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Capital Market of Georgia: The Reasons of Fail

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Abstract

The study examines the financial and economic reality and backwardness of Georgia. It reflects the monopoly on the financial market owned by commercial banks thanks to the steady support of the state and the central bank, which ultimately does not allow for the attraction of alternative financial capital and is one of the main reasons for the country's failure. In this respect, the possibility of developing an economy is directly linked to this problem. Developing an economy requires large financial investments and a resources. Based on our research we have come up with a number of proposals to be introduced and to change the situation and to build a competitive financial market. The ultimate goal is to weaken / end the monopoly position of commercial banks and neutralize the negative activity of the National (Central) Bank of Georgia as the regulator of this market. This is the only way to create the independent and competitive sources of finance and investment in Georgia. Ultimately, this will increase market capitalization and eliminate the economic backwardness that exists between Georgia and a number of leading countries in the field of financial market and its infrastructure.

Keywords: Stock Market, Monopoly of Commercial Banks, Economic Growth, Capital Market

BACKGROUND

This study represents more than 20 years of personal involvement and observations on activity of Georgian Stock and Securities Market done by the Author as the founder, shareholder, CEO of several brokerage companies and the member of the Steering Board of Georgian Stock Exchange and Georgian Central Depository. The author wish to thank all those whose support had a contribution in the production of this study. Included in the list of valuable support are members of Georgian Stock Market, colleagues from Caucasus University, Partners from Brokerage industry and Local Authorities.

INTRODUCTION

(Georgian Capital Market – On-Going Trends and Development)

Problem Statement

The mission of the research proposal is to find out the real solution to rapidly developing countries like Georgia based on modern capital market tools. Economic progress and improving living standards of the population depends largely on the provision of high economic growth. Due to study of (Aslanishvili, D. (2020) WORLD EXPERIENCE:) Recent trend of the leading countries with well-developed financial markets and its

infrastructure heavily depends on efficient capital market using its tools to green economy via green bonds and regulatory requirements.

In that field, the first step is to have the well-developed and competitive financial market. In our study, we have overviewed the present conditions and challenges faced the Stock Market of Georgia.

The Stock Market of Georgia –from the beginning to the present

Based on research of (Aslanishvili, D. (2016). Market foundation) development, economic growth and raising the standard of living in the country are all linked directly to capital market development. One of the real levers, and the most acceptable and practical forms of investment are to invest in equities through the stock market. It is clear for the developed world how important the organized stock market is. This includes Western Europe, USA, Canada, Japan, China and other countries with powerful stock industries such as the New York Stock Exchange; Euronext; NASDAQ OMX; the London Stock Exchange and many others. The well-known and successful mediation businesses and/or brokerage-investment firms include Merrill Lynch; Morgan Stanley; Goldman Sachs; J.P. Morgan; Barclays Capital and many other investment banks.

In the modern world, any innovative idea, business idea or technological breakthrough is directly related to monetary resources. At the modern stage of human development, celebrities such as Bill Gates, Mark Zuckerberg, Steve Jobs and many others are clear examples of this. They had an idea, but no capital and had been convinced by the intermediary structures of the stock market to go through public placement (to issue the bonds and stocks). That way of financing materialized their ideas, and make the lives of every member of society better. Today, we can't even imagine life without cell phones, computers, Windows, Facebook or any other technological or everyday stuff.

The Georgian Stock Exchange (GSE) was established with the financial support of USAID and Barents Group in 2000. Immediately after its establishment, the Law of Georgia on Securities Market was developed and in 2000-2006 there were 42 brokerage firms in the country. These, under Georgian legislation, are institutions equal to investment banks. As it was studied by (Асланишвили, Д. (2015). Фондовый рынок Грузии), due to tightened regulations that came into effect after 2008, their number actually dropped dramatically and currently there are only seven members of the GSE left, of which just one noncommercial bank entity and others are subsidiaries of commercial banks. Over the years this trend looks like this:

Figure 1:

Year	2000	2001	2002	2003	2004-2005	2006-2007	2008	2009	2010-2011	2012-2020
Number of brokerage companies	42	38	35	26	16	17	16	9	8	7

(sources: Annual reports of Georgian Stock Exchange, www.gse.ge; National Bank of Georgia, www.nbg.gov.ge, Own calculations)

If we look at the picture from 2004 to 2008, the number of brokerage companies is stable, but due to the tight rules that have been enacted since 2008, their numbers have actually fallen and continue to decline to the number of seven from 2012 until present time.

