
THE ALBANIAN ECONOMY IN THE STOCK MARKET PERSPECTIVE

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Abstract: Since the origin of the capitalist economic system, Albania suffers from a shrinking financial system. The financial system lacks what is perhaps the most important and dynamic part in developed economies: a capital market. It is an important element for the country's economic and financial development, as it is a very competitive alternative to the banking sector, reducing intermediation costs for businesses and all economic operators by enabling cheaper alternatives to fund the activity. Today, the banking system has almost exhausted opportunities to be a business financing promoter. And this is the stage where the Albanian economy has come to. Businesses cannot meet all the financing needs of the banking system, while on the other hand, there are individuals who, at the moment, have little choice of investment of their savings. Interest rates, both for bank deposits and government securities, have already reached an extremely low level and are not at all attractive for individual investors, which makes them look for far more attractive investment alternatives. In this way the scholarship will bring an alternative that individuals can invest savings in shares or other securities of companies that will be interested in trading in Albania thus developing the capital market and taking advantage of all the economic benefits that it brings. In this paper, we will firstly address the concept of the capital market and the elements that shape it as well as its development in Albania. The main purpose of this paper is to identify the problems faced by Tirana's former scholarship, to study the situation and the current opportunities of the Albanian economy to develop this structure of the capital market, namely the stock exchange, and to create a stock index model with which Albania can develop this structure and why not be represented in the regional and international markets.

Keywords: stock market; stock exchange; investment activity; exchange activity;

INTRODUCTION - IMPORTANCE OF THE CAPITAL MARKET

The capital market is a mirror of the real economy sector and the stock exchange is concentrated reflection of the investment activity. The level of development of the financial market is one of the most important factors for the economic growth, and the positive link between them is an indisputable fact. Thus, the role and development of the financial system is considered as a key element of development and economic growth. According to Bonin & Wachtel, 2003, financial intermediation is not indispensable, but it becomes important when the model approaches the real world, which is characterized by economic exchange. Since patterns are a fancy simplification of reality, no comprehensive theoretical model can explain the existence of financial intermediation (Khan & Senhadji, 2000). Since financial intermediation makes it possible to allocate resources in space and time, it is important to look at the relationship that exists between financial development and economic growth. Patrick, in 1966, identified two possible links between financial development and economic growth. The first link called "demand following" indicates that the growth in demand for financial services depends on economic growth, marketability and modernization of the economy sectors. Thus, the creation of financial institutions, their financial assets and liabilities comes as a result of increased demand from investors in the real economy (Patrick, 1966). From this point of view, the faster the growth of real incomes in the economy, the greater will be the demand from enterprises for additional funds and for financial intermediation. This is because firms in many different situations will be less able to finance this internal expansion (Bank of Albania, 2018). For the same reason, for a given rate of economic growth, the greater the variance of economic growth between different countries, the greater the demand for financial intermediation. In this way, savings from less developed industrial countries are transferred to more developed countries. The financial system thus supports the growth process, where the demand for its further development comes as a result of further economic growth. The second link between financial development and economic growth is called by Patrick (1966) as "supply-leading". This link itself involves the transfer of resources from small growth sectors to high growth sectors, promoting and supporting growth, which implies that the creation of financial institutions and their services occurs ahead of their demand and is precisely their development that stimulates economic growth. The new economic theories proposed by (Romer, 1986) provided a more different approach to the relationship between economic growth and financial development, emphasizing the fact that the behavior of savings directly influences not only the level of income, but also the economic growth (Greenwood &

Jovanovic, 1990) and (Bencivenga & Smith, 1991). Thus, financial markets have a powerful effect on real economic activity. Hermes in 1994 argued that the theory of financial liberalization and the new theories on economic growth assume that financial development leads to economic growth. On the other hand, (Murinde & Eng, 1994) and earlier (Harris & Raviv, 1991) argued that a number of models of economic growth show that there is a double link between economic growth and financial development. Levine in 1997, after reviewing all the literature on the relationship between financial development and economic growth, both for individual countries and for many countries, concludes that the functioning of financial markets is very important for economic growth.

