
ПРОБЛЕМИ ЕКОНОМІЧНОГО АНАЛІЗУ ЦІЛЬОВИХ РИНКІВ СУБ'ЄКТІВ ГОСПОДАРЮВАННЯ

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UNDEVELOPED EQUITY MARKET AS A FACTOR OF PREVENTION OF FOREIGN INVESTMENTS (GEORGIA AS AN EXAMPLE)

Mobilization of investments is one of the actual leverages for progress of national economy. The preference is given to the securities instead of the practical means of investing. Equity market, especially secondary market allows concentration of capital without intervention of government and investing in very profitable sectors. Secondary equity market, namely stock exchange is an approved mean of investment mobilization in the real sector of economy.

Keywords: investments, securities, equity market.

Since 1992 institutional improvement of equity market regulation in Georgia has passed the hard way: firstly, the Securities Department of the Ministry of Finance of Georgia was set up, then from September, 1994 to September, 1996 regulation and supervising of equity market was a function of the Securities Administration of the Ministry of Finance.

Based on the Law of Georgia "On Equity Market" adopted on 24 December, 1998 the unified service of equity market regulation, namely Unified Commission of Securities of Georgia was set up.

Nowadays equity market is able to operate independently. The system of security trading and settlement functions. Namely, as of 1 January, 2011 at the equity market operated: "Georgian Stock Exchange" - as the single stock exchange, "Securities Depository of Georgia" Ltd. - as the single central depository, also 35 brokerage companies, 135 brokers (physical persons), 8 security registrars, 124 registry keeping physical persons.

The equity market of Georgia has the following factual and potential participants: commercial banks, special investment funds, exchanges, brokerage companies and other institutional units of the equity market.

Presently there are some problems in formation and development of the equity market in Georgia. Rise in production is slow, national economy weakly complies with the regularity of market relations, volume of new emissions is small. Due to all above, capital market is weak.

For 1 January, 2011 in Georgia there were 1773 joint stock companies, what makes up 2% of legal persons of private law registered in Georgia. But the volume of investments placing by the way of shares emission was unconsiderable, so the role of share capital in the economy of Georgia was enough small. In 2012 already 1826 joint stock companies operated in Georgia, what was caused with that the most part of joint stock companies became share issuers not resulted development of production, but implementation of privatization strategy. Shares, as product

of market relations, originated resulted mass privatization of public enterprises.

In 2010 282 enterprises, i.e. 16% of all operating joint stock companies were admitted to the trading system of "Stock Exchange of Georgia" J.S.C. During 2010 in the stock exchange trading system transactions were concluded for the shares of 94 issuers, i.e. 33% of shares of the issuers admitted for dealing at the stock exchange. Totally, in 2000-2010 transactions were concluded for securities belonging to 136 issuers.

In 2011 capitalization of stock market equaled to 218 million Lari, what was more than the same index in 2010 by 18,7%. It made up 2,99% of the gross domestic product in 2011. But in 2003 capitalization reached 426 million Lari, what made up 5% of gross domestic product. As for liquidity, in 2003 annual turnover of Georgian Stock Exchange made up just 0,87% of capitalization. Although, we shall remark that these figures cannot reflect the real situation, as the methods of their calculation is not perfect. Sometimes the real price of shares is not even fixed, they are often granted. As for liquidity, it is on the low level, what, of course, misrepresents the circumstances at the Georgian stock exchange.

Stock market capitalization often includes cost of the shares of unreliable or bankrupt companies. As per data available at Georgian stock exchange for 2012, shares of "Tchiaturmanganum" J.S.C. which factually was a bankrupt, made up 26,3% of market capitalization.

Also share of "Media" J.S.C. located in Kutaisi being in a bad financial state in market capitalization made up 12%. 38% of capitalization belonged to the shares of "A-S-Telasi" which was not considered a successful company.

In 2010 supervision over off-exchange security trading became tougher, although rudiments of uncontrolled security trading of the first years of independent statehood of Georgia were not overcome. Resulted strengthening of governmental regulation of equity market volume of non-

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market security trading, so called “grey market” considerably decreased.

In 2009 off-exchange trading made up 94% of total delivery of securities, in 2009 – 57%, in 2010– decreased to 45-48%.

In 2011 equity market was provided a substantial support and specialized stock exchange auctions were arranged in the frames of the program of national property privatization. Before 2011, in the course of privatization stock exchange had been completely neglected as a privatization machinery. The first such auction was held on 10 December, 2011. Holding of specialized auctions became possible only at the end of the year, volume of trading was not big. Totally, in 2011 at the specialized auctions 4 transactions for 36.646 shares were concluded, their cost made up 10.148 Lari. Above all, only in 2011 it became possible to realize Memorandum of Holding Stock Exchange Auctions signed by the Ministry of Management of State Property, National Committee of Securities of Georgia and “Georgian Stock Exchange” J.S.C. as early as on 14 July, 2009, and start privatization of shares belonging to state through stock exchange.

