THE CAPITAL MARKET FUNCTIONING IN THE COUNTRIES OF FORMER YUGOSLAVIA IN THE PERIOD 2007 - 2016

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Janka Dimitrova [1] , Olivera Gjorgieva-Trajkovska [2] , Emilija Miteva-Kacarski [3]

[1] *University Goce Delcev Stip, Faculty of Economics, janka.dimitrova@ugd.edu.mk*

[2] *University Goce Delcev Stip, Faculty of Economics, olivera.trajkovska@ugd.edu.mk*

[3] *University Goce Delcev Stip, Faculty of Economics, emilija.miteva@ugd.edu.mk*

Abstract

Practical experiences in developed market economies show that the existence of a market economy is impossible without the presence of a developed capital market. The role of this market is of great importance because it enables, above all, an increase in the level of efficient and effective utilization of resources and their allocation, increases domestic financial savings, affects the expansion of ownership, the international movement of capital, and the increase of the number of services offered by financial institutions.

The process of investing in the capital market depends on the political situation in the country and the movement of the economy globally. In countries where there is an unstable political situation, the stock exchange's operation is declining, unlike stable political countries, where stock exchange's operations are continuing. The stock exchange is a mirror and barometer of general developments in society.

The economic crisis that hit the world in 2008 has triggered the strongest negative impact on the capital markets, both on volume trading, as well as the prices of securities. Securities prices skyrocketed overnight. Stock indices as well. In most cases, there were absurd situations where, although companies showed good financial results and had prospective investment ventures, stock prices fell due to the euphoric panic fear that engulfed investors not to lose their investment, so they looked to grab the last chance to save what can be saved.

Taking into account the attractiveness and importance of the title of the paper, the research will focus on identifying:

- **the role and significance of the capital market,**
- **capital market functions, as well as**
- **retrospective of the functioning of the capital market in the countries of former Yugoslavia (Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia and**

Slovenia), in the last 10 years, i.e. from 2007 to 2016, with an empirical research and analysis (the period of the stock exchange boom in 2007, the period of the last financial crisis in 2008 and the post-crisis recovery period in the former Yugoslav countries) and

- **to identify the capital market development perspectives in these countries.**

Key words: capital market, stock exchange, securities, investments, development

1. Introduction

In modern economies the financial markets and institutions have exceptional place, significance and role. They represent one of the basic preconditions for the functioning of every market economy, which is the reason why they are called the motor force of the market economies. The financial market, compared to other markets (such as the labor market, the market of goods and services, etc.) is the most important and the most influential segment of the economic policy and practice which influence successful and long-term functioning of the entire system. The significance of the financial markets for the national economy is perceived by the fact that they enable the smooth process of production and trade, optimization of the level of money supply, allocation of funds, the liquidity of the national economy, profitability and the provision of extended reproduction in the area of production and turnover, as well as reliability when placing the free capital.

Capital market allows mobilization (collecting) and allocation of free money capital, which further serves to finance long-term at work on business entities. [1] Through the capital market exchange of funds from those who have a surplus of free funds to those who need them is realized, whereby the beneficiaries of the funds pay a certain fee to the borrowers in the form of interest (which the owners of the bonds receive), dividend (that is received by shareholders) or capital gains - the difference between the selling and the purchase price of the securities.

The existence of a well-organized capital market is a factor that positively influences the decisions of potential domestic and foreign investors to invest in the domestic economy. A well-organized market means a well-regulated market, which is also important for the investors. The significance of foreign investment is particularly high for the transitional economies and developing countries, given the lack of domestic savings to achieve higher growth rates.

Modern trends in the market governance of business entities in conditions of technical - technological expansion have actualized the need for developing a modern capital market as a fundamental and decisive factor for the development of each national economy. The capital market is a place where, under certain conditions, at the specified time and place the supply and demand of long-term securities - shares and bonds are encountered. Its role is to perform the following activities:

- Mobilization and allocation of free money to those segments that make the most productive engaging;
- Current valuation of business entities - securities issuers' value;
- Financial, ownership and governing restructuring of business entities;

- Securing the liquidity of potential investors, thus enabling them to optimize their own portfolio.

