

# MACEDONIAN STOCK EXCHANGE: DEVELOPMENT OF INVESTMENT BANKING AS OPPORTUNITY FOR LARGER INVESTMENTS IN NATIONAL ECONOMY

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## **Abstract:**

Institutional concentration of financial aggregates as well their market allocation through stock exchange is one of the basic conditions for efficient and fast economic growth.

Full implementation of above mentioned functions also means appropriate place for investment banking, and their activities on primary capital market. This can be opportunity for larger investments in national economy and tourism.

*Key words:* national economy, development of investment, investments banking, national economy, financial aggregates, tourism.

## **INTRODUCTION**

Institutional concentration of market aggregates as well as their market allocation through stock-exchange is basic precondition for faster growth of financial markets and their internationalization. This is essential in order to achieve efficient and rapid growth of national economy.

It is absolute fundamental for financial markets to be efficient, not only to function fast, but also to work with low fees. Therefore, key element is need of permanent improvement of stock markets, especially decreasing their administrative procedure, through the process of implementation of comprehensive electronic trading systems and use of highly sophisticated communication systems.

If there is no economic interest to implement above mentioned roles of stock market, it becomes absolute clear that there is also no place for development of investment banking, whose main responsibility as well crucial difference from brokerage houses are activities on primary capital market.

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## **CURRENT STATES OF MACEDONIAN STOCK MARKET LOOKING FROM THE POSITION AND ROLE OF INVESTMENT BANKING**

Creation and development of Macedonian Stock Exchange basically happened as a need to provide successful transition and process of privatization of state ownership in Macedonian economy as well as the need of national economy to have efficient and stable financial market. Beside transition, creation of Macedonian Stock Exchange (MSE) de facto means change of former system and development of national economy on market principles - as market economy. Macedonian capital market offers Macedonian companies possibility to get and raise funds not only in economic borders of national economy, but also from international financial sources. MSE functioned more all less well in last 11-12 years as secondary market.

However, the crucial question is importance of Macedonian Stock Exchange and its role as primary market. Some questions raises like does Macedonian companies recognize stock market as opportunity to generate equity or they just have perception about MSE as secondary and even speculative market?

The detailed analyses of current states of Macedonian stock market can offer relevant answers on above mentioned questions.

Macedonian Stock Exchange was euphoric and bullish in 2007 and caused extremely and irrational high growth of MBI index. However, looking from now, this is the matter of past. Expert and academic community in the country made forecasting that 2008 will be year of stabilization. Financial crises caused pull effect and foreign portfolio investors escape from the capital market, as well as interest of domestic investors for securities trading decreased.

Beside the fact that fundamentals and potentials of Macedonian companies are favorable, (they announced positive financial results in 2008 and 2009), and in spite of the fact that negative information concerning joining NATO Alliance happened - the level of trading remained relatively high until September 2008, global economic crises and recession became heavy burden for low and small market on MSE.

There is no doubt that MSE is now in a mature stage of its development as capital market, but also, it is a fact that in 2007 speculative capital enter the market and caused the high and unrealistic rise of stock prices . All forecasting predicted stabilization of the market in 2008 and cleaning of speculative capital, so in start depreciation of the value of MBI index was not percept negatively.

Sharp decrease and drop of the market can be explained as a result of local political and economic factors that influence Macedonian economy, but today, it is obvious that crucial influence on regional markets has global financial crises. In such terms, even solid quality of financial results of Macedonian companies have no influence on serious investors in securities.

On the other side, it is an old story about initial public offerings – IPO as opportunity for companies and for increasing the supply side of the stock market in the country.

Stock market is efficient allocator of financial resources not only within the borders of national economy, but also globally, providing market based transformation of the ownership and capital in the companies. Institutional concentration of market aggregates as well as their market allocation through stock-exchange is basic precondition for growth of financial markets and their internationalization and for efficient and rapid growth of national economy (Arnold 2008).

It is crucial for financial markets to be efficient, not only to function fast, but also with low level of fees. Therefore, key element is need of permanent improvement of stock markets as well as decreasing administrative procedure, through the process of implementation of comprehensive electronic trading systems and use of highly sophisticated communication systems.

If there is no economic interest for implementation of above mentioned functions of stock market, it become obvious that there is no place for investment banking which main role is activity on primary market.

*-Why this is no attractive for Macedonian companies?*

The basic goal of Macedonian companies has to be development and growth, not sale to foreign investor. Many company owners think about future of their business on two ways. The first one is how to sell their business to foreign strategic investor and to enjoy the rest of the life. The second one and more difficult is how to improve their business. This is a great challenge. When current owners start to think about expanding of their business on domestic or foreign markets, it is a time for new stock issues. If there is only wish to sell own company, there is no bright future for the Stock Exchange.

New stock issue through Initial Public Offering – IPO became one of the most popular instruments for raising new cash funds for companies in three Baltic countries, Estonia, Lithuania and Latvia. So, within two years, as a result of massive popularization of this instrument, eight Estonian companies succeeded to raise 308 million eur - capital for new investments.

