



საქართველოს ეროვნული ბანკი
National Bank of Georgia

Fixed Income Market Overview

December 2019

Contents:

- Treasury Debt Securities Market
- Commercial Debt Securities: Domestic Market
- Commercial Debt Securities: International Market
- Liquidity and Yield Curve of Domestic Market Securities

Sources:

- National Bank of Georgia
- Georgian Stock Exchange
- Ministry of Finance of Georgia
- European Central Bank (ECB)
- Central Banks of Selected Countries
- Bloomberg

Corporate and commercial bonds have the following meanings in the text:

Corporate Bonds include all non-Government debt securities, except for bonds issued by International Financial Institutions (IFI);

Commercial Bonds include corporate bonds and bonds issued by International Financial Institutions;

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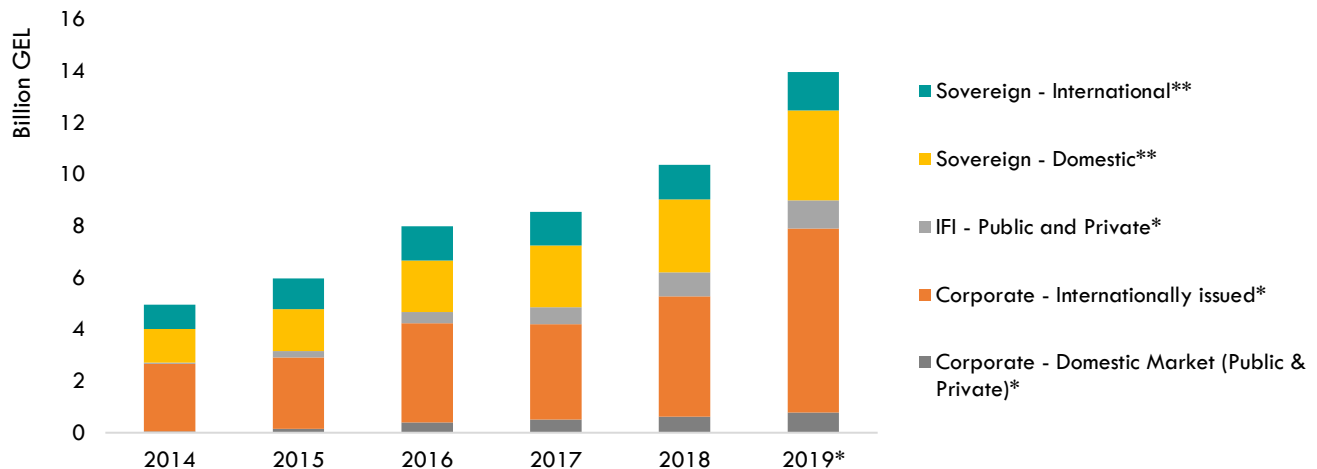


Fixed Income Market: Introduction

Corporate sector activity on the fixed income market has increased considerably during the past few years; however, bank financing and private equity remain as the main source of funding for the sector.

Since 2014, the fixed income market increased **2.8** times. Corporate debt securities issued on the foreign markets and sovereign bonds issued on the domestic market represent the largest share of the market (**52%** and **35%** of the market, respectively).

