

Naučni skup  
„Računovodstvo i revizija  
u teoriji i praksi“

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“Accounting and audit  
in theory and practice“

# CONFERENCE PROCEEDINGS

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## RAČUNOVODSTVO I REVIZIJA U TEORIJI I PRAKSI

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## VAŽNE KARAKTERISTIKE MAKEDONSKOG TRŽIŠTA KAPITALA

### THE IMPORTANT FEATURES OF MACEDONIAN CAPITAL MARKET

Biljana Petrevska<sup>1</sup>, Jasmina Mishoska Simov<sup>2</sup>

#### SAŽETAK

*Cilj rada je da se analiziraju važne karakteristike makedonskog tržišta kapitala. U radu će biti opisan koncept makedonskog tržišta kapitala i važnost zakona i institucionalnog okvira u našoj zemlji, za način rada ovog tržišta. Rad će biti sastavljen od 4 dela. U prvom delu ovog rada će biti uvod u kome će se objasniti problem istraživanja, a on se odnosi na finansijski sektor i tržište kapitala kao važan deo finansijskog sektora u svakoj privredi, dok će se u drugom delu ovog rada analizirati pravni i institucionalni okvir makedonskog tržišta kapitala. U trećem delu ovog rada objasniće se karakteristike makedonskog tržišta kapitala od njegovog početka pa sve do danas. Na kraju, u četvrtom delu rada "Zaključak", daju se osnovni zaključci.*

**KLJUČNE RIJEČI:** *finansijski sektor, tržište, kapital, karakteristike, tržište kapitala.*

#### ABSTRACT

*The objective of this paper is to analyse the important features of Macedonian capital market. This paper is going to describe the concept of Macedonian capital market and the importance of law and institutional framework in our country for the manner of operation of the market. It will consist of fourth parts. The first part of this paper will be an introduction to the framework that will explain the subject of research and that is the financial sector and the capital market as an important part of the financial sector in every*

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*economy, while the second part of the paper, focuses on the law and institutional framework of Macedonian capital market. The third part of this paper analyzes the features of Macedonian capital market from its beginning until today. Finally, in the fourth part of this paper "Conclusion", we are giving our basic conclusions that will arise from our paper.*

**KEY WORDS:** *: financial sector, market, capital, features, capital market.*

## 1. INTRODUCTION

The subject of research of this paper is the financial sector which can be defined as the sector of the economy in which the cash flows take place. The financial sector is divided into two parts, namely: the financial sector in the broadest sense of the word, which includes the monetary sector, banking sector, non-banking sector, foreign exchange and fiscal sectors, and the financial sector in the narrower sense of the word, where only the fiscal sector is included. In each of the listed parts of the financial sector there are different business entities, their operation is regulated by a special regulatory framework, and the market that is formed within each of those segments is controlled by separate regulatory institutions (Todorova, Uzinov, Petrevska, 2018).

In addition, the financial sector is the most regulated area of economic subsystems, primarily because the good functioning of the financial sector is crucial depending on the trust of the citizens in it. And in order for trust to work, it needs to be clear, precise, and detailed. Nevertheless, crises in the world, as a rule - as was the case with the last global financial and economic crisis (2008 - 2011) - start in the financial sector (Todorova, Uzunov, Petrevska, 2018).

What is particularly interesting about modern market operations, in addition to the merging of so - called free cash as savings deposits in specialized institutions established for that purpose called commercial banks, is that the same is done in long - term securities. In fact, citizens and businesses are depositing their savings either as savings in commercial banks or investing in stocks and bonds. On the other hand, business entities that want to borrow money for investment can do so either by borrowing (taking loans) from commercial banks, or by issuing (additional issue) of shares or bonds, which are long - term securities from value. Thus, the free cash that depositors invest in securities is a demand; securities issued by business entities are supply; and at the point where they meet, a special market called the capital market is formed, that is, the market of long - term securities. Therefore, within the financial system, a special non - banking sector is being formed. In the same sense, within the Macedonian financial system, in ad-

dition to the banking sector, there is also a non - banking sector, i.e. there is a capital market (Todorova, Uzunov, Petrevska, 2018).

Hence, the purpose of this paper is to describe the concept of Macedonian capital market and the importance of law and institutional framework in our country for the manner of operation of the market.