1. ADVANTAGES OF THE ORGANIZED STOCK EXCHANGE TRADING

Advantages for the investors on the stock exchange

- The Stock Exchange organization provides the best trading environment (“place”), to meet investors, through the exchange trading platform.
- The market liquidity, provided from normal stock exchanges contributes management of investment strategies at lower risk, including the shift of invested capital from one company to another with higher yield and/or lower risk.
- Free information and transparent quotation process - in accordance with the trading rules of the stock exchange.
- The clearing and settlement system ensures the execution of the stock exchange transactions.
- Minimum transaction costs.
- Realization of a real and transparent valuation of the stock value.

In other side, the failure of the Exchange creates many difficulties and obstacles in the securities investment process, since it is very difficult for the buyer or seller to find each other at any moment when they are needed.

Advantages for companies of listing on the stock exchange

Of course, listing standards on the stock exchange are intended to ensure that any shareholder whose shares are admitted to be traded on the stock exchange deserves this recognition. Among the advantages of listing companies on the stock exchange we can mention:

- The issuer companies use cheaper capital resources.
- Providing funding resources, expanding economic activity;
- Enhance the ability of society to expand, through its established profit;
- Increased access and negotiating power in the banking sector and in relation to third parties;
- The market liquidity, created from the organized exchange, lowers the required yield which relieves the issuer's dividend policy;
- Ensure an increase in the competitive position of the company in the market;
- Creating prestige of society at national and international level;
- Improving the quality of management of society;
- Increase the ability to hire and retain qualified personnel.

The listing on the stock exchange, in addition to the advantages, it requires engagements for the issuer companies, some of which may be considered as possible *threats*. Among them we can mention:

- The risk of loss of control of the company as a result of the division of ownership;
- Obligation to continuously inform the public;
- Constant performance testing of the company;
- Implementation of a fair dividend policy;
- Cost of listing and staying in the market.

2. DEVELOPMENT OF CAPITAL MARKET IN ALBANIA, OPPORTUNITY OR NECESSITY

The non-banking financial sector in Albania is much less developed than the country's banking sector. Insurance companies occupy the overwhelming part of this sector. The rest of non-bank financial institutions account for a negligible share in the total of the system. There is no functioning capital market in Albania, as in all countries in the region. Challenges in this sector are numerous. The main reason for the underdevelopment of the Albanian non-banking sector is the lack of political will. Contrary to the majority of Eastern European countries, the privatization process in Albania was not carried out through the capital market, thus eliminating the possibility of creating an initial offering for titles. The sole shareholder market, licensed by the Center of the Registration of Shares (CRSh), was left in the shadow of the state, never functioning with full efficiency.

3. TIRANA STOCK EXCHANGE

Tirana Stock Exchange was the only organized securities market in Albania, founded in 2002 in the form of a joint stock company. The object of the Tirana Stock Exchange was to create a capital or securities market by creating a trading system by which "offers for sale, purchase or exchange of securities are performed or received on a regular basis. The right to be a member of the Tirana Stock Exchange was enjoyed by brokerage companies and banks that fulfilled the membership criteria. Tirana Stock Exchange was originally created as a Bank of Albania department with the aim of detaching it after a transitional period of several years. It was organized as a market driven by the order, and its core activity consisted in the secondary trading of treasury bills and government bonds. Three-month and six-month treasury bills were accepted as trading instruments. It operated the primary treasury bills market by August 1, 1998. After that date, auctions are conducted at the Bank of Albania's Monetary Operations Department (Bank S., 2002). The Tirana Stock Exchange was finally abolished by the Bank of Albania on July 1, 2002, to continue with its organization and operation as a joint stock company. As in all Central and Eastern European countries, with a similar past to Albania, the state was the promoter and main supporter of the stocks exchange. In Albania, a model different from the experience of all these countries was followed, as it was decided to establish the Tirana Stock Exchange under the management of the Central Bank for the following reasons:

- a. Lack of a previous tradition in this regard;
- b. The limited range of financial instruments;
- c. A weaker private sector than in other Central and Eastern European countries;
- d. Not yet privatizing strategic enterprises;
- e. Minor security chances, within a short period of time, of the economic efficiency of this new institution;
- f. Lack of experts and relevant experience outside state institutions of the financial sphere (in our case the Bank of Albania).

