

## RETROSPECTIVE OF MACEDONIAN CAPITAL MARKET FOR THE LAST TEN YEARS (FROM 2004 TO 2013)

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### Abstract

Investments on the capital market depend on the current political situation of the country, as well as on the movements of the global economy. In countries with unstable political situation, the performance of the stock exchange declines, unlike politically stable countries, where stock exchange operation is carried out continuously, the stock exchange is a mirror and a barometer of general developments in a society. The economic crisis that spread all around the world in 2008, triggered the strongest negative effect on the capital markets, both on the trading volume and on securities' prices. Prices of securities were falling overnight and stock indices also. In most cases an absurd situation occurred, where although companies showed good financial results and had promising investment activities, stock prices were still falling because of the euphoric panic that investors would lose their ventures, so they sought to take the last chance to save what can be saved. Macedonian capital market, although relatively young, experienced its flourish in 2006 and 2007, but also felt and still feels the effects of the global economic crisis. The beginning of that negative impact was first felt in the last quarter of 2007, and was more evident in 2008 and onwards. The numbers were most disappointing in 2013 both in terms of trading volume and in terms of number of transactions.

**Keywords:** Securities, Investors, Transactions, Portfolio

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### Introduction

Capital market - "is an organized, institutionalized space, with all the elements necessary for its functioning, where at a specified time and according to given rules and usances, the supply and demand of capital are met." On this market funds are offered and demanded on long-term, and is a specialized market in which long-term transferable securities are listed and traded.

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

Two segments of capital market are known:

- Primary capital market; and
- Secondary capital market.

Primary capital market - covers the first issue of securities. Since the new issue of securities for the

first time appears on the market for sale, it is called primary capital market. Trading companies or the government can appear on the market as issuers of securities. With the new issue of securities, issuers intend to come up with the necessary funds to finance its development plans and programs, to finance short-term or long-term projects in the country or to cover deficits and losses, etc. On the other hand, the purchasers of securities are interested in investing their money profitably.

Secondary capital market - is an organized market where buyers and sellers of securities meet, in order to facilitate their trading. On this market are traded securities which were previously issued and their future buying and selling is a second hand trading. Through this market, new funds are not collected as on the primary market, but it allows transfer of ownership of the securities that are the subject of trading from entities that have surplus of funds - savings and want to invest their savings in securities to those entities that need free funds.

Securities' prices are freely formed depending on supply and demand of securities and are reflection of available information about the securities' issuer.

Primary and secondary capital markets are closely related because if there is not a primary issuance of securities, there cannot be a secondary market for securities, and vice versa, without the existence of stable and efficient secondary capital market, the primary capital market cannot be developed. Both markets are complementary and have a positive impact on the country's economic development.

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

- Organized market - place, where long-term securities can be publically traded, based on suitable and reliable information;
- Efficient capital market, which will encourage economic development in the country and financial liberalization of the economy;
- Diversification of risk among potential investors and companies;
- Investors' interests protection;
- Allocation of resources and management control;
- State instruments used to meet the financial needs with market, rather than fiscal and monetary assets.

The capital market allows mobilization (collection) and allocation (realignment) of free cash capital, which further on is used for long-term financing of businesses' operations.

This way of raising cash capital is a way of voluntary centralization and orientation of capital. Corporations through issuance of shares gather own capital, and are not obliged to return the invested funds, but only to pay fee (dividend).

The capital market is a mechanism for state financing. Through a developed capital market the state can mobilize financial funds to finance its activities. This especially applies to the government bonds market, as part of the capital market. The financing of public spending through the capital market is considered to be non-inflationary way of financing, unlike financing through direct borrowing from the central bank.

The capital market has a task to attract foreign investors in the state economy. This task applies to foreign direct investments and foreign portfolio investments. The existence of a well-organized

capital market is a factor that positively influences the decision of potential foreign investors to invest in the domestic economy. A well-organized market implies sound regulated market, which is also important to foreign investors. Foreign investments are of a great importance, especially for transition economies and developing countries, given the lack of domestic saving for achieving higher growth rates.

### **Operation Of The Capital Market In The Republic Of Macedonia**

Macedonian Stock Exchange JSc. Skopje was established in 1995. On September 13<sup>th</sup>, the founding assembly of the MSE JSc. Skopje was held. This date is the official establishment date of the first organized stock exchange in the history of the Republic of Macedonia. The stock exchange was established as a joint stock company that operates on a nonprofit basis, with initial capital of one million DM. It will remain recorded in the history that MSE was founded by 19 entities: 13 banks, 3 insurance companies and 3 saving houses. These 19 founders of the stock exchange became its first members entitled to trading on the stock exchange. The whole establishment project of the MSE was implemented with technical assistance of British Know-How Fund. As part of this project, a training of the first generation of brokers was realized.