The capital market, which is the basic segment of the financial market in a national economy, should be so conceptualized that it will enable all participants, as well as the whole national economy to accomplish their goals, that is, the capital market should enable efficient utilization of resources, expansion of ownership, selection of investment projects in terms of profitability, increase in the number of financial services by financial institutions, etc. The accomplishment of these goals largely depends on the current social- economic preconditions that affect the efficient functioning of the capital market.

2. The role and the importance of the market capital

In theory, there are various definitions of the capital market, given by a number of authors, and in the sequel some of them will be presented.

"The capital market, in the market economies, is usually defined as an organized meeting of the supply and demand of free long-term financial assets."[2]

"The capital market is an institutionally organized space in which the supply and demand of long-term financial assets and long-term financial instruments meet at precisely determined time and according to precisely determined rules."[3]

"The capital market, in the broadest sense of the word, is a meeting of the entities that have and offer capital and the capital-seeking entities. It is institutionally organized space with all the necessary elements for its operation at a specified time, and with certain practices and rules of conduct of the participants."[4]

"The capital market is a place where long-term debt instruments *(debt instruments)* are traded usually with a deadline of one year and more, and stocks. Its primary function is to finance the long-term investments of firms, the state and households. Trading in the capital market enables the construction of factories, highways, schools and homes. The financial instruments in this market have great differences in their scale, ranging from small auto loans to multimillion dollar loans to build large industrial capacities."[5]

Capital market - *,,is an organized, institutionalized space, with all the elements necessary for its functioning , on which in the right time and in accordance with relevant rules and customs, the supply and demand of capital meet,,.* In this market, cash is offered and demanded in the long run, and is a specialized market in which long-term transferable securities are listed and traded with them.

The capital market allows entities that have a free investment funds to change the structure, direction and form of investment funds, directing them in investment projects that are most cost-effective and profitable, contributing to increases of the productivity and efficiency of the overall economy and increases of the welfare of society.

As a result of the *operations on the capital market,* i.e. issue and circulation of long-term securities, it is divided into: [6]

- primary capital market; and

- secondary capital market

The primary capital market - covers the first issue of securities. Since the new issue of securities is for the first time appearing for sale, this is why it is called the primary capital market. Securities issuers may emerge: trade companies or the state. With the new issue of securities issuers intend to come up with the necessary funds for financing their development plans and programs, for financing short-term or long-term projects in the state or for covering deficits and losses and so on. On the other hand, the interest of the securities buyers is to make their money the most profitable.

The issuance of securities on the primary market can be performed by means of a public offer and through a private offer. According to the Securities Law [7], *private offer or direct issue* is an offer for subscription and payment of securities that is intended for less than 20 persons that are not shareholders in the joint stock company and which are not related persons with the shareholders, and which are individually named in the act for the issuance of securities and who can directly establish contact with the financial investors i.e. without financial intermediaries mediating.

Secondary capital market - organized market that brings together buyers and sellers of securities, in order to facilitate their trade. On this market are traded securities which were previously issued and their future buying and selling is a second hand buy. Through this market new funds are not collected as the primary market, but allow the transfer of ownership of securities that are subject to trade of entities that require funds, to investors who have surplus funds - savings and want to invest their savings in securities.

The prices of the securities are formed freely, i.e. depending on the supply and demand of the securities and reflect the available information for the issuer of the securities.

The primary and secondary capital market are closely linked because if there is no primary issues of securities there cannot be secondary market for securities, and vice versa, without the existence of stable and efficient secondary capital market, the primary market of capital cannot develop. Both markets complement each other and have a favorable impact on the country's economic development. [8]

3. Functions of the capital market

The existence of the capital market is of great importance for the national economies because of its specificity, i.e. the features and functions it has. Financing of business entities through the capital market is crucial in every national economy, exclusively for larger companies that with their performance influence the behavior of smaller companies. Thus, the capital market allows to see the trends and performances of the larger listed companies, as well as the financial trends of the overall economy. [9]

The capital market has the main goal and task to provide:

- organized space - a place where publicly traded long-term securities can be traded, based on convenient and reliable information,
- efficient capital market, which will stimulate economic development in the country and financial liberalization of the economy,
- risk diversification among potential investors and companies,

- protection of the interests of investors,
- proper allocation of resources and control of governance,
- instruments of the state to meet the market needs with the financial needs rather than fiscal and monetary means.