In terms of bearish market, as it is current state of Macedonian capital market, as well as after phase of increasing the price (interest rates) of debt instruments for domestic companies, there is no doubt that investment banking is possible solution for improvement of Macedonian economy.

The above mentioned Baltic states are affordable for comparison with the Republic of Macedonia, due to the fact that they passed similar events (transition) and experiences and they have comparable scope and structure as Macedonian economy. Baltic experience can be used as guidance and idea for Balkan managers, in using IPO.

Macedonian Stock Exchange has experience with only one IPO, and stock analysts has a great reserve about the way how it was managed and realized. Starting from Baltic states experiences we can derived conclusions for companies as well as for the whole capital market in Macedonia in order to have more IPO on Macedonian Stock Exchange.

It is our personnel opinion that most important pre-condition is that companies ought to have ambition to grow and to increase the scope of their activities. If they are determined in this course of action it will be logically for them to look out from the domestic market and to start with penetration on foreign markets. However, in order to succeed to achieve respected market share on foreign markets it is crucial to improve the quality and increase the offer of their products or services. It means that they have to be ready for competition on foreign markets, starting from neighboring countries. If they succeed in it, they will raise their earnings and profit. However they will need additional financial funds for expanding their operations. This will be also trigger for activities on primary capital market and IPO.

The second important element necessary for implementation and development of activities on primary market is regulation, especially for IPO. SEC has to make improvements on regulation and make whole process simple. Our suggestion for SEC of

the Republic of Macedonia is to follow the example of European directive for IPO prospects. It does not mean to copy/paste whole model, but at least it has to be similar. It also mean that SEC has to declare whole process and documentation necessary for IPO. This will mean uniform regulation close to EU criteria and possibility for Macedonian companies to create IPO also on stock exchanges abroad.

This is our crucial position and recommendation. There is no need that IPO for Macedonian companies has to be made only on Macedonian Stock Exchange. However, it is first to standardize process and organize campaign to introduce companies and academia with it.

Then, it will be much easier to create more IPO. When people understand process, there are also bigger chances to make it popular and to attract companies to use it as alternative way for fund raising. This is also the way to change psychological dilemma concerning the idea for the future for Macedonian companies (sell or grow) and expanding the business.

This is possible only throw export oriented operations and this is a big challenge. If managers are determined to do it, we can expect more IPO and new quotes on stock exchange.

Estonia popularized process for IPO of new stock issues and this is a key. Local and regional investment banks are interested for development of this process. However, companies have to be more transparent and to offer more financial reports as well as other additional information about their business, especially their strategies.

## **IPO IN TOURIST INDUSTRY**

There is no need for additional explanations about propulsive effects as well as influence of tourism on economy development. Concerning the current situation and deep economic crises in Macedonia it is crucial to look on foreign markets. Tourist industry will create additional spending from foreign tourist. However, Macedonian tourist industry has to increase the quality and to make their offer more attractive.

Macedonian hotels and other tourist companies desperately need fresh capital but also better management, know-how and finally new markets. New (foreign) share holders are preferable. The process how to implement it is through IPO of new stock issues. This will increase the equity of tourist companies and will lead to possible change of management structure. This is the key, how Macedonia and tourist industry can avoid and stay in group of local looser and join the group of global winners.

All stakeholders (Government, regulators, companies, investment banks etc.) have to join their efforts in order to have success. This is difficult process but have to start as soon as possible. SEC and Macedonian Stock Exchange have to lead this process. They will have great support from banks, brokerage companies, investment funds. They desperately need new instruments for trading. Companies need additional capital and new markets. It means that interest exists, and process can start. Concerning the way how things functioned in Macedonia, it will be better to offer foreign institutions to lead this process.

This is no only matter of their experience and knowledge, it is more matter of Macedonian perception that foreign expertise is more valuable. However, Macedonian economy need new stimulus. Tourist industry for sure can play such a role.

## CONCLUSION

Investment banks serve as financial intermediaries and facilitate the issue of new securities on capital markets. Their main roles are transaction on the primary market through designing securities that are attractive for investors. Financial intermediaries create new financial products. They provide economies of scale in analyses of credit ability of potential borrowers, in processing and collection of debts as well as diversification of risks.

Investment banking is not only important for companies – micro aspect, but also for development of national economy. There is no doubt that the vitality of one national economy depends on the transfer of funds and the economy can not achieve full level of employment and productivity.

It means that through new IPO they can facilitate development and growth of companies as well as ownership and management transformation, necessary for increasing the scope and quality of products and services that companies can offer on domestic and foreign markets.

The Republic of Macedonia needs change of regulation and uniform practice for IPO in accordance with EU directives as well as free new stock issue not only on MSE but also on stock-exchanges abroad. This will increase FDI in the Macedonian economy, especially in the tourist industry. It will be a possible solution for raising equity capital necessary for tourist companies in order to reach world standards in this business.

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