Totally, at the equity market turnover was low. Besides, 95% of prices of transactions concluded in 2009 at “Stock Exchange of Georgia” J.S.C. belonged to two issuers (“VTB” and “Bank of Georgia”), 80% of prices of transactions concluded in 2010 belonged to two other issuers (“Bank of Georgia” and Department store “Tbilisi”), and 58% of prices of transactions concluded in 2011 belonged to three issuers (“VTB Bank”, “Borjomi Mineral Waters” and “Sakalakhshenproekti”).

In 2011 no primary public offer of securities was made.

Admitting of securities of enterprises to “Stock Exchange of Georgia” J.S.C. was performed through two levels: listing and trading system.

On 20 June, 2010 two issuers were listed at the stock exchange, namely “Bank of Georgia” J.S.C. and “Industria-Invest” J.S.C. During 2011 the same issuers satisfied listing requirements again, but based on statement dated 6 August, 2011 securities of “Industria-Invest” J.S.C. were eliminated and up to the end of 2011 only one issuer’s securities were listed at the stock exchange, namely “Bank of Georgia” J.S.C. And for the beginning of 2012 only one company of 278 ones operating in Georgia was listed at Tbilisi stock exchange, namely “Bank of Georgia” J.S.C.

To the end of 2012 securities of 277 issuers were admitted to “Stock Exchange of Georgia”, but trading was suspended for those of 51 issuers. In December totally 115 transactions for 310 securities which cost made up 94 877 333 Lari, were concluded through stock exchange system. During the year totally 1094 transactions were concluded for 30510783 securities, which total cost made up 46 676 153 Lari.

Equity market of Georgia still cannot provide exact information about structure of ownership. As we mentioned above, going public was performed for the purpose of privatization. Whole centralized capital was divided into shares and issued to about 500 shareholders. This process, beginning with privatization cards, free issuing of shares, zero shares etc. still proceeds. But as shares are not sold at the stock exchange, no one knows their real, i.e. market value. In Georgia their value per capita is much higher than in many developed countries. Of course, this is a false index and one of our main tasks includes increasing of shares liquidity and determination of their real value by the way of involving in stock exchange dealing.

Factually there are no institutional investors in Georgia.

Apart the other countries, Georgia could not transform specialized privatization investment funds into “investment companies” of modern meaning in proper time. It was caused with many factors including that use of privatization cards bypassing these funds was allowed. That is why, they could not mobilize even 4% of the whole mass of privatization cards.

Clearing and settlement of the transactions concluded at stock exchange is performed by the central depositor of securities. In 2011 structure of the operations performed by the central depositor consisted of nine elements, namely: transfer of securities from saver to commercial account - 37%, transfer of securities from commercial accounts to saver - 37%, settlement for exchange transactions - 6%, money transfer from commercial accounts to clearing accounts - 3%, money transfer to clearing accounts of brokerage company with clearing banks -3%, depositing of securities - 3, transmission of securities - 3%.

In Georgia sale and purchase of public securities is performed through brokerage companies licensed by the National Committee of Securities of Georgia. Brokerage companies are owned not only by Georgian resident physical and legal persons, but investors from the Great Britain, Ireland and the USA. These companies include: 33 limited liability companies, 2 joint stock companies (“Kabarjina” and “Industria-Invest”). Besides, “Industria-Invest” is an accountable company and its securities are admitted for dealing in the trading system of “Georgian Stock Exchange”.

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.

All the officers of brokerage company dealing with the clients in relation with the company activities permitted by law hold broker’s licenses. They participate in broker’s activity only on behalf of the brokerage companies employing them. There are many brokerage companies in Georgia, although only some of them actively operate at the market. Interest of insurance companies and commercial banks to equity market is still considerably low. Also we cannot feel any interest among foreign financial mediators.

According to the annual results of 2011 “Registry” Ltd. which registered 33% of quantity of transactions is recognized a leader among registrars regarding quantity of exchange transactions. As for value of transactions, “Company-Center” Ltd. which registered 53% of total value of exchange transactions is considered the leader.

National Committee of Securities of Georgia which important part of the scope of activity includes establishing of the rules of play at the equity market has adopted 30 normative acts, including 14 ones in 2011. The committee developed these acts in accordance with the international experience. Besides, it adopted them generalizing specificity of Georgia: real socioeconomic situation, existing legislation. Due to lack of corporate management and, correspondingly, improper culture in this sphere, the

elementary statutory requirement, such as holding of international meetings by joint stock companies is often violated. We mean not timely holding of such meetings, but holding meetings, in general.