Capital market allows mobilization (collection) and allocation of free money capital, which further serves to finance long-term working on business entities.

This way of collecting of the financial capital is a way of voluntary centralization of capital and production orientation. Corporations through share issue come to capital, which is their own capital, because they do not oblige to repay the invested money to the investors, but only to pay compensation (dividend) if they present positive financial results and if a shareholders' assembly adopts a decision to allocate part of the profits for dividend payment.

Capital market is a mechanism for financing the state. Through developed capital market the state can mobilize financial funds to finance its activity. This applies in particular to the government bonds market as part of the capital market. The financing of the public expenditure through the capital market is considered that enables noninflatory way to financing, apart from financing by directly borrowings of the state from the Central Bank.

The capital market has a function to attract foreign investors to the national economy. This feature also applies to foreign direct investment and foreign portfolio investment. The existence of a well organized capital market represents a factor that positively affect the decisions of potential foreign investors to invest in the domestic economy. Well-organized market means a well regulated market, which is also important for foreign investors. The importance of foreign investments is especially great for transition economies and developing countries, given the lack of domestic savings for accomplishment of higher growth rates.

4. Retrospective of the functioning of the capital market in the countries of the former Yugoslavia (Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia and Slovenia) in the last 10 years, i.e. for the period from 2007 to 2016

Figure1. The Socialist Federal Republic of Yugoslavia (SFRY) - Former Yugoslavia

Former Yugoslav, state created after the Second World War, with federal arrangement, under which six republics and two provinces were established. Until the disintegration in 2001, it declared itself in the group of non-aligned countries with distinct prosperity and well-being of the population. The territory and the population according to the latest census in each newly created state, in the table and graphically, are presented as follows:

Table1. Area and population number according to the latest censuses in the countries of the former SFRY

State	area km2	population	citizens / km2
Serbia	88.361	7.498.001	85
Croatia	56.594	4.290.612	76
BiH	51.197	3.531.159	69
Macedonia	25.713	2.022.547	79
Slovenia	20.273	1.964.036	97
Montenegro	13.812	620.029	45
Total	255.950	19.926.384	

