

# FINANCIAL SECTOR AND ITS IMPACT ON COUNTRY'S GROSS DOMESTIC PRODUCT

Lasha Kodua

Ana Kirakosyan

Anna Sisvadze

*Thesis submitted to the graduate faculty of the Business School of Ilia State University in  
fulfillment of the requirements for the degree of Master in Business Administration*

Business Administration

Academic Supervisor: Lana Chkhartishvili, Ph.D. Candidate

Ilia State University  
Tbilisi, 2014

## **Abstract**

This thesis has studied the financial market of the Georgian economy and its impact on the country's Gross Domestic Product and generally country's economic development. A growing body of evidence suggests that financial institutions and financial markets exert a powerful influence on economic development, poverty alleviation, and economic stability.

The Georgian economy faces many challenges, not least of which is access to finance and the extremely high cost of financing private enterprises. With the cost of borrowing (real interest rate) reaching 17.3% on average in April 2013, businesses find it very difficult to function, let alone invest in innovative technologies, long-term growth and development. Additionally due to the relatively high interest rates, banks have recently become a target for fierce criticism by Georgian policymakers and media.

The paper includes the measure of the size of financial institutions, their ownership structure and corporate governance practices and detailed analysis of loan-pricing model.