Graph 1: Fixed Income Market Dynamics



* 2019 data is presented as of November

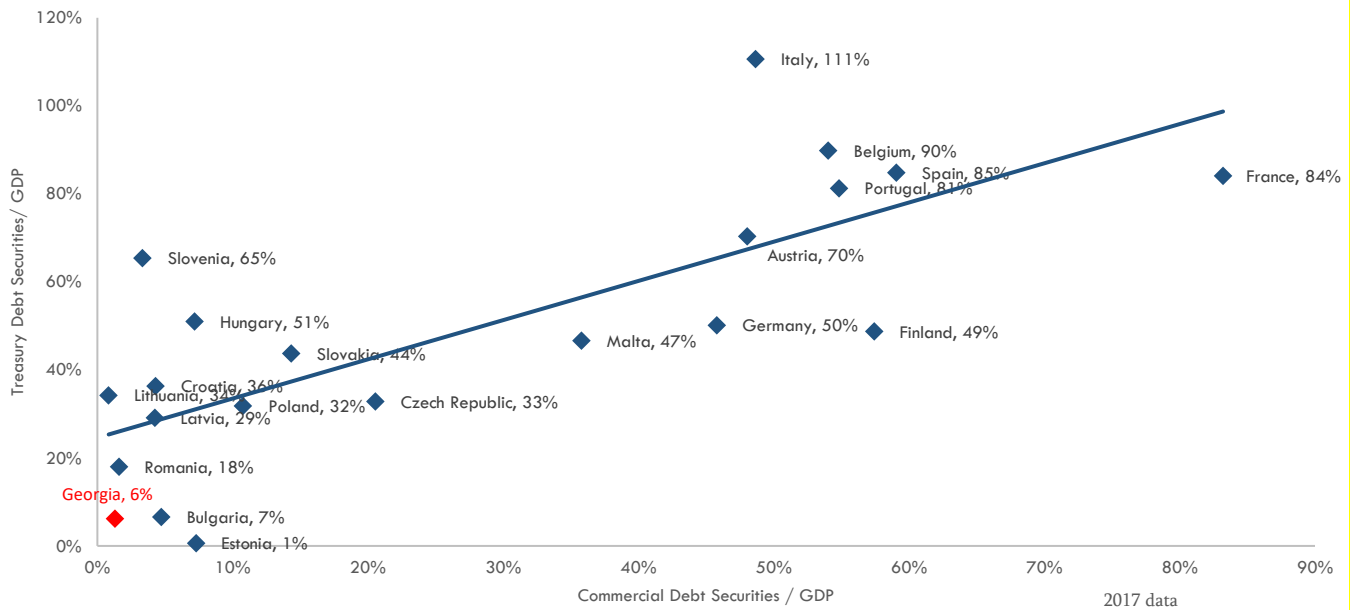
** For Sovereign debt securities, 2019 data is presented as of October 31*; The volume of international sovereign debt securities during 2014-2019 is presented as the GEL equivalent of a single 500 million USD issue.



Treasury Debt Securities Market

Treasury debt securities help to mobilize local and international investors. It also defines the yield curve, which plays a major role in the pricing of corporate bonds. The development of this segment of the market is an important precondition for the development of corporate bonds that is also confirmed by the international experience.

Graph 2: Treasury and Commercial Debt Securities as a % of GDP in the Selected European Countries

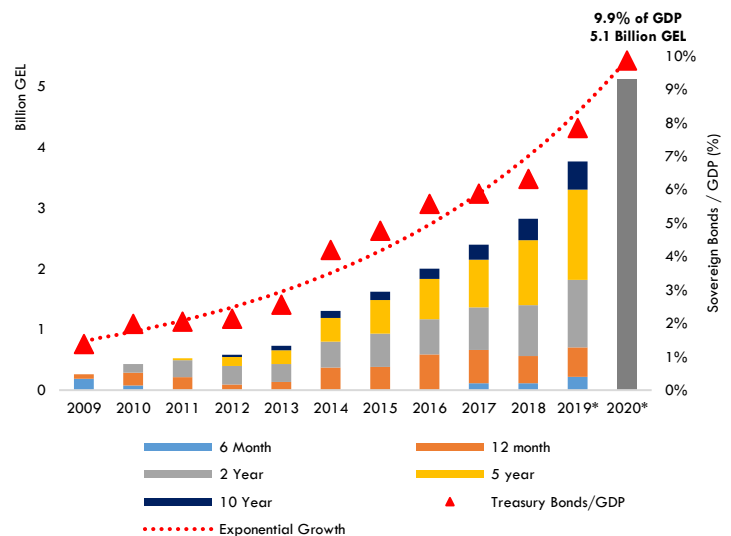


Throughout 2009-2019, the size of the local treasury debt securities increased **14.5** times, representing an average annual growth of **31%**.

At the end of 2019, outstanding treasury securities will reach **8%** of the GDP, while in the medium term they are expected to exceed **10%** of the GDP.