There are several direct reasons for this. Here are some of the main reasons and the factors that cause this:

- Normally the activity of a brokerage firm is directly connected with public trading at a stock exchange, and carried out in an open and transparent environment. This process is related only to market price. In 2000-2007 Georgia faced the problem of “closed bidding.” Lately, the rules of bidding were changed at the stock exchange and the so-called “N parameter” was abolished. In the study, conducted by (Aslanishvili, D., & Omadze, K. (2016). Origins and the Reasons), shortly thereafter the ruling political and economic teams implemented decisive measures against free price formation in Georgia. Research

has ascertained that Georgia failed to achieve results anywhere near those of developed countries, with miserable results caused by problems between the two basic means of attracting monetary resources-- bank loans and the stock market.

As it was stated by (D Aslanishvili (2016) Market Foundation) In financially successful and developed countries, these two mechanisms--bank loans and the stock market—are designed to attract money and create a mutually beneficial synergy. In Georgia, there is only one mechanism to attract money resources –the bank loan. In general, the Georgian commercial banking system tries its utmost to prevent the use of the second mechanism, the stock market, since it is considered a main competitor.

The analysis of the structure of owners of Georgian Stock Exchange (source: securities registrar JSC Kavkasreestri – www.kavkasreestri.ge) shows that 58% of shares of the stock exchange is in the hands of its competitor – Georgian commercial banks/holdings. There is another stock exchange - Tbilisi Stock Exchange, where owners are just commercial banks/holdings and Georgian Stock Exchange as minority shareholders itself (fully under control of Commercial Banks/holdings).

It means due to (D Aslanishvili (2016) Market Foundation) that Georgian commercial banks will not allow the development of their competitor—the stock market-- as it threatens their own preferential and successful financial position. According to this analysis, the situation is further complicated by the fact that under the legislation amended in 2008, both spheres of the monetary market have one mega regulator – the National Bank of Georgia. It should be noted, that an essential attribute of the stock market – the National Securities Commission of Georgia (NSCG)– was abolished in 2007-2008. The power of the NSCG was transferred to the regulator of Georgian commercial banks and lobbyist of their interests - the National Bank of Georgia.

Simultaneously, very tough policies were enacted against non-commercial banking structures - brokerage firms, registrar companies, and market participants. As a result—there is practically no non-commercial banking funding ability to attract finance in Georgia.

Statistics of Trades and Stock Market Activity (2000- 2013)

According to the study, (D Aslanishvili (2016) Market Foundation) the statistical results of Georgia’s stock industry are as follows:

- In 2000-2002, the shares of 282 Georgian joint stock companies were admitted to trading on the Georgian Stock Exchange, while 147 joint stock companies were potentially discussing the admission of shares to the stock exchange. This amount actually remained unchanged by 2007.
- In 2003 there were 278 joint stock companies admitted to trading at GSE; in 2004 – 276; in 2005 – their number was reduced to 253 and in 2006 – to 242. A small number of companies was included in so-called ‘Listing A’ and ‘Listing B’ tiers. The “JSC Bank of Georgia” was trading on two exchanges – the Georgian Stock Exchange and London Stock Exchange.

The number of stocks traded, the number of shares and the cash flow increased steadily, as shown in the table below:

Figure 2:

Year	2000	2001	2002	2003
Stocks traded	4354640	10862784	11418196	7826980
Money Turnover (GEL)	5,892,326 (2.5 mln USD)	13,077,244 (5mln USD)	8,401,206 (4 mln USD)	1,693,234 (0.8mln USD)
Number of Deals	601	1591	1343	912

Year	2004	2005	2006	2007
Stocks traded	30510783	32385702	68421921	84670905
Money Turnover (GEL)	46,676,153 (21mln USD)	62,362,181 (35mln USD)	169,137,895 (100mln USD)	167,359,523 (100 mln USD)
Number of Deals	1094	1358	5553	7856

(sources: Annual reports of Georgian Stock Exchange, www.gse.ge; National Bank of Georgia, www.nbg.gov.ge, Own calculations)

During the same period, the largest operator of the world's stock exchanges - Group OMX (NASDAQ OMX) Ltd makes a proposal to acquire the Georgian Stock Exchange.