## **2. THE LAW AND THE INSTITUTIONAL FRAMEWORK OF MACEDONIAN CAPITAL MARKET**

The basic legal framework that regulates the Macedonian capital market consists of three laws, namely: the Law on Securities (Law on Securities), the Law on the Investment Funds (Law on the Investment Funds) and the Law on Foreign Exchange Operations (Law on Foreign Exchange Operations). These laws regulate the issues related to: (a) the organization of the capital market; (b) market entry and exit rules; (c) the position and competencies of the regulatory body on the market; (d) the rules and procedures for the participation of domestic and foreign legal and natural persons in market trading; (e) liabilities to participants in the trade; etc (Todorova, Uzunov, Petrevska, 2018).

The institutions on the Macedonian long - term securities market are: the Ministry of Finance, the Securities and Exchange Commission, the Macedonian Stock Exchange, the Central Securities Depository, the Brokerage Houses, the Commercial Banks (authorized as participants in the Macedonian Stock Exchange), the Investment funds, and the Investment fund management companies.

The Ministry of Finance is a state body responsible for creating the policy in the domain of the Macedonian capital market, as well as for preparing the legal regulations in that area (The Ministry of Finance, 2020).

The regulatory body of the Macedonian Capital Market in Macedonia is the Securities and Exchange Commission (SEC), which regulates and controls all participants in securities operations in the Macedonian economy (SEC, 2020). Within the framework of legal competencies and powers, the Securities and Exchange Commission is responsible for the legality and efficient functioning of the capital market and for the protection of investors' rights. The Securities and Exchange Commission functions as an independent and autonomous regulatory body, with the capacity of a legal entity with public powers determined by law, and that is the Law on Securities. It is composed of a president and six members, elected by the Macedonian Parliament, at the suggestion of the Macedonian Government. The Securities and Exchange Commission performs regular and extraordinary, complete and partial, field and off - site controls. Twice a year, the Securities and Exchange

Commission conducts full direct control over the operation of long - term securities market institutions (the Macedonian Stock Exchange, the Central Securities Depository, brokers, brokerage houses and commercial banks in the domain of their securities operations). The Securities and Exchange Commission also performs partial indirect or direct audits of the operations of the institutions on the long - term securities market, as well as of the joint stock companies that are issuers of securities. If it finds irregularities and illegalities, the Securities and Exchange Commission shall adopt a decision for elimination of the determined irregularities within a certain deadline. If they are not removed, the Securities and Exchange Commission has legal powers to temporarily suspend the operation of the Macedonian Stock Exchange, the Central Securities Depository, a broker, a brokerage house, or a commercial bank in the domain of its operations with securities, as well as to temporarily or permanently revoke a work permit.

The Macedonian Stock Exchange is a place where trading in securities takes place. In fact, the stock market is a place where the supply and demand of long - term securities meet and where trading takes place. It was founded in 1995 and operates under securities trading rules.

The Central Securities Depository is a central information database in which, in electronic form, the data on the issued securities, the securities rights and the holders of those rights, are recorded. The Central Securities Depository also performs the determination and settlement of liabilities based on securities transactions and keeps a register of securities (The Central Securities Depository, 2020).

The Brokerage Houses (or Companies), as well as commercial banks that are authorized participants in the Macedonian securities market, are entities that trade in long - term securities (Law on Securities). In order to perform their activity, they are obliged to obtain appropriate approval from the Securities and Exchange Commission. There are several specialized brokerage houses, as well as several commercial banks that have special directorates for working with long - term securities, in the Macedonian economy.

The Investment funds are a separate category, and there are three types: open, closed and private investment funds. Open investment funds are joint funds (assets) intended for investment; the funds are collected from investors through a public call or direct offers, whereby, at the expense of the investors, an investment fund management company manages the funds. Closed investment funds are business entities (joint stock companies) that are established for identical purposes as well as open investment funds. Private investment funds have the same characteristics and competencies as open - end investment funds, but the conditions for their establishment are easier

(for example, their establishment does not require the approval of the Securities and Exchange Commission, etc.).

The investment funds in Macedonian economy are managed by the investment fund management companies (open or closed) and private investment fund management companies. The Investment fund management companies are joint stock companies based in the Macedonian economy that have the approval of the Securities and Exchange Commission to establish and manage investment funds. Otherwise, the operation of both types of entities (the investment funds and the investment fund management companies) is regulated by the Law on the Investment Funds (Law on the Investment Funds).