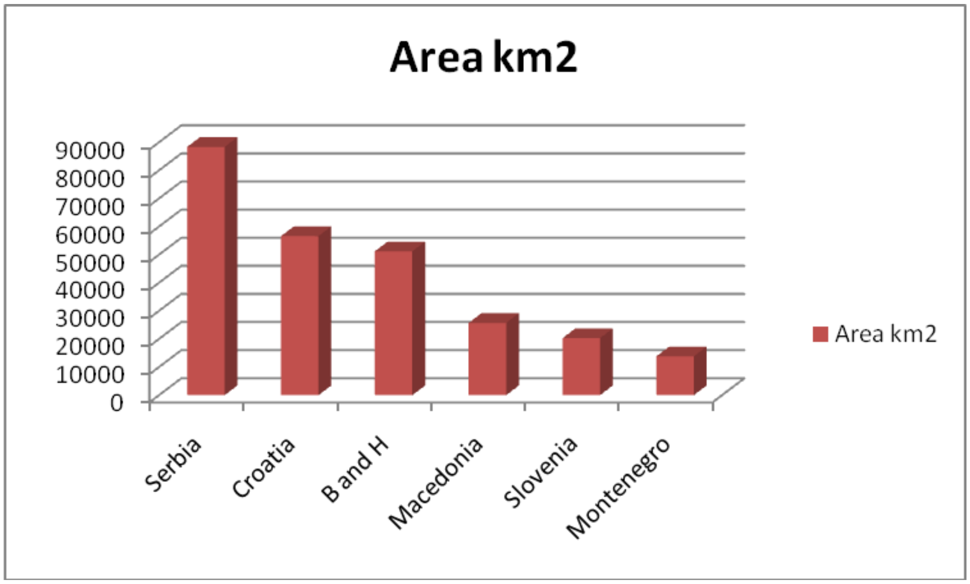

Figure1. Surface on countries of the former SFRY

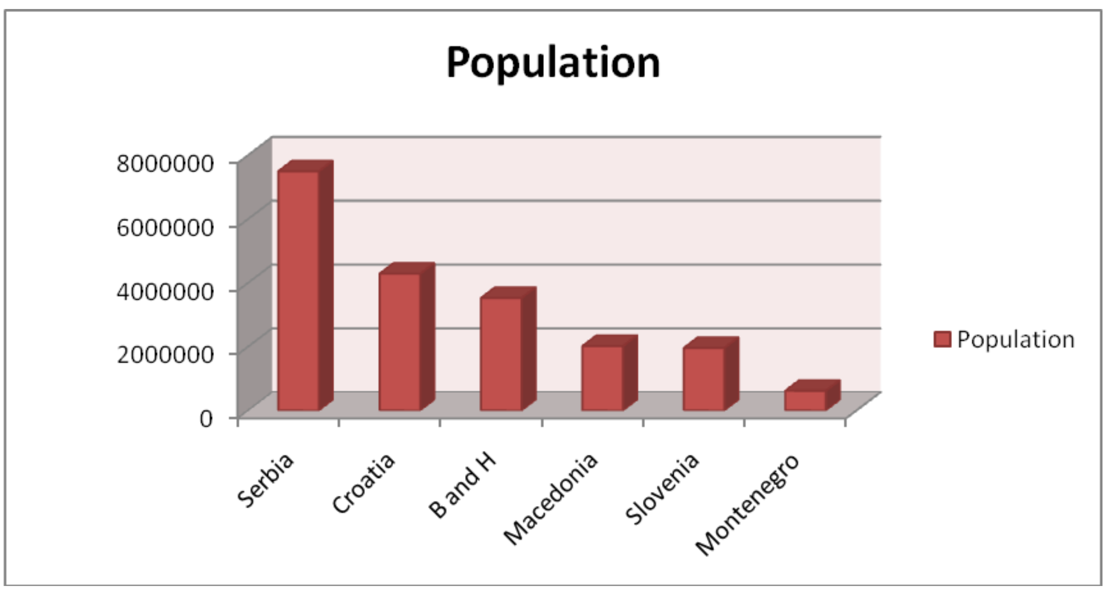

Figure2. Number of population according to the last Census in the countries of former Yugoslavia