Mindful that, the stock exchange activity in the medium term would not be the trading of shares, the government, in cooperation with the Bank of Albania and the Securities Commission, decided to organize in the Tirana Stock Exchange the primary and secondary bond market treasury. Although these are not basic stock exchange activities, this movement served other objectives such as:

- 1) Creating a tradition of operating the operational activity of the Tirana Stock Exchange,
- 2) Conducting a marketing and education of the public and of the institutions, on the functioning of the stock exchange and the functioning of the financial intermediaries,
- 3) Accumulation by existing Tirana Stock Exchange staff of the necessary expertise on the principles of trading and purification and regulation of securities,
- 4) The gradual theoretical and practical preparation of this staff to further address the Tirana Stock Exchange's engagement in future activities.

Little or nothing was done for introducing new products or developing and consolidating the existing ones. Normally, the Tirana Stock Exchange had to be engaged in the privatization process that would follow after 1996, the listing of joint stock companies, and further consolidate the treasury bills market. But there were no shares listed in the Tirana Stock Exchange, neither privatization or privatization companies, and privatization bonds were ever traded on a stock exchange, never turning into a real trading object.

Among the points that did not favor a possible listing we mention Failure to meet qualitative criteria for listing. Among these criteria we can mention the low level of administration and the quality of financial reporting.

- Type of business activity, Large business is focused on fast-flowing capital activities. This shows that in general the large Albanian business is still engaged in activities that require little investment and profit faster.

4. FORM OF OWNERSHIP AND BUSINESS CULTURE

Great Albanian business is largely organized in the form of a *Limited Liability Company*. Still in Albania is a low level of organization in the form of a *Joint stock Company*. Among other things, this is an indication of the tradition and culture of business development, which means that more forms are preferred with one or fewer owners than the merger of many shareholders. This, to some extent, affects the low level of capital market development needs.

- Poor financial culture of administrators and management staff. Administrators and management staff of Albanian companies have no enough knowledge of the capital market or of financial instruments and the use of this market for financing their economic activities.

5. THE ROLE OF STATE

Under the conditions where the private sector remained in the short and medium term only a potential stockholder for the Tirana Stock Exchange, the state became the only hope to secure the stock exchange. These actions should be

ensured through its involvement in the privatization process of strategic companies, which, in addition to guaranteeing further institutional and operational development for it, would also have other positive effects such as:

- Transparent privatization of strategic companies;
- Increasing credibility of the Tirana Stock Exchange;
- Quick listing and filling of all the criteria of the Tirana Stock Exchange by these companies;
- Encouraging and promoting the private sector of the stock market quotation priorities;
- Informing, education and attracting the potential investors to create an active investment;
- Possible use of privatization bonds, serving the purpose of engaging these securities in the privatization process.

Such experiences (privatization of state-owned enterprises through public bidding) are found, almost without exception, in all Central and Eastern European countries. A significant part of the companies that are currently listed on the respective stock exchanges of these countries are the privatization companies (Poland, Hungary, Slovenia, Croatia and Bulgaria). Moreover, the Zagreb Stock Exchange has also organized the primary auctions for the sale of stock packages to several state-owned enterprises. In Albania, the public offering as a privatization method was not applied to any of the privatizations carried out.

The first phenomenon of frustration appeared in the privatization process of state-owned enterprises through securities, or privatization bonds, a process of low effectiveness. The second phenomenon was the financial ruin of Albanians from the pyramid system of mysterious and ghostly firms, where the savings of many Albanians lost. These phenomena negatively impacted the development of the market economy and at the same time created delays in the perfection of the financial system and the functioning of the Tirana Stock Exchange.

