

POLITICAL CRISIS IN THE REPUBLIC OF MACEDONIA AND IT'S IMPACT ON THE CAPITAL MARKET

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Abstract: *The Republic of Macedonia is faced with a new political crisis in the past period, which has deepened in the period 2014-2015. The subject of paper is the impact of this political crisis on the situation and the trends on the securities market in the Republic of Macedonia, presented through the Macedonian Stock Exchange. The Macedonian Stock Exchange, although it exists over 20 years, still has a minor role in the financial system in the Republic of Macedonia, unlike the banking sector, whose share is about 90%. In order to assess the impact of the political crisis on the stock exchange, several indicators are analyzed: the scope of the primary issue of securities, stock turnover, market capitalization, market indices - MBI 10 and OMB, as well as the share of foreign capital on the stock exchange. The analysis uses data from official documents of the Macedonian Stock Exchange and the National Bank of the Republic of Macedonia for the period 2010-2017. From the research conducted in the paper, it is perceived that the political crisis generally has no negative consequences on the situation on the Macedonian Stock Exchange. Strictly speaking, its impact is of a short-term nature, which means that there is a downward trend only in the year when the crisis deepens, but from the next period there is already a stabilization of the situation and a positive trend of movement in most analyzed indicators.*

Key words: *political crisis, capital market, Macedonian stock exchange, Republic of Macedonia*

1. INTRODUCTION

There were several political crisis in Republic of Macedonia since it's dependence. The last one is the political crisis that has started from 2014 year and deepened in 2015. The purpose of the paper is to estimate there is impact of the political crisis on the Macedonian capital market. The capital market is presented through Macedonian stock exchange that function over 20 years, but it's role in the financial system is low in the country, if we have in mind the share of the banking sector from about 90 %. The liberalization and the reforms of the capital market that are made, allowed to improve the position on the capital market in the Republic of Macedonia, but it is not on a satisfactory level. To see the impact of the political crisis on the Macedonian capital market are analyzed few indicators and their trend of movement such as: primary issue, market turnover, market indexes and capitalization.

2. PRIMARY CAPITAL MARKET

The Macedonian securities market, i.e. the Macedonian Stock Exchange as its representative is a shallow, poor and illiquid market. Namely, the shares of legal entities and securities issued by the state are most traded in our country. Such a poor offer of securities does not stimulate the investor public to invest in this market, i.e. it is not attractive to investors. Many other securities are missing, such as corporate bonds, derivative financial instruments, such as futures, options, swaps, and the like. A big obstacle for the development of the Macedonian capital market is

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low liquidity, which discourages investors, as they are faced with difficulties in converting securities into cash and vice versa.

In Table 1 and Figure 1 are shown the trend of the primary issue of securities on Macedonian capital market for the period 2010-2016 year.

Year	2010	2011	2012	2013	2014	2015	2016
Long term government securities	30,02	29,98	170,04	200,80	217,09	193,27	147,96
Continuous government bonds	0,00	18,98	160,03	187,77	207,10	183,75	135,94
Denationalization bonds	30,02	11,00	10,01	13,03	9,99	9,52	12,02
Long term non- government securities	54,05	57,37	162,99	1,97	102,76	1,95	18,05
Corporate bonds	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Shares	54,05	57,37	162,99	1,97	102,76	1,95	18,05
- Issued by banks	6,73	53,84	41,36	0,00	0,00	0,00	/
- Issued by other financial institutions	0,28	3,53	3,10	1,80	4,34	0,05	/
- Issued by non financial institutions	47,07	0,00	118,52	0,16	98,44	1,90	/
Total	84,08	87,34	333,01	202,78	319,85	195,22	178,03

Table 1. Primary issue of government and non-government securities for the period 2010-2016 (in million euros)

Source: Financial stability report for the Republic of Macedonia in 2010, 2011, 2012, 2013, 2014, 2015, 2016 year, NBRM

Note: In 2016 year due to the lack of data by types of shares is shown only the total amount of the primary issue of shares