This meant Georgia's direct global integration into the world stock market, and Georgian companies, intermediaries and investors had the chance to become an integral part of the world financial industry. The question arises as to what happened at this crucial moment in Georgia.

In 2007-2008 Country ruling team and related interest group(s) diminished Stock Market and trading activity by Legislation, refused to establish OMX Group (NASDAQ OMX in Georgia) in the Country and Georgia lost its chance to be the Regional financial center in the Caucasus (for information, after the group OMX (NASDAQ OMX) moved to Armenia, where with support of the local government and its legislative and financial support created the single financial center - NASDAQ OMX ARMENIA).

(The purpose of this paper is not to clarify why the Georgian political and financial management team of 2007-2008 delayed the chance of establishing a regional financial center to Armenia to the detriment of Georgia).

Consistently, the situation has evolved in the following way (unfortunately, this trend continues in the current period). 2007 - 2008 Parliament of Georgia is making changes to the law on the securities market. It was argued, that excessive brokerage fees are the problem to stimulate market and abolished the requirements from investors to buy/sell public securities through licensed brokerage companies. So called fixing (deals fixation rule) was established. This change essentially eliminated the essence of the brokerage company and brokerage, put an end to the market price, and introduced in Georgia such an uncomplicated form of bargaining that clearly shows signs of manipulation, fraud, and - possibly - money laundering. (some clear examples of fixing, due to own experience is given here into separate subsection of a description of a number of transactions concluded through fixing, which by their very nature fall directly into such categories.)

As it was noted by (Aslanishvili, D. (2014) Stock Market in Georgia) since 2008, there has been no longer any sale or sale of shares in Georgia. You can sell/buy any public stocks just on paper, without any auction or trade - it is important to sign the document (or in many cases you will be advised to "do the right thing" and assure that it is so good ...) and you have no longer the property. Most importantly, cash transaction control is vague in this way.

As a result, a number of financial and economic governing oligopolies were created and established in the country, and most of the wealth of the country was under their control. That is, we came to the classic axiom - the absence of a stock market means a non-transparent economy and the absence of a middle class in the country. This, in turn, leaves no prospects for the country's future development and progress.

Since 2008, when the restrictive legislative amendments were approved, there has been no "civilized" possibility for equity trading in Georgia, meaning that if there is a willingness to trade, securities admitted to the stock exchange can be transferred by simple inscription on paper, without any auction or trading – it is enough simply to sign the document. What is most important, this method has made the process of monitoring cash transactions absolutely opaque.

According to (Aslanishvili, D. (2014) Stock Market in Georgia), it means that the country's stock market was replaced by a grey, non-transparent, "wild-liberal" market. Georgia's stock exchange has lost its key function as a foundation for price formation in the stock market. Therefore, any trading in shares or other securities has become senseless.

As the analysis shows, in parallel with the changes taking place in 2007-2008, the management of joint stock companies gradually lost any interest in equity trading in an open and transparent environment, once the law didn't require it.

Thus, in 2006 there were 242 companies in the stock exchange's trading system (without listing), in 2007 their number was reduced to 161 and in 2013 reduced to 129. During the same period, the stock exchange turnover radically decreased in Georgia.

As it was studied by (David Aslanishvili, Omadze Kristine (2019) Green Economy), the problem of the Georgian stock market has been further aggravated by the global economic crisis. During global crises a civilized state tries to support businesses, which did not happen in Georgia. Following the worsening economic, legislative and market situation, the regulator - National Bank of Georgia - increased the authorized capital requirements for brokerage firms, which had already been left without any function or their main sources of income. To make matters worse, the NBG abolished three types of licenses and only recognized General License for which requirements in practice could be met only by commercial banks and their subsidiaries. Capital requirements new tools and rules been introduced for brokerage firms to maintain its license. According to this complicated scheme of capital recognition, only money resources are considered as a source of capital replenishment, which--against the background of market failure--does not enable an independent brokerage firm to compete with subsidiaries of commercial banks. Thus, the actual disappearance of the securities market industry as an alternative to a bank loan is now a fact. Study shows it is used by the National Bank of Georgia to promote the obedience of the securities market to the commercial banking sector (i.e. competitive structure). It was argued by the National Bank of Georgia as the requirements of European Union Associate agreement with Georgia and to be in line with International standards. (source: www.nbg.gov.ge – official letter and announcement)