### 3. THE FEATURES OF MACEDONIAN CAPITAL MARKET

Since its establishment until today, the market of long - term securities in the Macedonian economy has developed significantly. However, its development path did not have the same dynamics. It should also be noted that the Macedonian capital market trades, above all, with two types of long - term securities - stocks and bonds.

In terms of stock trading, the privatization model applied in the Macedonian economy was not the most appropriate for the development of the capital market, because: the so - called voucher privatization model was not applied; privatization was dominated by employees and company executives; and in many companies the state has long remained even the dominant (co) owner. Therefore, the shares that were issued with the privatization in the Macedonian economy, appeared on the stock exchange later, in the phase of the second (post - privatization) transformation and proprietary consolidation of the enterprises.

At that time, the number of shares of individuals began to increase, at the expense of the previous large number of minority shareholders. Thus, the most important effects for development of the Macedonian stock market from the privatization model are: (a) the fact that the stock exchange, instead of a market driven by profit motives, in the initial period after its establishment served as a mechanism for gaining ownership dominance with enterprises; (b) there was information asymmetry in the enterprises that went through the post - privatization ownership consolidation process because the buyers of the shares - usually the heads of the enterprises - were not interested in having the data on the operations of the enterprises available to the public; and (c) the financing of the operation of the privatized enterprises took place exclusively through the banking sector, i.e. by taking

out loans, not by issuing new securities issues (Todorovova, Uzunov, Petrevska, 2018).

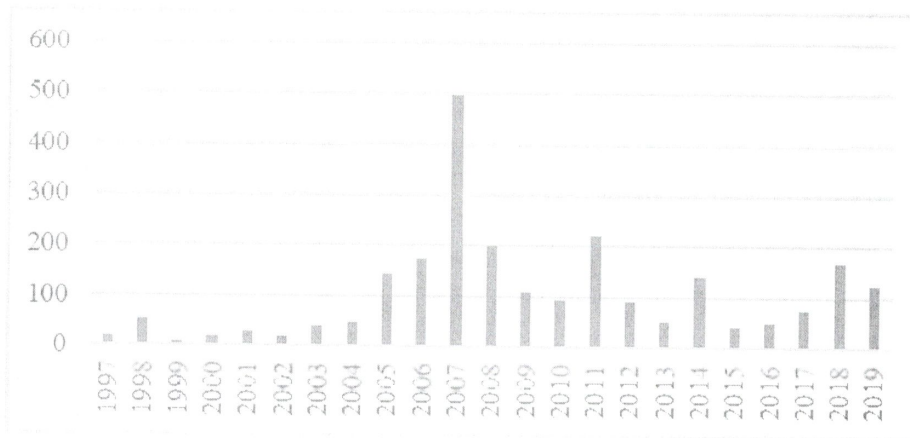
With the passing of the post - privatization ownership consolidation of the companies in the Macedonian economy, whose most intensive period lasted until 2003, there is a gradual increase in the trading volume of shares on the Macedonian Stock Exchange, as well as the transition to trading driven by profit motives. Therefore, the period from 2003 to 2006 was a period of continuous, albeit relatively modest increase in the volume of stock trading on the Macedonian Stock Exchange. During the second half of 2006, and especially in 2007, there was a sharp shift in stock trading as a result of the following reasons: (a) a trend of continuous rapid rise in the prices of some stocks began, which led to short - term solid earnings of some market participants, which in turn led to an even greater increase in the interest in trading by many domestic investors (in fact, in 2007 a short - term «euphoria» for buying shares was created); (b) in that period there was a movement in the capital markets and at the regional level, which was transferred to the Macedonian economy. However, at the end of 2007 and the beginning of 2008, there was a decline in the volume of stock trading on the Macedonian Stock Exchange, although for completely different reasons than those before 2003. Namely, this happened primarily due to the fact that the prices at which a relatively large number of shares were traded at the end of 2006 and in the first half of 2007 were so «inflated» above their real value that such a decline in trading volume with stock exchanges was inevitable. Then, in 2009 and 2010 on the Macedonian Stock Exchange, turnover of about 100 million euros per year was realized, and in 2011 a positive upward trend was observed, primarily as a result of block transactions. However, in 2012, 2013 the stock trading level of the Macedonian Stock Exchange fell again, below the level of 2005 (see Chart No.1). In 2014, a positive upward trend on the Macedonian Stock Exchange was again observed, mostly as a result of block transactions. Finally, in 2015, 2016 and 2017, the stock trading level fell again. In 2018, there is an increase in trading volume on the Macedonian Stock Exchange because of the positive information for the Macedonian's membership in NATO in the future. In 2019 there is a slightly decrease in trading volume on the Macedonian Stock Exchange (The Macedonian Stock Exchange, 2020). In addition, today there is a decrease in trading volume on the Macedonian Stock Exchange because of the so - called "Corona Covid-19 Crises". However, we hope that this decrease will change in the near future because of the dividends of the commercial banks that are going to be divided in this period in Macedonian economy.