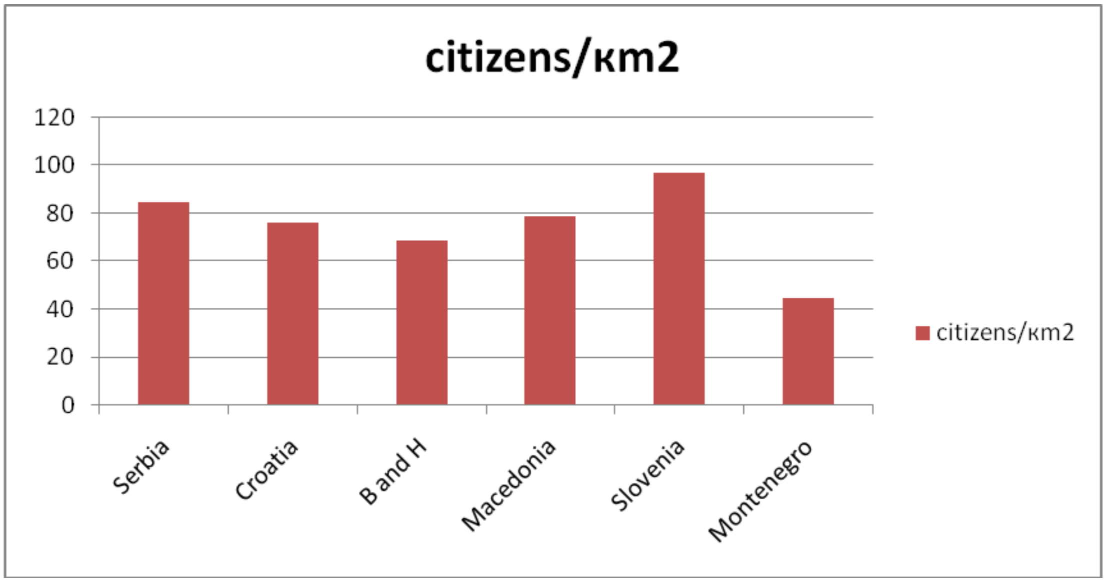

Figure3. Population density according to the last Census in the countries of former Yugoslavia

According to the statistics, Serbia has the largest territory and the largest number of citizens, while Montenegro has the smallest territory and the least citizens. Croatia and Bosnia and Herzegovina have approximately the same territory and population, and this is the situation with Macedonia and Slovenia.

As far as the number of citizens per square kilometer is concerned, Montenegro is the most poorly inhabited region with 45 inhabitants per km ^{2,} while the most densely populated is Slovenia with 97 citizens per km ^{2}. In Macedonia the number of citizens per square kilometer is 79. This situation is primarily as a result of the economic development of Slovenia and the migration of the population from the less developed countries to more developed countries such as Slovenia.

After the breakup of the SFRY, each country went through the process of adopting a legal framework and establishing an institutional infrastructure for functioning of the capital market. All countries established a regulatory body (Commission for Securities) and institutions (Central Depository and Stock Exchange) thus create an institutional infrastructure for the functioning of the capital market.

To analyze the completed turnover and number of transactions in the period from 2007 to 2016 as a source of information published annual reports are used: Belgrade Stock Exchange [10] , the Zagreb Stock Exchange [11] , the Sarajevo Stock Exchange [12] , the Ljubljana Stock Exchange [13] , Macedonian Stock Exchange [14] and Montenegro stock exchange [15] , and are presented in the following tables and graphs.

Table2. Completed turnover on the stock exchanges of the countries of the former Yugoslavia (000 EUR)

Period	Serbia	Croatia	Bosnia and Herzegovina	Macedonia	Slovenia	Montenegro
2007	2.059.770	3.742.462	6.523	681.605	1.453.767	729.487
2008	882.455	4.247.612	2.444	202.057	1.285.790	157.258
2009	441.976	1.498.446	1.120	109.827	904.021	401.433
2010	222.476	94.929	1.765	94.981	492.540	30.739
2011	280.181	59.591	3.980	221.942	470.064	58.974
2012	219.766	58.329	6.074	91.006	360.388	32.669
2013	267.007	59.449	3.987	52.503	391.759	30.772
2014	173.519	34.580	10.064	141.164	686.331	108.157
2015	185.771	57.742	19.831	43.174	393.063	65.405
2016	320.018	58.558	18.258	49.091	333.675	70.124