The catastrophic fall in the Georgian stock market is noteworthy. If the turnover of the trading system of the exchange market in 2006-2007 (i.e. transactions in open and transparent environment, despite the obstacle of N parameter) was GEL 167 - 169 million, in 2008 it decreased 14 times! It is falling (i.e. 1400 percent decline) and continues to decline in the following years.

According to the results of 2013, the country's stock market turnover is 530,491 GEL, which is 338 times less than in 2007! With the 2013 turnover, the Georgian Stock Exchange has established an anti-record in its history - such a small volume it has never had since its inception. The table below shows this process over time:

Figure 3:

Year	2008	2009	2010	2011	2012	2013
Stocks traded	12480863	12667601	41641272	12077996	9950399	27170709
Money Turnover	10,584,246 (7.2 mln USD)	3,112,576 (1.75mln USD)	5,117,755 (3 mln USD)	2,503,705 (1.3 mln USD)	8,847,355 (5 mln USD)	530,491 (0.3 mln USD)
Number of Deals	2321	1304	2372	860	339	283

(sources: Annual reports of Georgian Stock Exchange, www.gse.ge; National Bank of Georgia, www.nbg.ge, Own calculations)

Fixing

As a result of legislative changes in 2008-2014, Fixation of deals was introduced, instead of market trading. The table below shows this process over time:

Figure 4:

Year	2008	2009	2010	2011	2012	2013
Stocks traded	70669027	2954953076	1663935776	90352271	49101717	225508802
Money Turnover	245,978,780 (174 mln USD)	95,757,903 (56 mln USD)	96,051,894 (57 mln USD)	16,840,554 (10 mln USD)	726,721,480 (427 mln USD)	51,955,237 (30 mln USD)
Number of Deals	857	572	835	421	538	230

(sources: Annual reports of Georgian Stock Exchange, www.gse.ge; National Bank of Georgia, www.nbg.ge, Own calculations)

As for the number of transactions made outside the stock exchange and any transparent environment, “fixing” amounted to 3453 trades in Georgia in 2008-2014 according to our research. Total amount in shares was 5,054,520,669 units, and the total value was GEL 1,233,305,848 (720 mln USD). This means that the “grey” market exceeded the amount of the open market 24-fold in 2008, 32-fold in 2009, 19-fold in 2010, 8-fold in 2011, 90-fold in 2012 and 100-fold in 2013.

In fact, the entire stock market of the country has been replaced by the gray, non-transparent "wild-liberal" market. There are hundreds of such out of market deals and cases since 2008. We have studied several of it:

- In December 2008, as a result of legislative amendment, there were two transactions per day on the JSC „Caucasus Energy and Infrastructure“. According to the Fixing Sheet, one investor sold stock at price of 0.167 GEL each to the definite investor and in the same date and time, that investor re-sold that portion at price of 1,741 GEL per stock.

Figure 5:

DATE	Number of Trades	MIN PRICE PER STOCK	MAX PRICE PER STOCK	VOLUME IN STOCKS	Money Turnover
December 31, 2008	2	0.1665 (GEL) (0.1 USD)	1.7414 (GEL) (1 USD)	799658	762,833.75 (GEL) (448,725 USD)

(sources: trades of Georgian Stock Exchange, www.gse.ge; Own calculations)

If we study this fixed deal, it looks that 799,658 shares were traded. From it, 383,329 shares were sold at 63,824 GEL (37,543 USD), and the same number - 383,329 shares were sold on the same day at price of 667,529 GEL (392,665 USD). It turns out that one investor "surpassed" the other by more than 600,000 GEL (more than 350,000 USD) on the same day and in the same amount of shares. It is impossible to conduct such “trade” during the open auction and public trade and such deal goes beyond any norms;