Experience shows that all Eastern European countries' stock markets have been heavily upgraded and supported by governments in their countries. In all these stock markets, without exception, the governments of the respective countries have provided the first trading instruments. Public debt securities (Treasury Bonds or bonds) were issued somewhere, while in other countries it a part of the privatization process was channeled towards the capital market by conducting the Initial Public Offering (IPF) of a part of the capital of the companies owned by the state. The methods may be different, but the purpose has been the same. In conclusion, many of these countries have achieved the goal of having well-developed capital markets (such as Warsaw Stock Exchange, Sofie Stock Exchange, Ljubljana Stock Exchange, Prague Stock Exchange, Budapest Stock Exchange etc.) as well as compete with hundreds of years old stock markets of European countries.

6. CAUSES OF FAILURE OF TIRANA STOCK EXCHANGE

Among the main causes of the failure of Tirana Stock Exchange we can mention:

1. *Immigration and "fear" of the Albanian business to be listed on the Stock Exchange*

Such a phenomenon comes mainly from the lack of transparency and the business trend to avoid the fiscal system. Although the banking sector does not meet the financing needs of the business, the latter do not see the Tirana Stock Exchange as a financing alternative in the near future. Private business hesitates to test new financing alternatives, other than the classical financing method through the banking sector, also expect the state to take the first step by listing state-owned companies in the Tirana Stock Exchange. Another important factor is the practice of double balances, ie the non-reporting of real profits.

2. *Non-supporting policy role of donors*

It is a fact that all the technical assistance provided by donors since 1997 and onwards has been mainly focused on the development of the banking sector in the country, leaving aside the development of the non-banking sector in general and the capital market in particular. The purpose of this policy was to restore credibility to the banking sector after the failure of pyramid schemes. International financial institutions, like the IMF and WB, showed a lot of prudence in strengthening the banking system, but almost left behind the other pillar of the financial system, the non-banking system.

Regarding the capital market, the most inadequate position on it was the report prepared by the IMF and WB experts, where it was recommended to close the Tirana Stock Exchange. Unlike East Country experiences, instead of direct funding from donors or the governmental incentives of the Albanian government to develop the capital market, such reports could hurt the market, hindering the development of the financial system as a whole.

Some of the reasons for the failure of Tirana Stock Exchange according to (Cani & Hadëri, 2002) are found in:

Repeated political instability;

- Low level of enforceability of laws and regulations;
- Deficiencies and gaps in the current Law "On Business Organizations";
- Current features of the Albanian financial system architecture as the main model with the banking system;

- The country's economic environment characterized by: the modest size of the economy, the lack of vision and the global economic development strategy;
- High level of informality
- The relatively short life of private business in the country;
- Lack of specialized financial intermediaries (investment banks, brokerage houses, financial advisors, etc.);
- The inability of a significant part of businesses to meet the qualitative criteria of listing on the stock exchange, which are noted: low level of management, distortions in the decision-making process, low and unreliable quality of data and financial reporting, low financial literacy and owners;
- Insufficient economic and financial culture of the country's population (model of assets outside the concept of shares and bonds, etc., as investment opportunities);
- Lack of fiscal facilities in the field of scholarly activity, as for those who aim at quoting their stock exchanges and investors.

7. REORGANIZATION OF THE STOCK EXCHANGE IN ALBANIA WOULD GUARANTEE:

- a. Increasing the efficiency of the financial market by promoting competition, decentralization and increasing transparency;
- b. Increasing the economic efficiency of companies by improving the quality of administration in them;
- c. Currently unexplored financing option for Albanian companies;

7.1. Macroeconomic benefits

- Mobilizing savings and domestic capital;
- The attraction of more liquidity in the formal sector of the economy;
- Creating and strengthening trust, especially in financial institutions and societies;
- Encouraging securities to be wielded on a wider scale by the public. This objective is also linked to the objective of attracting as much money into the formal sector of the economy.

7.2. Microeconomic benefits

Assurance funding for productive enterprises, financial institutions, and government. Banks will also be interested and motivated to use the capital market for issuing bonds to provide long-term loans. This would enable banks to match maturity, medium and long-term maturities for passive funds (deposits) and loans to "business" customers, especially for those businesses that can not directly use the capital market.