Maturity diversification of the market improved significantly during the past few years, anticipating that 5 and 10-year bonds shall comprise **51%** of the total treasuries by the end of 2019.

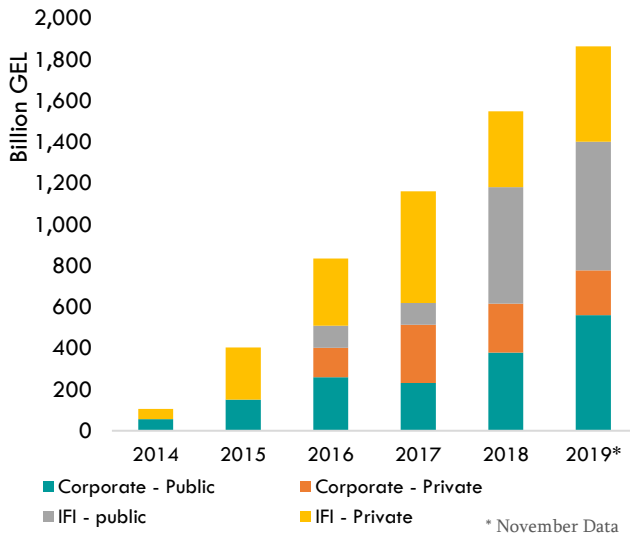
Graph 3: Outstanding Treasury Debt Securities by Maturity





Commercial Debt Securities: Domestic Market

Graph 4: Outstanding Commercial Debt Securities

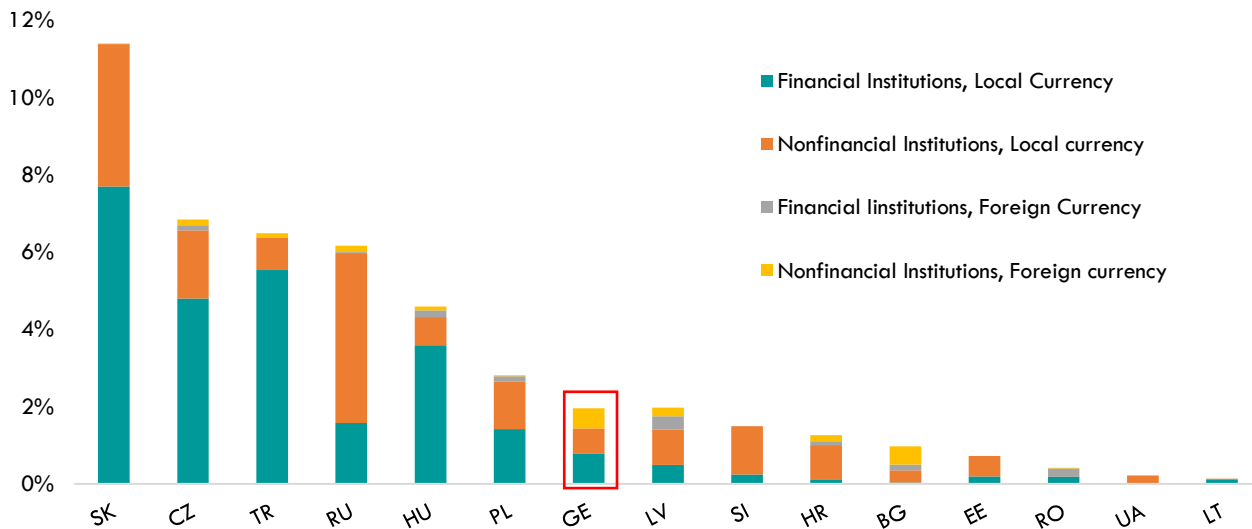


Throughout 2014-2019, the size of the local corporate debt securities market increased almost **14** times, representing an average annual growth rate of **69%** (CAGR). Its size reached **1.6%** of GDP at the end of November 2019.

GEL-denominated bonds issued by financial institutions (including microfinance organizations) represent **67%** of the local corporate debt market.