Although it was founded in September 1995, on March 28<sup>th</sup> 1996, the first stock exchange bell rang. It announced the official start of trading. The modest volume of transactions on the first day of trading did not weaken the fact that by this act the creation of a new Macedonian economic history is started. In its initial development phase, the stock was active twice a week, on Tuesdays and Thursdays. The trading was executed on the stock exchange through the continuous auction method and the model of market driven by orders.

October 16<sup>th</sup>, that same year, MSE was admitted as a full member of the Federation of Euro-Asian Stock Exchanges (FEAS).

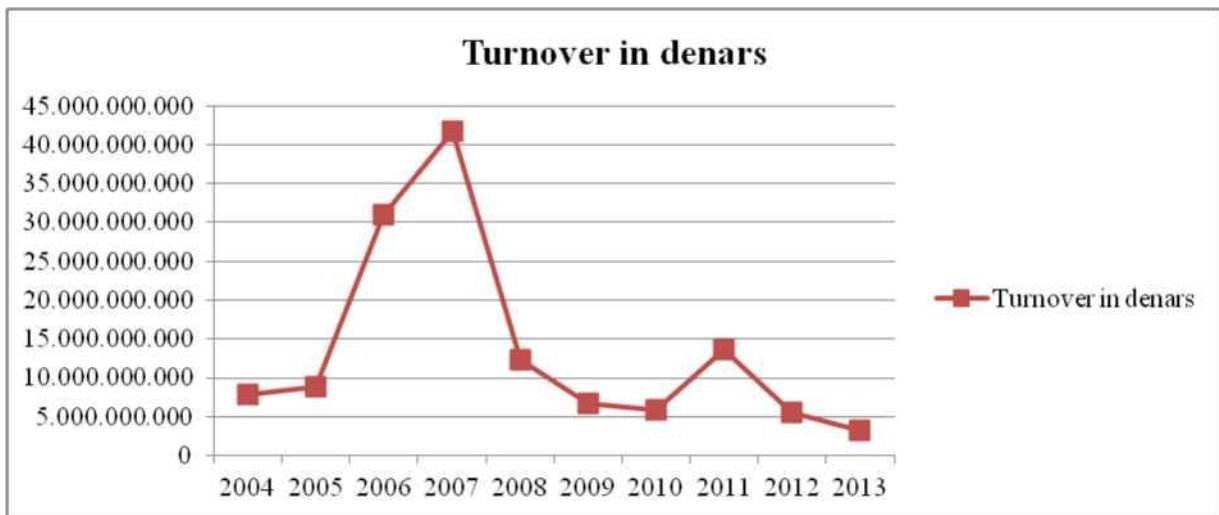
In the years that followed the Macedonian capital market has developed with modest but bold advances in trading volume by placing special emphasis on the transparency of trading and information about the listed companies, education about the benefits of listing on the capital market, and the opportunities it offers.