We shall also take into consideration that quantity of joint stock companies established, merging, getting bankrupt, winding up etc., and accountable companies, fluctuates. Accountable companies are placed obligations. Particularly, accountable companies are obliged regularly prepare information about this company, submit it to the Committee and publish it. This information shall be available for any interested persons. In this respect, based on law of equity market the committee is to establish the rules of preparation of reports and their presentation to the Committee.

In 2011 the Committee which functions had included rising awareness of the shareholders and members of company managerial bodies, bringing statutory requirements to the localities, providing proper explanations to the violators, reminding of observation of these requirements and the fixed terms, extended application of the authorities conferred by Administrative Code of Georgia with consideration of administrative cases and imposing penalty provisions on violators.

Total sum of administrative penalties imposed by National Committee of Securities of Georgia in 2011 made up 53,8 thousand Lari.

Resulted consideration of administrative cases it was established that the changes factually happened often were not registered in court, that is why, they were legally invalid and factually "de facto" and "de jure" conditions differed.

Nowadays investors pay especial attention to decrease of risk of operations and analysis of the issuer's activity results and its prospective. In modern conditions investors make efforts to obtain full information not only about equity market, but generally about each concrete issuer. That is why the special attention is paid to financial transparency of issuer and conditions in which the issuer operates.

Even a registrar of securities of a subsidiary company cannot obtain valid data related this company. It was proved with the information presented by registrars to the Committee for administrative proceedings consideration. Resulted consideration of the administrative cases prepared relying on this information its inconsistency with the existing reality was revealed.

Really, the valid market of national treasury obligations has not been formed yet in Georgia. Available assets of commercial banks, population, real sector enterprises and other investors flow through budget system, not stock market. Government obligations do not get to the secondary market, what destroys managerial function of stock market.

Commercial banks cannot resist the temptation and do not make investments to real sector. Credit market is infringed upon to more extent with the circumstance that

due to lack of secondary market of treasury obligations National Bank of Georgia cannot reduce the cost of credits by means of open market operations.

Factually, at the Georgian equity market there are no derivative securities, i.e. financial vouchers, options, warrants, convertible bonds etc. That is why, in Georgian economy capital does not flow this way too.

Stock market is to have immediate connection with real economy. Otherwise it reserves only two functions: capital centralization and incomes distribution function between the representatives of financial sphere.

At the "spontaneous" stage of development of equity market in Georgia the securities controlling forces tried to exercise their powers to acquire control stock. Further they tried to use investment properties of shares acquired. It was caused with that vouchers had not investment property and they were not securities in classical mean. Vouchers were used for compensation of primary investment of shares. There were much more primary stock markets, than secondary ones. In the developed countries value of secondary market 10-20 times exceeds the primary market, but in Georgia it is quite the contrary. As for secondary equity market, it has not been formed yet. There is not a concrete place where these securities holders could sale them before maturing. Development of secondary market shall be promoted by the institution of primary dealer. Besides, National Bank of Georgia and Georgian stock exchange shall propose investors the appropriate trading site and infrastructure.

The Georgian equity market has the following peculiarities:

- small volume and illiquidity;
- undeveloped material basis, trading technologies, regular and information infrastructure, depositing and clearing networks, as well as low regulatory role of government;
- uncoordinated system of governmental regulation of market. Government had immediate influence on market through such authorities, as National Bank, Ministry of Finance, Ministry of State Property Management, National Committee of Securities;
- high level of risk;
- instable economy etc.

There are serious problems with operation of equity market in view of regions economy financing as well.

Nowadays machinery of application of equity market instruments in the process of mobilization of savings by large section of investors has been absolutely unsatisfactorily researched.

So, equity market of our country is an unattractive environment for foreign investors. The more so, that we factually have no secondary equity market.

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РЕЗЮМЕ

Абуселідзе Георгі

Нерозвинутий ринок капіталів як фактор відлякування іноземних інвестицій (на прикладі Грузії)

Одним з актуальних завдань для досягнення прогресу національної економіки є залучення інвестицій, при цьому перевага надається цінним паперам. Ринок цінних паперів, особливо вторинний ринок, дозволяє без втручання уряду концентрувати та інвестувати капітал в дуже прибуткові галузі. Вторинний ринок капіталу, а саме фондова біржа, є надійним джерелом залучення інвестицій в реальний сектор економіки.

RESUME

Абуселідзе Георги

Неразвитый рынок капиталов как фактор отпугивания иностранных инвестиций (на примере Грузии)

Одним из актуальных задач для достижения прогресса национальной экономики является привлечение инвестиций, при этом предпочтение отдается ценным бумагам. Рынок ценных бумаг, особенно вторичный рынок, позволяет без вмешательства правительства концентрировать и инвестировать капитал в очень прибыльные отрасли. Вторичный рынок капитала, а именно фондовая биржа, является надежным источником привлечения инвестиций в реальный сектор экономики.

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