Total corporate bond market (including International Financial Institutions) with respect to GDP is quite similar to that of peer countries (2019*: **2.13%**)

Graph 5: Outstanding Commercial Bonds on the Local Market in Terms of GDP (% , including non-resident issues)



* as of November 2019

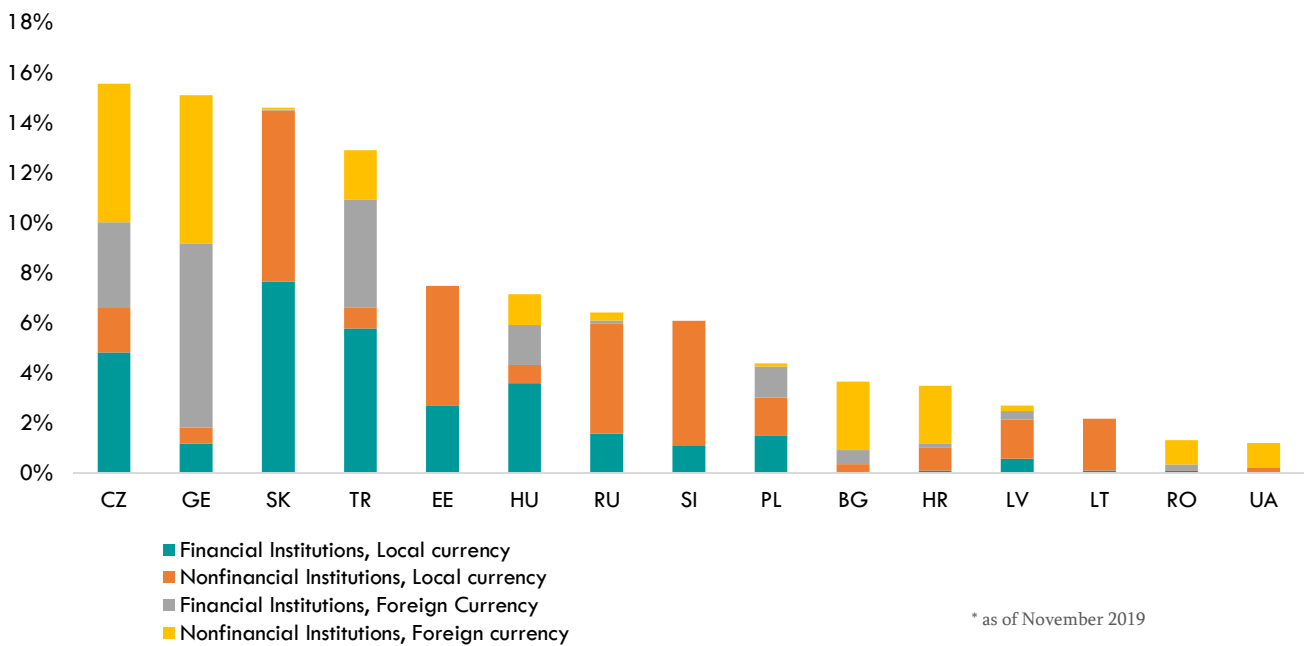


Commercial Debt Securities: International Market

International debt securities issued by resident companies exceeded **GEL 7 billion** in 2019, of which **80%** were originated by the financial sector and state-owned enterprises. In addition, more than **91%** of the bonds are denominated in foreign currency.

Georgia ranks above selected peers when comparing debt securities issued by Georgian residents worldwide over GDP; thus, indicating the potential for growth of the domestic market assuming the appropriate level of development, investor base and liquidity.

Graph 6: Outstanding Commercial Bonds Issued by the Residents of the Country/ GDP (% , issued worldwide)