- In May 2009, Joint Stock Company “Khidmsheni” (Bridge Construction) also transferred 131415 shares with a total amount of 2,490,314 GEL (1,465,277 USD). At first glance, there is nothing special about the price - it is 18.95 GEL (11.15 USD) per share. Interestingly, neither before (since 2000) nor after this fixing did these equity brokerage activities cost so much. Neither the number of shares is any special nor the equity. The stock price range for 2007 - 2009 was 0,10 - 0,50 GEL (0.06 – 0.35 USD) and in June 2009 the stock was worth 0,50 GEL (0.35 USD). According our study, it is unclear why did the investor pay 2,490,314 Gel (1,465,277 USD) in the gray market (the real money turnover is unknown) when the commodity was valued at 80,000 - 90,000 Gel (47000 – 53000 USD)?

Figure 6:

DATE	Number of Trades	MIN PRICE PER STOCK	MAX PRICE PER STOCK	VOLUME IN STOCKS	Money Turnover
October 29, 2007	1	0.10 (GEL) 0.06 (USD)	0.10 (GEL) 0.06 (USD)	120000	12,000 (GEL) 7,200 (USD)
July 8, 2008	1	0.50 (GEL) 0.35 (USD)	0.50 (GEL) 0.35 (USD)	159492	79,746 (GEL) 55,822 (USD)
February 17, 2009	1	0.30 (GEL) 0.20 (USD)	0.30 (GEL) 0.20 (USD)	26853	8,056 (GEL) 5,370 (USD)
May 5, 2009	1	18.95 (GEL) 11.15 (USD)	18.95 (GEL)	131415	2,490,314.25 (GEL) 1,465,277 (USD)
June 2, 2009	1	0.50 (GEL) 0.35 (USD)	0.50 (GEL) 0.35 (USD)	180576	90,288 (GEL) 63201 (USD)
June 4, 2009	1	0.50 (GEL) 0.35 (USD)	0.50 (GEL) 0.35 (USD)	898270	449,135 (GEL) 314,394 (USD)

(sources: trades of Georgian Stock Exchange, www.gse.ge; Own calculations)

- In July 2011, there was a remarkable "pricing" by fixing. 30,697 shares of JSC "Beedviti Sityvis Combinati" (Printing Press) were traded in a single day totaling 2,495,269 GEL (1,467,805 USD). Most striking is the transfer price of the shares shown during this fixing. A total of three deals were concluded, and the fixed price (this is not a trade) ranged from 1.30 GEL (0.765 USD) to 83,4879 GEL (49.1 USD). Due to our research, the difference in price paid (as shown in papers) by investors were 64 times differs from one to another.

Figure 7:

DATE	Number of Trades	MIN PRICE PER STOCK	MAX PRICE PER STOCK	VOLUME IN STOCKS	Money Turnover
July, 2011	3	1.3 (GEL) 0.765 (USD)	83.4879 (GEL) 49.1 (USD)	30697	2,495,269 (GEL) 1,467,805 (USD)

(sources: trades of Georgian Stock Exchange, www.gse.ge; Own calculations)

- In 2011, also through the fixing and the opaque pricing, a large share of the Joint Stock Company "United Telecommunication" was acquired. 42,848,963 shares (or 41.5% of the enterprise share) were transferred through fixing, totaling 6,000,331 GEL (3.5 mln USD). It should be noted here that a similar share was disposed of on December 15, 2006 at GEL 89,722,692 (54 mln USD). That is, after the privatization in 5 (five) years its price has fallen almost 15 times. Details of this deal, as well as many other fixings, are unknown.

The listing of such facts caused by this legislative amendment of 2007-2008 may not be complete. As a result of research, it was identified the problems and answered the questions why investors do not want to invest in Georgia, what are the reasons that stock market does not work and why there is no market price for any stock in the country.

Due to study, conducted by (Aslanishvili, D., & Omadze, K. (2019). Green Economy) any comment here is superfluous. Goal of this study is to find out the answer and explain the purpose of Author(s) of this fixation, its introduction and the advocates of this law in today's reality. It is difficult to show an example of country which can attract investments and reach the prosperity using this approach as fixing such "deals".

