

Abstract

Recent political developments of Georgia (in August, 2008) proved the attitude of people toward banking institutions to be not sufficiently reliable to evade panic run. Early panic withdrawals of that period are not fully re-attracted yet. The low level of public confidence is regarded as a problem of the Georgian banking system which can probably be solved by implementation of deposit insurance system.

The study focuses on the significance of deposit insurance system for the banking sector stability and for the smooth operation of the economy. The issue is very substantial for Georgian banking system, which remains to be one of the industries all over the post Soviet area without deposit insurance mechanism in place. The paper implies discussions of different experts arguing whether or not deposit insurance undermines or promotes banking stability, observes deposit growth effect of deposit insurance system in those post Soviet countries where the system already works. Though the international experience shows that deposit insurance system, if carefully and properly designed, facilitates additional economic stability, the attempt to implement the program in Georgia failed. The paper presents the terms of the project about obligatory insurance of individual deposits elaborated by the National Bank of Georgia and Financial Committee of the Parliament of Georgia, and gives some proposals to refine the project after taking into consideration the recommendations of experts and international organizations.

The paper is also to identify whether legislative basis of Georgia is developed so that to have adequate supervision of commercial banks, and to keep only strong and healthy banking institutions on the market. Consequently, the paper identifies whether the legislative basis of Georgia takes actions to protect the banking system against cases of failure and preserves banking stability. As far as prudential regulation of a country is an element essential for effective implementation and operation of deposit insurance program, determination of legal basis, regarding prompt banking supervision, helps to analyze whether Georgian banking environment is ready for project development or not.

The empirical study conducted in the research paper finds out the present day attitude of population toward banking institutions in Georgia, the behaviors of Georgian population under deposit insurance system and helps to identify the features of deposit insurance system required by the population. Taking into consideration these requirements of Georgian population together with the recommendations of experts and international organizations in the process of designing deposit insurance system will probably ensure the positive effects of project development.