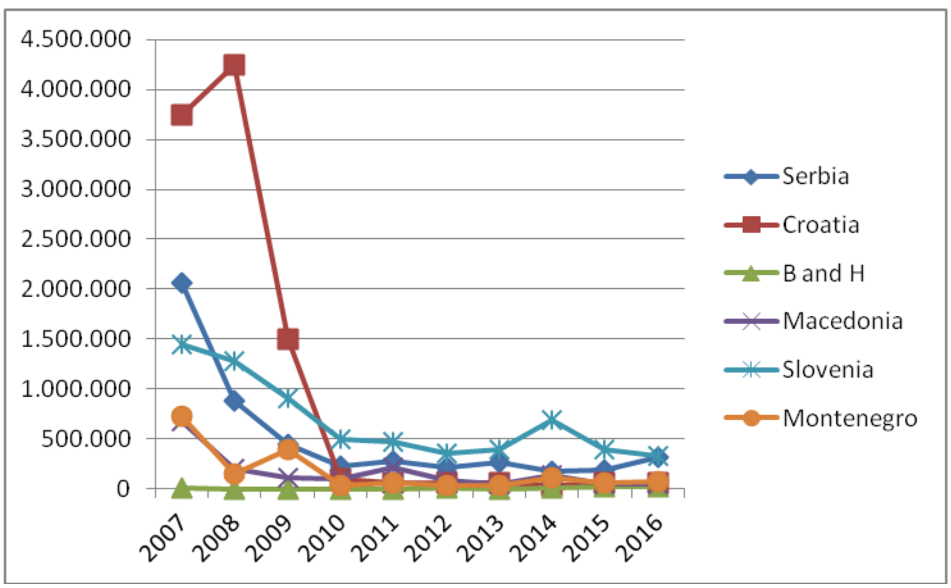

Figure4. Completed turnover on the stock exchanges of the countries of the former Yugoslavia (000 EUR)

The tabular and graphical display completed turnover and it is evident that in 2007 the top of the completed turnover was reached, and we can say that is the year of the stock boom. In Croatia, the highest turnover was completed in 2008. Subsequent years have seen a continuous decline in the supply of small oscillations. Generally speaking, since 2009, a moderate movement of the volume of trading in all countries is felt.

Observed in terms of turnover by country, it is notable that the greatest volume of trading has the Ljubljana Stock Exchange, then the Belgrade Stock Exchange, Montenegro Stock Exchange, Zagreb Stock Exchange, Macedonian Stock Exchange and finally Sarajevo Stock Exchange is with smallest turnover.

In an analysis of the turnover on the Ljubljana Stock Exchange and Macedonian Stock Exchange (since Slovenia and Macedonia are similar in size) a drastic difference in the volume of trading in favor of Slovenia is visible. This is due to the degree of economic development of Slovenia, and the result from a higher level of financial education of the population to invest in the capital market. Slovenia established an investment funds (before 2005), that collect free money from individual investors and invested them in the capital markets in the developing countries (including the Macedonian Stock Exchange) and had high earnings as a result of completed capital gains (higher sales price than the purchase price of the shares).

Characteristic for analysis is the low turnover on the Sarajevo Stock Exchange. In Bosnia and Herzegovina, although its territory is approximately equal to the territory of Croatia, the trading volume is almost 3 times lower compared to the Zagreb Stock Exchange, but positive trend is seen in the last three years i.e. 2014, 2015 and 2016.

The number of completed transactions on the stock exchanges is also indicative of the development of the capital market. Namely, through the number of completed transactions is seen the investors' interest in investing in the capital market, but the liquidity of the listed securities is seen as well.

Table3. Completed transactions on stock exchanges in the countries of former Yugoslavia

Period	Serbia	Croatia	Bosnia and Herzegovina	Macedonia	Slovenia	Montenegro
2007	301.210	519.240	158.507	141.984	127.113	225.436
2008	119.001	758.164	39.241	43.353	249.679	83.328
2009	77.215	487.252	25.707	34.437	162.100	58.831
2010	725.550	286.875	18.244	25.741	123.044	19.814
2011	2.887.538	347.220	15.900	23.426	97.580	13.466
2012	483.013	273.553	11.643	14.951	56.620	7.202
2013	344.109	237.154	9.200	13.585	52.570	6.447
2014	238.023	201.607	7.717	13.398	No data	6.285
2015	146.232	105.690	7.015	11.873	No data	5.090