**Table 1.** Turnover and number of transactions from 2004 to 2013 year, source: Yearly bulletins 2004-2013

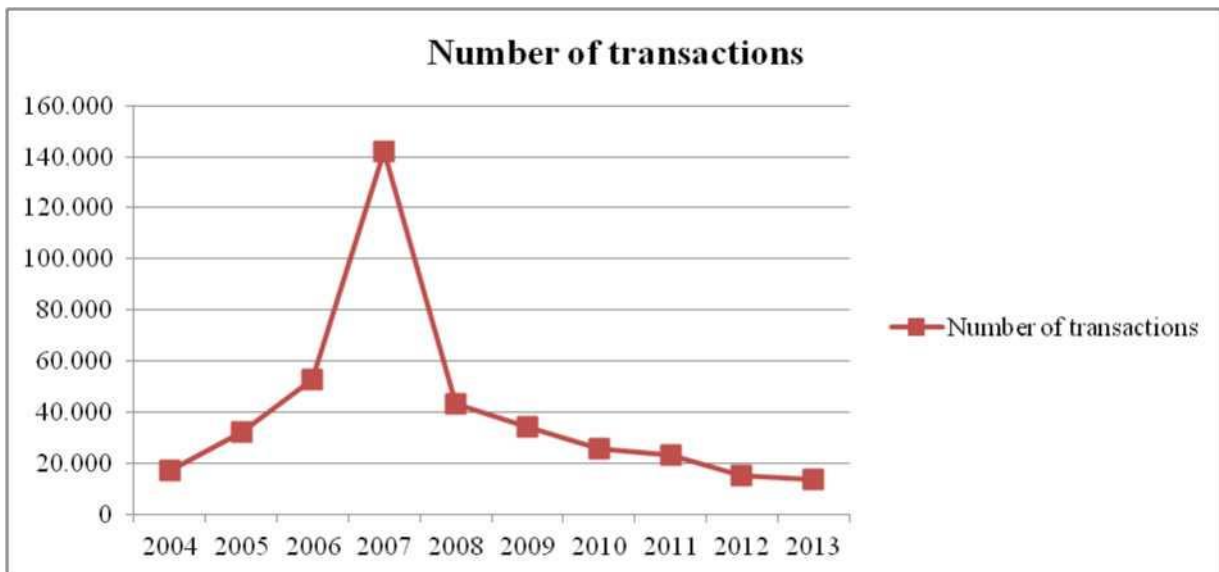
Year	Turnover	in %	change	Turnover	in Number	of %	change
2004	7.920.484.812	4,77		129.059.279	17.441	-0,98	
2005	8.889.567.513	12,24		145.003.311	32.111	84,11	
2006	31.017.933.488	248,93		506.999.177	52.930	64,83	
2007	41.702.320.447	33,45		681.605.232	141.984	168,25	
2008	12.378.962.326	-70,32		202.057.197	43.353	-69,47	
2009	6.732.333.490	-45,61		109.826.668	34.437	-20,57	
2010	5.842.963.073	-13,21		94.981.398	25.741	-25,25	
2011	13.655.857.674	133,71		221.942.461	23.426	-8,99	
2012	5.600.304.948	-58,99		91.006.149	14.951	-36,18	
2013	3.234.557.987	-42,24		52.502.793	13.585	-9,14	

Source: www.mse.mk

**Figure 1.** Turnover in denars from 2004 to 2013 year



**Figure 2.** Number of transactions from 2004 to 2013 year



According to the table and graphs presented for the turnover and the number of transactions, a continuous increase in trading volume and the number of transactions in the period from 2004 to 2007 is noticed. Largest increase in total turnover compared to the previous year was noted in 2006 by 248,93%. In 2007, the total turnover is highest compared to the other years shown and is amounted to 41.702.320.447 denars. Consequently, the number of transactions in 2007 is also highest and amounts to 141.984, i.e. it is increased by 168,25% relative to the previous year. The increase in the number of transaction in 2007 compared to 2006 is due to the significant entry of small investors (individuals) that invested small financial funds in diversified portfolios.

2007 was the most successful year in the history of the Macedonian stock exchange: a turnover of 41.7 billion denars was realized, and the MBI10 index reached its highest value of 7.740,79 index points. During the year several successful acquisitions were realized, particularly in the banking sector. In the first quarter of the year, started the application of a set of new rules which the stock exchange adopted in accordance to the Securities Exchange Act of 2005. In the last quarter of the year were promoted the MSE web magazine MB monitor, which constitutes a source of information and news from world and regional securities markets, and the Manual of corporate governance in the Macedonian joint stock companies, as a first publication of its kind in the Republic

of Macedonia. One of the events that by its importance gave a landmark on the whole year was the signing of the Memorandum of Partnership between the stock exchanges of Belgrade, Skopje, Zagreb and Ljubljana. The primary goal of the partnership memorandum was to enable further development of regional and national securities markets, and its function is to meet the needs of major international and regional players on the securities market.

During 2008, the operating of the stock exchange was determined by many factors that had an impact on the functioning of the organized secondary securities market in Republic of Macedonia and on the business operations of the stock exchange. Most of the factors and circumstances had a negative impact on the securities market in the Republic of Macedonia, especially in the second half of 2008 (the effects of the global financial crisis). Although there were also factors and circumstances with positive implications on the securities market, their scope and impact, however, could not neutralize or significantly mitigate the events that led the securities market in 2008 to be characterized as a turbulent year.