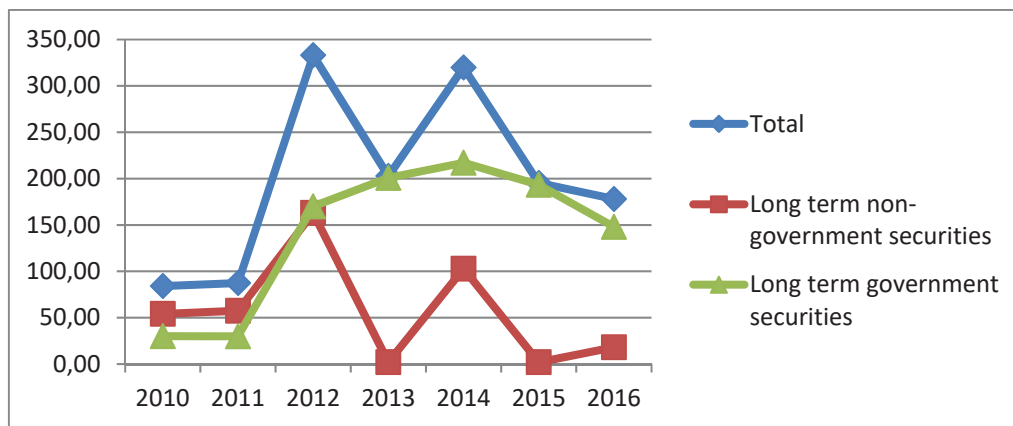


Figure 1. Primary issue of securities

The data show that by 2012 (when is the highest value of the primary issue of securities), in the total amount of the primary issue of securities is higher the share of non-government securities i.e. shares. However, it should be taken into account that in all new share issues, the state emerged as a single buyer, which is why the greater momentum of this market segment in 2012 cannot be interpreted as the entry of a new, "fresh" capital. In the next period of the analysis, the share of government securities dominates. This is in line with the determination of the state to finance public debt through the capital market, as well as the interest of the investment public to purchase these securities, because they provide the relatively high yield to the low level of

risk. For example, the denationalization bonds are calculated an annual rate of 2%.⁷³ As a result of the political crisis, the primary issue of securities in 2015 decreased compared to 2014 by 61%, primarily as a result of the reduction of the primary issue of shares, due to the restraint of the companies for new capital for investments, and in 2016, as a result of the reduction of the issue of government securities, i.e. bonds. During the analyzed period, no corporate bond has been issued on the primary market.

2. MARKET TURNOVER

The analysis of the movements on the secondary market is also relevant for perceiving the situation on the Macedonian Stock Exchange. For this purpose, the rest of the paper analyzes the turnover and market capitalization. The analysis of the stock exchange turnover is perceived as the movement of the total turnover and its structure according to the types of transactions and the origin of capital (domestic and foreign capital).

From the data in Table 2, it is perceived that in the analyzed period the total turnover reached the highest value in 2011, and the lowest in 2015, when there is a decline in turnover in all types of transactions, i.e. market segments as a result of the impact of the political crisis. If we analyze the structure of the stock exchange turnover, the shares show the largest cyclical movement over the years, while the bonds in all years have fallen except for a slight increase in 2011 and a significant increase in 2015. However, this increase, as we mentioned earlier, is due to bonds issued by the state, not corporate bonds.

Year	Shares	Bonds	Trading in best	Block-trades	Public auctions	Public offering of securities	Total turnover
2010	32.802.613	20.360.632	53.163.246	41.295.134	662.971		95.007.530
2011	34.912.758	21.015.641	55.928.399	145.757.343	5.228.009	15.132.715	222.046.466
2012	25.255.041	19.549.366	44.804.407	39.022.609	5.643.625	1.591.229	91.061.869
2013	22.676.189	11.840.408	34.516.597	13.326.172	4.466.874	284.795	52.594.439
2014	32.282.409	8.799.249	41.081.658	25.496.064	4.558.424	70.393.250	141.529.397
2015	23.357.950	10.494.911	33.852.862	8.919.059	257.678	230.474	43.260.073
2016	29.651.443	8.274.775	37.926.218	10.494.319	740.344	0	49.160.881
2017	44.371.760	2.909.702	47.281.462	29.556.819	209.604	0	77.047.885

Table 2. Structure of the market turnover in period 2010-2017 year (in euros)

Source: Annual reports for operating of the Macedonian Stock Exchange AD Skopje for 2013, 2014, 2015, 2016 и 2017 year

⁷³ For example, the total issued amount of government bonds during 2016 represents 4.2% of the total government debt on 31.12.2016, or 11.5% of the central government's domestic debt, http://www.nbrm.mk/content/Regulativa/FSR_2016_MKD.pdf