2016	77.213	122.882	6.847	12.933	No data	4.463

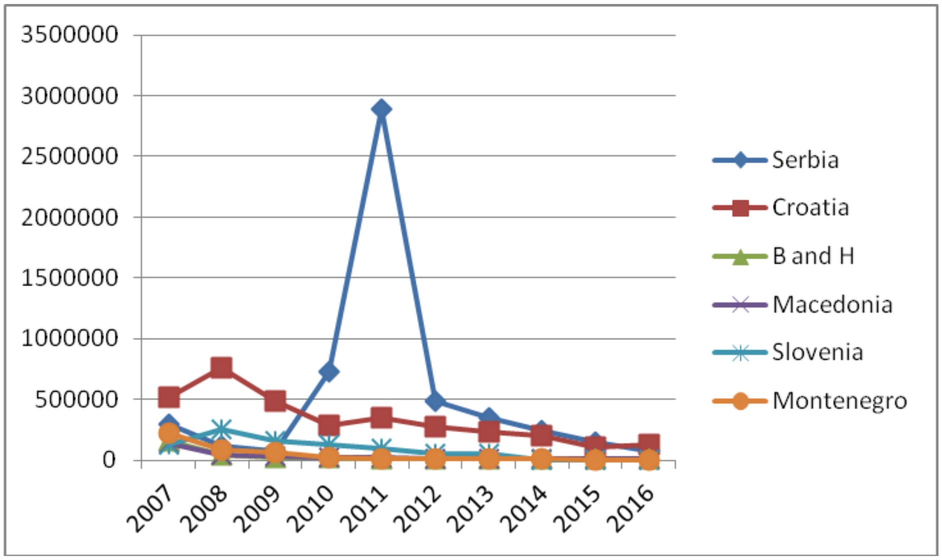

Figure5. Completed transactions on stock exchanges in the countries of former Yugoslavia

Similar to the volume of turnover and number of completed transactions, it experiences the rise in 2007. In Croatia the largest number of transactions, were completed in 2008. In the subsequent years a continuous decline in the completed transactions with small oscillations have been seen. Generally speaking, since 2009 there is a moderate downward movement of the volume of completed transactions in all countries. For special observation is in 2011 when the Belgrade Stock Exchange has enormous jump in the number of transactions despite the low turnover, and in the coming years there was continued reduction in the number of transactions.

If an analysis of completed transactions on the Ljubljana Stock Exchange and Macedonian Stock Exchange (since Slovenia and Macedonia are similar in size) is made, a visible drastic difference in completed transactions on behalf of Slovenia is seen. This is due to the degree of economic development of Slovenia, and as a result from the higher level of financial education of the population to invest in the capital market.

Characteristic for analysis is the low turnover on the Sarajevo Stock Exchange. Bosnia and Herzegovina, although its territory is approximately equal to the territory of Croatia, the number of completed transaction is more than 20 times lower compared to the Zagreb Stock Exchange in all the years.

Comparison will be made to the average value per transaction.

Table4. Average amount per transaction on the stock exchanges of countries of former Yugoslavia (in 000 EUR)

	Serbia	Croatia	Bosnia and Herzegovina	Macedonia	Slovenia	

						Montenegro
2007	6.84	7.21	0.04	4.80	11.44	3.24
2008	7.42	5.60	0.06	4.66	5.15	1.89
2009	5.72	3.08	0.04	3.19	5.58	6.82
2010	0.31	0.33	0.10	3.69	4.00	1.55
2011	0.10	0.17	0.25	9.47	4.82	4.38
2012	0.45	0.21	0.52	6.09	6.37	4.54
2013	0.78	0.25	0.43	3.86	7.45	4.77
2014	0.73	0.17	1.30	10.54	No data	17,21
2015	1.27	0.55	2.83	3.64	No data	12.85
2016	4.14	0.48	2.67	3.80	No data	15.71