Securing a Securities Trading Mechanism Among Investors. Investors need a capital market to provide liquidity.

Reduction of risks to banks and the distribution of income sources.

7.3. Economic benefits and foreign policy aspects

- a. Promoting Albania as a country with ever-increasing economic sustainability;
 - b. Attracting more foreign investment in Albania;
 - c. Development of institutions and long-term savings schemes;
 - d. Public Debt Management Assistance;
 - e. Provide an additional alternative to the privatization of state-owned enterprises.

8. COST OF SHARE CAPITAL IN ALBANIA

The provision of additional capital or additional funding in Albania is considered and is still considered costly for various reasons: *Firstly*, the lack of capital markets makes the sole source of additional capital insurance through bank lending. *Secondly*, in Albania the risk premium, determined by financial institutions, is especially high for new and small firms. Thus, in Albania, the interest on loans is higher than in some other countries. In Albania, the average lending rate for 2016 was 9,55%, which is much higher than that of the neighboring countries in the region. (2015, World Bank). *The third reason* is that Albania has changed its economic system: from a centralized economy to a liberal system of more than two decades. In this period, Albania has undergone numerous institutional, legal, fiscal, economic changes, and the political risk remains at high levels.

9. INVESTMENT ACTIVITY ON ALBANIAN STOCK MARKET

In last years the Albanian stock exchange organizes two market segments – official exchange market and off-exchange trading (which works as pre and post the official exchange session trading). Investment activity is a function of the expected profits of the companies. To study investment activity, concentrated on the stock exchanges are used many primary and analytical indicators, systematized by Simeonov, St (Симеонов, 2016). All of the basic indicators (the transactions number, market capitalization, trading volume, number of listed companies and others) have very low and symbolic values. Given the objective state of the Albanian stock market, we may

conclude, that the Albanian stock market is in the process of being developed, but in current conditions it does not succeed to provide the benefits of a functioning stock exchange.

INFERANCES

Listing on a stock exchange of the best public and private companies that exist today would also serve to increase trust from private companies in general and would be the best way of marketing for potential investors inside and outside the country. Very few companies operate without mutual use of debt financing and equity-based financing. The development and modernization of an economy cannot be perceived without a developed stock market developed without high macro and micro economic and financial indicators. Second-tier banks in our country are increasing and strengthening financially, but in no case can they replace the role of other market institutions, one of which is Stock Exchange. A sound financial system requires the presence of banks, as well as of other non-banking institutions. Stock Exchange is even more sensitive than second tier banks to economic informality, lack of real balances, a business property mentality, etc., phenomena that still exist in Albania. The capital market is needed to guarantee a liquid and sustainable system in which investors can carry out securities-purchase transactions. Its development would enable joint stock companies, government and other entities to provide funds for their growth and investment through the issue and sale of shares, bonds and other types of securities. On the other hand, it would be possible to invest the savings of subjects that have excess funds. Among the factors facilitating this opportunity for capital market development, we can mention the satisfactory level of savings of the population, the satisfactory level of economic growth in the country, the continuous improvement of the business climate for the private sector, the presence of a sufficient number of institutions of the capital market such as BT, QRA, AMF, etc. Stock exchanges should play a central role in the operation of the financial sector and as such should be considered as safe and reliable.

CONCLUSIONS

Finally, we can say that the capital market is indispensable also for securing financing for companies and public projects, as well as for the well-functioning of the securities market. Listing on a stock of an initial stock of the best public and private companies that exist today would also serve to increase trust from private companies in general, and would be the best marketing way for potential investors inside and out. abroad, thus contributing to the economic growth of our country. The stock market function is very important for an economy, as it enables people to invest. This institution is very important also for companies, because through an effective capital market they can provide new sources of funding. But listing on a stock market also requires meeting certain criteria, where the key is having only one balance. The operation of the stock exchange is also a condition of the European Union, as it is required to create a global capital market. In this way, the opportunities of foreign investors to invest money in Albania are increased. So, we can conclude that Albani has the right track and is just a few steps away from finalizing a representative stock exchange.

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