RECENT DEVELOPMENT (2014- 2019)*(organized market)*

As it was mentioned by (Aslanishvili, D., & Omadze, K. (2019). Green Economy) starting October 2014, the banking oligopoly of Georgia fully controls Steering Board, Management and activity of Georgian Stock Market. It should be noted, that Georgian corporate bonds (commercial banks bonds and its affiliated structures) are eligible in Clearstream from September 2018.

Clearstream Banking S.A. started offering settlement, custody, and asset servicing for selected Georgian corporate bonds, together with securities issued by the Government of Georgia and international financial institutions (the "IFIs"). By offering new services in Georgia, Clearstream further enhances the access to the Georgian capital market for international investors and is the sole international central securities depository (the "ICSD") to offer such services. Non-resident corporate, non-resident individual and resident individual holders of Georgian listed corporate bonds issued prior to 2023 are exempt from capital gain and interest income (withholding) taxes.

More than 2 billion Gel (1 billion USD) successful placements of IPO done in Georgia during the last five years: FMO (Nederlandse Financierings – Maatschappijvoor Ontwikkelingslanden N.V), Black Sea Trade and Development Bank, Bank of Georgia, Liberty Bank, M2 Real Estate, TBC BANK, EBRD bonds, ADB bonds, Georgian Leasing Company, Nikora, Zedazeni and others).

According to (Aslanishvili, D., & Omadze, K. (2019). Green Economy) several and most memorable deals are:

- On June 28, 2019 - TBC Capital (brokerage of TBC BANK) has listed the largest Eurobond issue on the Georgian Stock Exchange. TBC Bank has successfully priced a debut US\$300 million 5-year 5.75% (6% yield to maturity) senior unsecured notes issue (the "Notes");
- On July 12, 2019 - The Asian Development Bank (ADB) raised 60 million GEL (about \$21m/€18.70m) from two new issues of local currency bonds. The proceeds of the bond issues will be on-lent to Credo Bank to launch new products including home improvement and mortgage loans to lower-income households in rural areas and on the outskirts of the Georgian capital, Tbilisi.
- TEGETA MOTORS LTD - On May 22, 2019, GEL 30 million worth of 3-year bonds issued by the Tegeta Motors LTD have been admitted to the category A listing of the Georgian Stock Exchange.

We have studied if any positive changes took place regarding market or intermediary service (brokerage companies). As our study shows the situation almost the same as it was in 2008. Totally, six brokerages on the market and due our study the ownership of five brokerage companies is the following:

- "Cartu Broker" LTD –JSC "Cartu Bank" structure;
- "Galt & Taggart" JSC – JSC "Bank of Georgia" structure,
- "TBC Capital" Ltd- JSC "TBC Bank" Branch;
- "Silk Road Bank" JSC – itself commercial bank on Stock Market
- "Heritage Securities" LTD – JSC "Liberty Bank" affiliated structure

We have studied the recent figures of the stock market. As we have mentioned, in 2013, the country's stock exchange turnover amounted to GEL 530,491 (0.3 mln USD) or 338-fold less compared to 2007. In the period from January 1, 2014 – July 14, 2019 due to trading results of Georgian Stock Exchange:

Figure 8:

DATE	Number of Trades	VOLUME IN STOCKS	Money Turnover
2014 - 2019	667	32666230	2,770,069.42 (GEL) 1,3 mln (USD)

(SOURCE: www.gse.ge).

According to (Aslanishvili, D., & Omadze, K. (2019). Green Economy) an average turnover was 461,678 Gel (215,000 USD) per year. Unfortunately, approximately all trades and deals went on banking stocks and bank's affiliated companies.

We have studied the Bond Market of Georgian Stock Exchange. In the period from January 1, 2014 – July 14, 2019 due to figures of Georgian Stock Exchange:

Figure 9:

DATE	Number of Trades	VOLUME IN BONDS	Money Turnover
2014 - 2019	140	13243	13,810,668 mln (USD)

(SOURCE: www.gse.ge)

As we can see, an average turnover per year was 2,301,781 USD. Due to research, approximately all the trades went on Banking Bonds and affiliated companies.