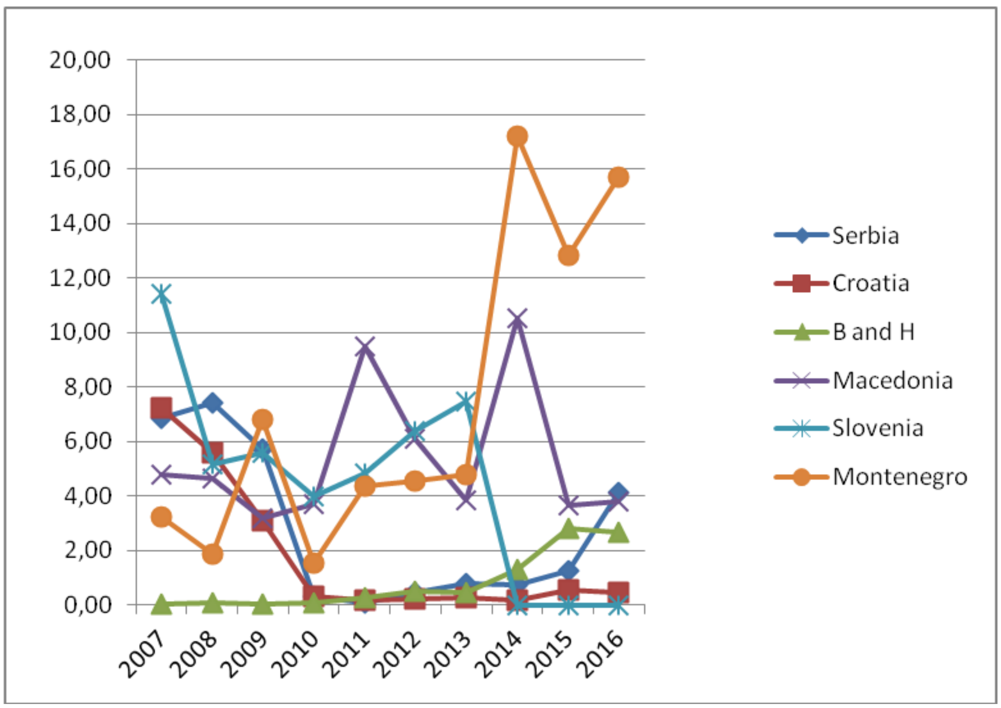

Figure6. Average amount per transaction on the stock exchanges of countries of former

The general conclusion is that the average amount per transaction completed are low, indicating that most of the investors in the capital markets are individuals and there are still a small number of institutional investors. In recent years the highest average amount per transaction has been reached on the Montenegro Stock Exchange.

5. Perspectives for the development of the capital market in the former Yugoslav countries

Analyzing the results of the previous research of the capital market in the countries of former Yugoslavia it can be concluded that despite the evident progress in the trading of shares, however, the results are not satisfactory. The share of the third market in the trading of securities is dominant with a growing offering of stock.

One of the events that with its importance gave a landmark in 2007 was the signing of the Memorandum of partnership between the stock exchanges of Belgrade, Skopje, Zagreb and Ljubljana, in order to develop regional and national markets of securities, and it is in a function of the needs of large international and regional actors in the market of securities. 2007 was the most successful year for Macedonia and also for the regional markets. The Macedonian Stock Exchange completed a turnover of 41.7 milliard, while the Macedonian stock indices MBI-10 index reached its highest value, breaking through the limit of 10,000 points.

After the continued decline that swept the capital markets as a result of the great financial crisis in 2008, the newest positive effect is the regional connection between Macedonian, Bulgarian and Croatian exchange and the establishment of CEE link platform i.e. regional infrastructure for trading securities listed on the three stock exchanges. Although so far there is no significant developments in the trading volume, however through the possibility of investing in securities of listed stock exchanges, a new investment opportunities are opened for the investors, which can contribute to new development opportunities and for the brokerage profession.

However, this connection should contribute to higher trading volume and a growing number of investment alternatives for domestic investors abroad and foreign investors in the country. These events occur at the right time when they can make a meaningful contribution to the removal of some of the weaknesses in the functioning of our capital market, as well as encouraging economic and financial cooperation in the region as well as in the field of future capital market development in individual countries and at the regional level.

A contribution to the movement of stock exchanges in the region can be given by a joint campaign, which will raise the level of knowledge of potential investors for the functioning of the capital market and the benefits of investing.

6. Conclusion

The capital market is a driving force and a mirror of economic growth for each country.

Stock markets in the countries of former Yugoslavia reached their flourish in 2007, to experience debacle as a result of the great world economic crisis in 2008.

The general conclusion is that capital markets recover slowly taking into account economic, financial and political situation in the region.

The perspective can be seen in regional connectivity of all markets which will:

- Increase the supply and demand of securities;
- open an opportunity for investors to buy securities that are traded through a regional platform

- allow securities to be traded through a regional platform;
- increase the visibility of companies in the regional capital market, which is an extraordinary importance for the companies;
- The future improvement of the regulation related to transparency and disclosure of information, it will allow them a more realistic valuation which will reduce the excessive deviation of the stock price from the fundamental value of companies.

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