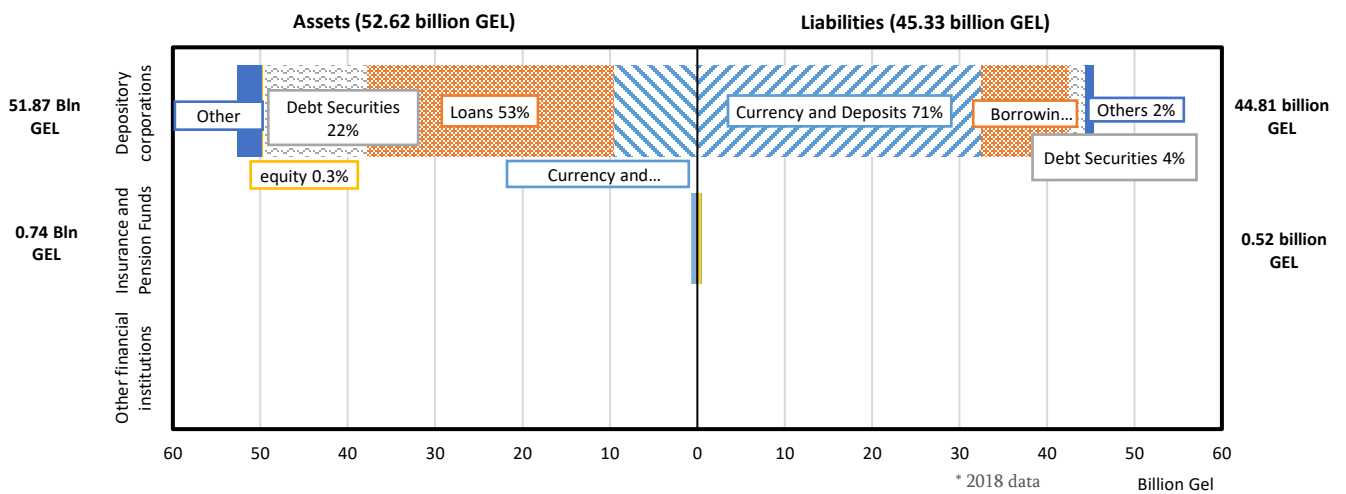




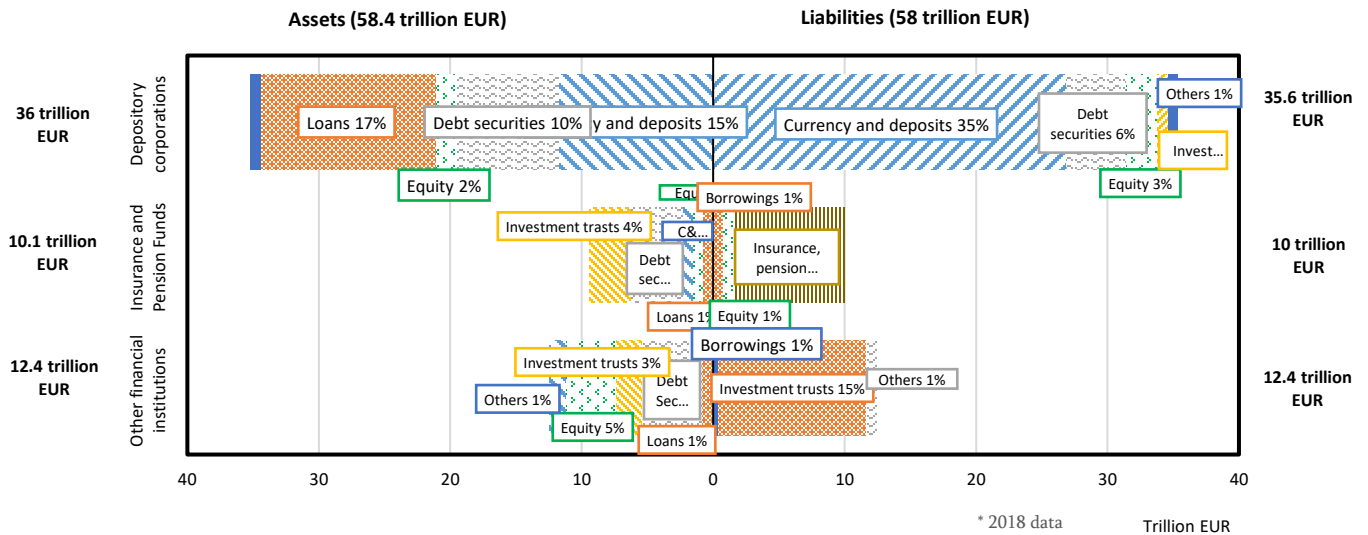
Commercial Debt Securities International Market – Structure of the Financial Sector

The structure of the country's financial sector plays a major role in market development. According to the EU experience, **95%** of the corporate bonds are owned by institutional investors, which are largely pension schemes, investment, and insurance funds. Developing these sectors will be an important factor for the further development of the capital market in Georgia.