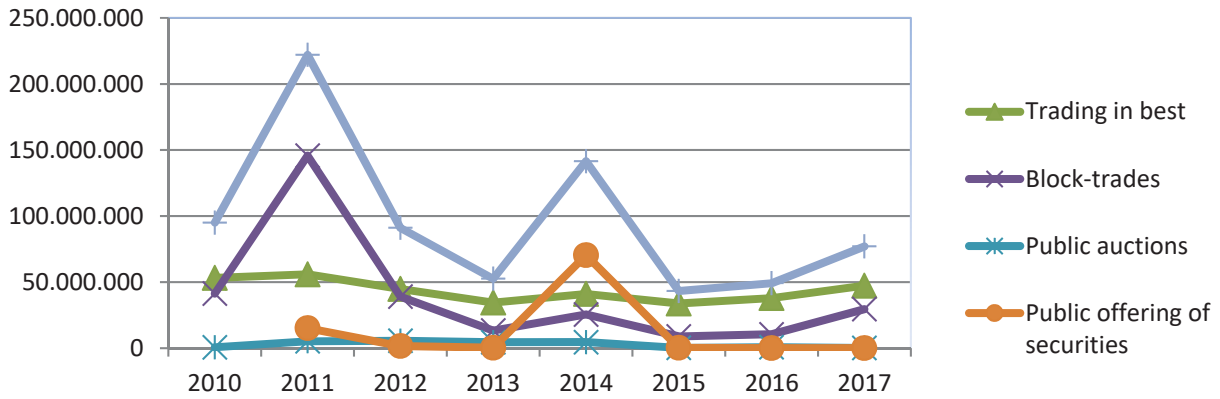


Figure 2. Structure of the market turnover in period 2010-2017 year

An important factor affecting the stock exchange turnover is, of course, the share of foreign investments, both in the purchase and in the sales side of the turnover. In fact, the total market turnover depends to a great extent on foreign investments, so in the period when the participation of foreign investors on the stock exchange decreases, the total stock exchange turnover is decreased, and vice versa. In addition, foreign investment leads to an upward trend in the prices on the domestic capital market. Below is a structure of the total turnover according to the type of investors.

	Purchasing side of turnover						
Type of investor	2010	2011	2012	2013	2014	2015	2016
Average share of foreign investors	23,1	18,7	10,1	10	23,4	8,7	10,06
Average share of resident investors	76,9	81,3	89,9	90	76,6	91,3	89,94
	Selling side of turnover						
Type of investor	2010	2011	2012	2013	2014	2015	2016
Average share of foreign investors	27,9	26,5	20	15,4	28	28,9	24,15
Average share of resident investors	72,1	73,05	80	84,6	72	71,1	75,85

Table 3. Structure of the turnover by type of investors for the period 2010-2016 (in %)

Source: Adapted according to data obtained from the Financial Stability Report in the Republic of Macedonia in 2010, 2011, 2012, 2013, 2014, 2015, 2016, NBRM and the Annual Report for the operation of the Macedonian Stock Exchange AD Skopje for 2016

From the tables we can conclude that domestic investors in a much larger percentage participate in the total turnover of the Macedonian Stock Exchange in relation to foreign investors. On average, in the period 2010-2016, domestic investors in the buy-side of the market turnover participated with 85.13%, while in the sales side with 75.59%. Foreign investors during the analyzed period participate in the sale more than in the purchasing side of the stock exchange, which speaks of a negative net effect on the basis of participation of foreign capital on the Macedonian Stock Exchange. The most alarming is the situation in 2015 when there is a sharp drop in the share of foreign capital in the buy-out side of the stock exchange by 14.7 percentage points, which is a result of the restraint of foreign investors for investing because of the political uncertainty in the country.

3. MARKET INDEXES AND CAPITALIZATION

In order to determine the dynamics of the securities market, as well as to draw conclusions about its movement, in addition to the parameters that we analyzed above, market indices and market capitalization are used. Two indexes are calculated on the Macedonian capital market: for the stock market - the Macedonian Stock Exchange Index (MBI-10) and for the bond market - the Bond Index (OMB).

Below we give a tabular view of the movement of MBI 10 and OMB, as well as their percentage change in the period from 2010 to 2017.

Year	MBI 10	OMB	MBI 10 (annual change %)	OMB (annual change %)
2010	37,03	1,89	-17,19	5,52
2011	32,09	1,97	-13,34	4,33
2012	28,13	1,93	-12,3	-2,1
2013	28,25	2,02	0,44	4,65
2014	29,96	2,05	6,06	1,63
2015	29,78	2,09	-0,59	1,77
2016	34,69	2,08	16,45	-0,43
2017	41,25	2,09	18,92	0,58

Table 4. Market indexes (in total and annual change in %) for period 2010-2017 year (in euros)

Source: Annual reports for the operating of the Macedonian Stock Exchange AD Skopje for: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017

During the analyzed period MBI 10 continued to decline and in 2015 it reaches the lowest value. After 2015, the value of MBI 10 shows a positive trend and in 2017 it reaches the highest value in the analyzed period. In contrast, the OMB bond index has been increasing for almost all years, and in 2017 it has reached the highest value.

