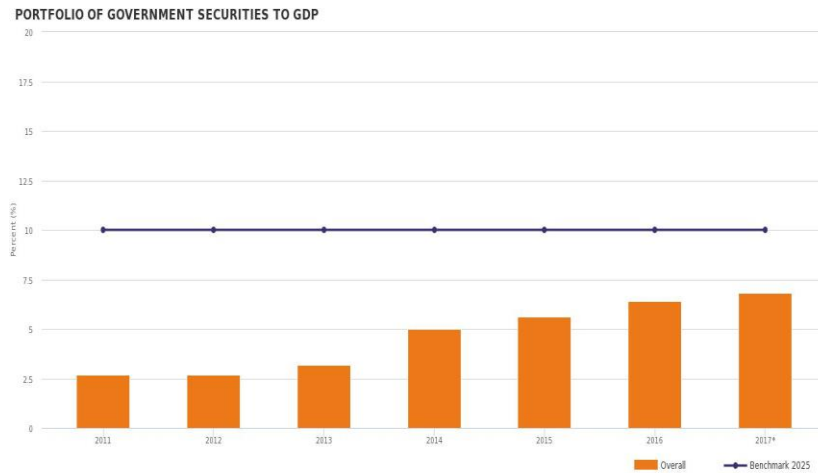
Public offer of state bonds is carried out via auction of state bonds. Commercial banks and resident and non-resident (This can be seen from the Figure 1) physical and legal persons with the support of commercial banks have the right to participate in auction. Issuance of state bonds is made in national currency (Abuselidze, 2018, p. 32).

Figure 1. Share of non-resident investors in the portfolio of government securities



Unfortunately, the absence of a functioning capital market in Georgia is clearly visible, and it is absolutely clear that the low level of trade with its main instruments on the Georgian stock exchange (Abuselidze, 2018). This can be seen from the Figure 2.

Figure 2. Portfolio of government securities to GDP



Currently, the Ministry of Finance is considered to be the state body implementing management, regulation, licensing and registration functions in the field of securities market. The Ministry of Finance is guided by the regulations „On the Issue, Circulation, Registration and Redemption of Treasury Bills and Treasury Notes Issued by the Ministry of Finance of Georgia“ (Ministry of Finance, 2018). This function is carried out through securities and stock exchange inspections.

According to regulation, the settlement price of one Treasury Note is calculated as follows:

$$P = \frac{F}{\left(1 + \frac{i}{n}\right)^w} \left[\frac{R}{n} \times \frac{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)^N}\right)}{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)}\right)} + \frac{1}{\left(1 + \frac{i}{n}\right)^{N-1}} \right]$$

Where:

P – settlement price,

F – the nominal value of the Treasury Note,

i – expected rate of return (yield),

n – number of coupon payments,

W – the difference between the purchase date of the Treasury Note and the next coupon payment date, divided by the number of days between coupon payments,

R – the annual coupon rate divided by 100,

N – the number of remaining coupon payments.

Whereas, the coupon payment that is to be made is calculated as follows:

$$Q = N \left(\frac{P}{2} \right)$$

Where:

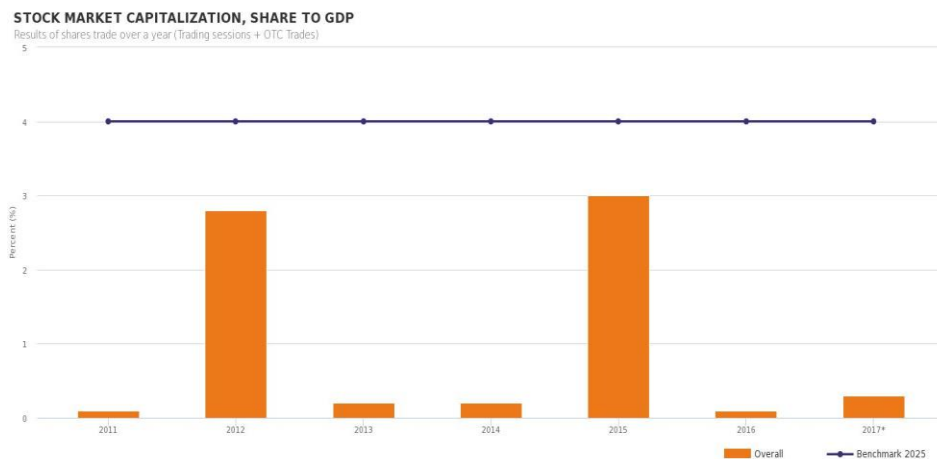
Q – amount of the coupon,

p – coupon rate

N – the nominal value of a Treasury Note.

The low level of awareness of the masses of the society in this area is the nihilistic attitude of the population and the business adds to the fact that the state does not take sharp and principled steps in this direction due to various objective and subjective reasons, which, in the end, still affect our country's economic situation.

Figure 3. Stock market capitalization, share to GDP



CONCLUSION AND RECOMMENDATIONS

It is important to maintain the operated securities market functioning and regulation in terms of attracting alternative investments. If investors are convinced that the system is fair and non-discriminatory, they begin to invest in temporarily free money securities. This is essentially the source of attracting cash resources for companies, playing an important role in economic activity stimulation .

According to the above mentioned, it is important to improve the legislative regulation of the securities market. In particular, improvement of Georgian legislation should happen despite the level of securities market development, in order to be prepared for the increased role of the capital market. In Georgian legislation, regulating the securities market, should be defined a small investor category and specific norms should be elaborated for the protection of investors that are listed in this category.

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