Gray market (Fixed deals and OTC turnover)

In our study, we paid special attention to the fixed deals and OTC market to compare its level and turnover to the organized one. In the period from January 1, 2014 – July 14, 2019, the figures of “Gray market” were the following:

Figure 10:

DATE	Number of Trades	VOLUME IN STOCKS/BONDS	Money Turnover
2014 - 2019	2319	6031596962	2,323,965,196.85 (GEL) Appr 1 billion (USD)

(SOURCE: www.gse.ge).

At an average per year – 38,732,603 GEL (15,810,000 USD) turnover. Here also, Most of deals and turnover go on Banking Stocks/Bonds and affiliated companies(SOURCE: www.gse.ge). Our study shows, that tendency is the same and at present conditions the “gray market” surpassed the organized one by 73 times at average per year.

We can state that the country's stock market was replaced by a grey, non-transparent market. At this stage Georgia's stock exchange has lost its key function as a foundation for price formation in the stock market. Therefore, any trading in shares or other securities has become senseless.

Fixation of Deals out of Market (gray Market, OTC) represents the alone way of funds attraction. As research and practice shows, Commercial Banks distribute the adopted offer of stocks/bonds inside the banking/holding structure for their own clients and submit the fulfilled IPO to Stock Exchange. Stock Exchange act as Notary, but not as the Stock Exchange as it should be (David Aslanishvili, Omadze Kristine (2019) Green Economy...)

Any suggestion on legislative amendments as a solution in order to save and develop independently from Commercial bank's Georgia's stock exchange had been many times stopped and blocked by the Georgian government, National Bank and Commercial Banks, working together to keep the current trend. ((D Aslanishvili(2016) Market Foundation...)

The alone way to get finance in Georgia is to be loyal to Commercial Banks and its affiliated structure(s) and show the readiness to give them access to your company share structure and management to receive funding. (Aslanishvili, D. and Omadze, K. (2016) Origins and the Reasons) suggested that legislative amendments as a solution in order to save and develop Georgia's stock exchange, a package of amendments to resolve the situation should be introduced based on recommendations done by our research and study

Conclusions

As the summary, we can conclude that current market conditions can be summarized in the following manner:

- Commercial Banks/Holdings fully control the non-commercial source of funding – "Georgian Stock Exchange"- 58 percent of Stake of GSE and 100 percent control of "Tbilisi Stock Exchange."
- Licensed by NBG and GSE the Brokerage Companies – almost all in property of Commercial Banks/holdings;
- All emissions and successful placements of companies (Bonds/stocks) are done only by Commercial Banks and for their and affiliated companies
- There are no alternative sources of funding in Georgia, except commercial bank loans directly or indirectly (via their “green light” to issue bonds/stocks for Banks of affiliated companies);
 - Main sources of funding in Georgia are Commercial Banks and affiliated structures;
 - Capital market – stock and bond markets in Georgia-is are not developed as an alternative source of funding for any noncommercial banking structure;

In that field and due to current tendencies - there is a lot of real benefits of non-bank financing, including for clean energy projects and the SME sector (e.g., small hydro, energy efficiency). In our view, the Government of Georgia should intervene and change the “rule of games” on Capital market and to introduce the real Glass Steagal/Dodd–Frank/The Gramm–Leach–Bliley Acts in action, not just in papers.

At the same time, Georgia needs an independent from Commercial Bank/Holdings and National Bank of Georgia the Supervisor and Stock Market structure - to have the real alternative source of funding. Commercial Banks/Holding should be prohibited from Stock Market activity (depositors risk mitigation- international practice). We think, that the international community (donors, IFIs, international organization) should supervise the practical implementation of the abovementioned steps in Georgian reality to support Georgia's efforts to have the developed capital markets, available to finance businesses.

Obviously, the research is based on certain assumptions, and all project implementation will require some period of development and with the growth of the current economy, their contribution to economic growth in other equal conditions will be reduced. However, the potential economic benefits of projects are more visible.

The survey unfortunately reveals that the chances to have a successful startup and success in Georgia are low, with the main problem being the absence of competition between two main sources of cash flow.

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