Graph 7: Financial Assets and Liabilities of Financial Institutions - Georgia



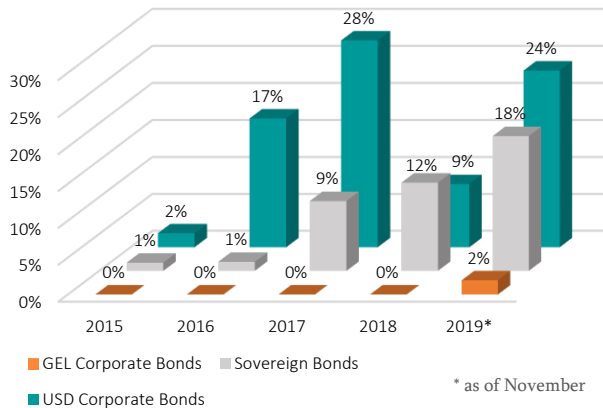
Graph 8: Financial Assets and Liabilities of Financial Institutions – Euro Area





Liquidity and Yield Curve of Domestic Market Securities

Graph 9: Secondary Market Activity of the Debt Securities Issued in Georgia



The size of the secondary market is, to some extent, determined by the holding structure of debt securities and their investment policies.

About **77%** of the Treasury bonds issued on the Georgian local market are owned by banks, of which approximately **85%** are concentrated in three commercial banks. The share of non-resident holding varies around **9%**, while the share of NBG holding is about **14%**.

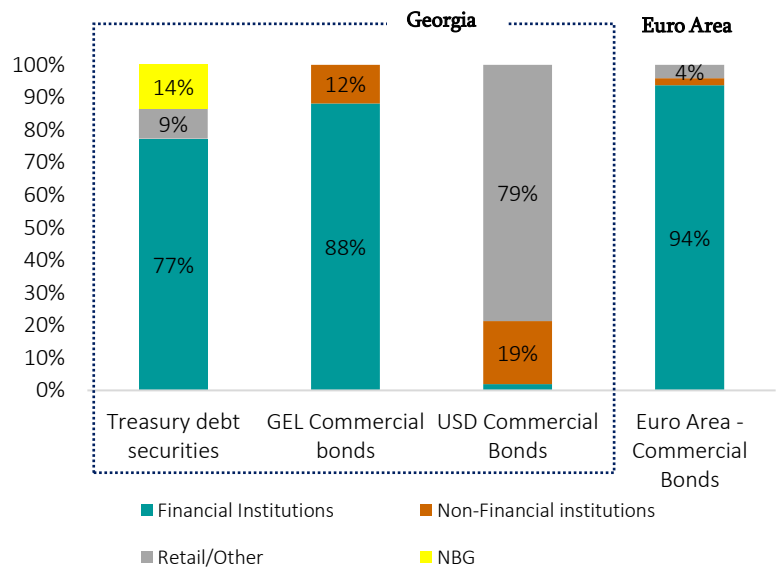
Corporate bond ownership structure varies by denomination currencies:

Publicly issued GEL denominated bonds are mostly held by commercial banks (**88%**) for liquidity management purposes, while about **80%** of USD denominated bonds are held by retail investors.

Secondary market turnover ratio (trading volume divided by outstanding amounts) is one of the determinants of liquidity. According to this indicator, debt securities issued on the local market differ from one another.

On the corporate securities market, selected secondary market indicator for the foreign currency-denominated bonds is significantly higher than for those denominated in GEL. As for Treasury bonds, the volume of secondary market transactions increased significantly in 2018-2019, which is related to the NBG's open market operations.

Graph 10: Debt Securities by Holders ¹



- Georgian Treasury Debt Securities – As of 2019 November 30th
- Georgian Corporate Bonds – As of 2019 February 28th
- Euro Area – As of 2018 December 31th