In addition to stocks, bonds are also traded on the long - term securities market in the Macedonian economy. Several (long - term) government bonds

were issued - for the «frozen savings deposits» of the citizens and for the denationalization, which had a maturity of 10 years. The main buyers of those bonds were individual investors (citizens), primarily because with those bonds, which were sold on the market at a lower price than their face value, the obligations when buying shares could be paid in accordance with the privatization process (so it turned out cheaper stock purchase).

On the other hand, in relation to private (corporate) bonds, in accordance with the Law on Securities, their issuance is done either by public offering (i.e. offer on the Stock Exchange), or by direct agreement with a known buyer. But in the Macedonian economy so far there are very few issues of corporate bonds, so the trading volume with those bonds on the Macedonian Stock Exchange is more than modest.

*Chart 1. Trading volume of the Macedonian Stock Exchange 1997-2019 (in millions of euros)*



*Source: Annual reports on the operation of the Macedonian Stock Exchange AD Skopje 1997-2019.*

At the end, we can say that the investment in the Macedonian investment funds is extremely low. That is, on average, it is 1.4 euros per capita, and for example in Slovenia it is 1429 euros per capita. This situation is primarily due to two factors: first, the relatively low solvency (poverty), due to which the average citizen in the Macedonian economy has little (if any) money left to invest in investment funds; secondly, it is a matter of very poor information of the citizens about the advantages and benefits of investing in investment funds. In that sense, of course, the greater awareness of the citizens would strengthen their culture and awareness and would contribute, instead of deciding to invest part of their money only in commercial banks as savings deposits, to invest them in investment funds.

#### 4. CONCLUSION

We can see from this paper that the good functioning of the financial sector is crucial for every economy, including the Macedonian economy. Capital market is an important part of the financial sector in the economy. In order to provide good functioning of the financial sector and for the capital market, they must be a regulated area.

The basic legal framework that regulates the Macedonian capital market consists of three laws, namely: the Law on Securities, the Law on the Investment Funds and the Law on Foreign Exchange Operations. The institutions on the Macedonian long - term securities market are: the Ministry of Finance, the Securities and Exchange Commission, the Macedonian Stock Exchange, the Central Securities Depository, the Brokerage Houses, the Commercial Banks (authorized as participants in the Macedonian Stock Exchange), the Investment funds, and the Investment fund management companies.

We can conclude that there is a huge importance of law and institutional framework for the manner of operation of the Macedonian capital market.

After analyzing the features of the Macedonian capital market and the trading volume of the Macedonian Stock Exchange from 1997 until 2019, we can conclude that: in general, the Macedonian capital market is characterized by relatively small size (small trading volume) and small depth (small selection of investment instruments) - in the jargon of people dealing with this area it is said that «the market is illiquid, small and shallow». The reasons for this can mainly be located in: the lack of tradition in the Macedonian economy for investing in securities; the small size of the Macedonian economy; the relatively low accumulation power of the economy and the low purchasing power of the citizens; limited supply of financial instruments; the fact that the motives of some investors are primarily aimed at short - term («lucrative») profits, not long - term effects; the restraint of potential investors to invest in an «uncertain» environment and the low presence of foreign investors.

In addition, today there is a decrease in trading volume on the Macedonian Stock Exchange because of the so-called «Corona Covid-19 Crises». However, we hope that this decrease in trading volume on the Macedonian Stock Exchange will change in the near future.

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