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Below we will analyze market capitalization as an indicator of the size of the capital market. Table 5 shows the total market capitalization, capitalization of shares and bonds, as well as the percentage change for the period 2010-2017.

Year	Shares		Bonds		Total	
	Market capitalization	%	Market capitalization	%	Market capitalization	%
2010	1.991.518.113	0,41	203.276.651	-15,93	2.194.794.765	-1,37
2011	1.934.058.013	-2,89	139.131.878	-31,56	2.073.774.781	-5,54
2012	1.836.181.724	-5,06	119.472.558	-14,13	1.955.654.282	-5,67
2013	1.668.857.243	-9,11	107.496.414	-10,02	1.776.353.657	-9,17
2014	1.711.957.724	2,58	92.287.929	-14,15	1.804.245.653	1,57
2015	1.671.009.518	-2,39	79.308.813	-14,06	1.750.318.331	-2,99
2016	1.879.939.478	12,5	72.111.840	-9,07	1.952.051.318	11,5
2017	2.215.089.462	17,83	56.750.843	-21,3	2.271.840.306	16,38

Table 5. Market capitalization (in total and annual change %) for period 2010-2017 year (in euros)

Source: Annual reports for the operating of the Macedonian Stock Exchange AD Skopje for: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017.

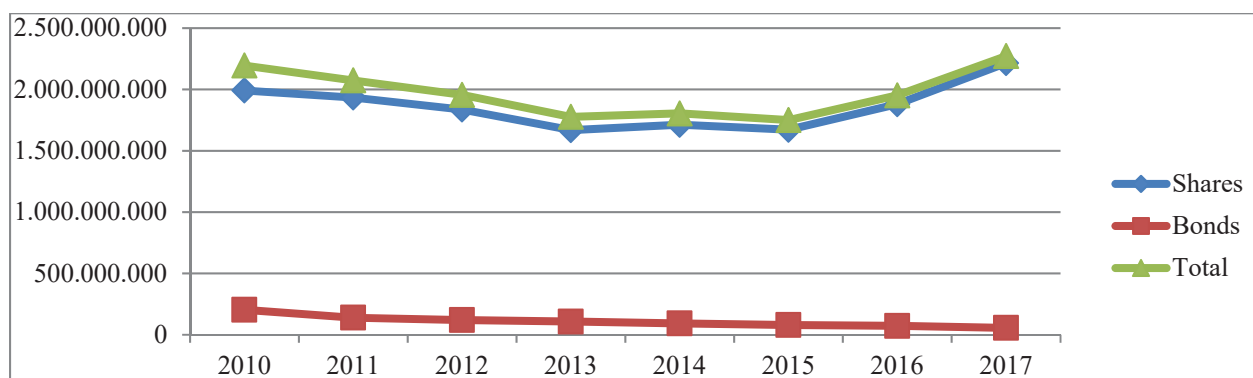


Figure 3. Market capitalization

From the data in the table it is noted that the total market capitalization is determined by the market capitalization of the shares. Market capitalization has been experiencing a continuous decline over the years, and in 2015, when the crisis deepens, it achieves the lowest value. After this period, market capitalization grew and in 2017 reached the highest value in the entire analyzed period due to the market capitalization of the shares, because the market capitalization of the bonds decreases every year as a reason for this is the due annuities of the denationalization bonds.

CONCLUSION

The Macedonian capital market presents through the Macedonian stock exchange is not well developed capital market. There are very poor offer of securities, namely the shares of legal entities and securities issued by the state are most traded in our country. There are a very poor offer of securities because many other securities are missing, such as corporate bonds, derivative financial instruments, such as futures, options, swaps, and the like. Also, low level

of liquidity doesn't stimulate the investors to invest in this market, especially the foreign investors. Domestic investors, as well as in the years before the political crisis, with much higher percentage participated in the total turnover on the Macedonian Stock Exchange in relation to foreign investors. Foreign investors during the analyzed period in averaged have a larger percentage in the sales than in the purchasing side of the turnover, which is a negative net effect based on the participation of foreign capital on the Macedonian Stock Exchange.

From the research conducted in the paper, it is perceived that the political crisis generally has no negative consequences on the situation on the Macedonian Stock Exchange. Only in the year when the crisis deepens, 2015 year there is a downward trend. After that year, capital market is stabilized and there are a positive trend of movement in most analyzed indicators.

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