In the analysis of 2008, the impacts of the following main factors and circumstances should be particularly stressed, because of their negative implications on the business environment for operations of the stock exchange:

- The global financial crisis that occurred in 2008 had a very significant reflection on the Macedonian securities market. The crisis, which began as a financial, to become an economic crisis, and whose genesis came from the developed capital markets (the U.S., then Great Britain and other countries) reached global proportions and had an extremely negative impact on world capital markets, and was adequately transposed on the Macedonian securities market. In the past few years on the Macedonian stock exchange was recorded an inflow of foreign institutional investors. In conditions of dealing with the effects of the global crisis in their home countries and in struggle to maintain liquidity and solvency, these investors were forced to abstain or to slow down the investments on the Macedonian stock exchange, which significantly reflected the liquidity of trading securities on the MSE in the second half of 2008.
- On a global scale, the first result of the global financial crisis of 2008 was a disturbed customer trust (the so-called crisis of confidence) in the financial, and especially in the banking systems that previously were considered as healthiest and hardest pillars of the economy. The significant interventions of several of the leading economies' governments aimed at stabilizing the situation, maintaining liquidity and prevent the further disruption of confidence in the financial institutions and systems. In that sense, on a global level, governments or central banks of several major countries in the world intervened with interest-free loans and entry into ownership of large financial institutions, in order to stabilize the national economies. Macedonia was not much affected by the first wave of the financial crisis, given that the investments of domestic investors in so-called toxic financial instruments were insignificant. On our market, the negative effects were felt primarily in terms of slowing down and/or withdrawal of the present regional investors, which followed up on the situation of the already overheated market conjuncture.
- In addition, the uncertainty of the economic downturn, the relations of ours with foreign banks and the restrictive policy of NBRM, caused domestic banks, in the fight for greater liquidity, to increase the lending rates on savings deposits. The effect of this measure on the securities market in RM was absorption of a significant amount of the free financial assets available for investment in the banking sector, which triggered an additional strike on the liquidity on the securities market.
- On a global level, the cost of energy sources in the first half of the year reached unprecedented growth, leading to increased production costs of products and services. In times of rapid growth

of oil prices, this meant reduction on the benefits for joint stock companies. This was appropriately incorporated in all economic analysis and projections for the shares' prices issued by the listed companies on the stock exchange.

- In April 2008, RM did not receive the desired status of member country of NATO. This political decision had strong implications on investors' expectations and business decisions about investing in Macedonian securities.
- By transferring the effects of the first wave of the financial crisis on the world economies, the first problems appeared which then escalated into global economic crisis. This crisis, which by its dimensions probably exceeds the great crisis of 1929, had a significant reflection on the Macedonian economy, especially on the export-oriented companies. The reduced consumption in the world, as a result of the crisis, had and will have its own effect on the operations and projections for future growth and development of companies. This is expressed on the securities market through reduced securities' prices. Hence, in the second half of 2008, the presence of pessimism among investors on the stock exchange was evident (negative market segment).

Business environment for operating on the stock exchange in 2008 was also influenced by the following factors and circumstances that had positive implications:

- Increased transparency in the operations of the companies listed on the stock exchange, in the part of disclosure of information about the financial performance of the listed companies, and in terms of disclosure of other price sensitive information;
- Operation of private pension funds in RM, whose presence in 2008 had already begun to be more visible on the securities market;
- Official start of several investment funds in RM;
- Promising tax climate;
- Low inflation;
- Stable exchange rate;
- Stable security environment;
- Functional institutional market infrastructure;
- Harmonization of legislation in the country and the market environment for the purpose of ongoing integration process of the Republic of Macedonia to the European Union.

Taking into account current developments in the Macedonian market securities as a result of the crisis that gripped global financial markets, in the fourth quarter of 2008 Exchange enhanced followed developments in securities trading on the Macedonian capital market. There was a communication with the stock exchanges in the region around sharing common considerations, taking into account the relationship of the investors in these markets. Based on an analysis of

the conditions and developments in the domestic market of securities and taking into account the experiences and actions taken to other markets, the Stock exchange repeatedly wore decisions about pricing restrictions on the prices of securities (temporary reduction in price limits in the cases of the considerable price fluctuations).

On 10.03.2008, the Board of Directors of MSE adopted a Decision on amendments to the Listing Rules, with which was imposed an obligation for companies listed in sub-segment of the Exchange Listing to publish the complete audited financial statements, including the notes to the audited financial reporting, obligation which previously had companies listed in sub-segment of Super listing. This Decision entered into force on 18.03.2008.

And 2009 was a quite turbulent year, in which continued to feel the effects of the global economic crisis. Panic by investors resulted with drastically reducing the MBI10, which on 10.03.2009 had reached its bottom of 1598.5 index points.

With the log out of the crisis on major world economies began to oversee the positive expectations of investors, thereby to increase the index of listed companies. On the second of June 2009, the MBI10 index reached 2751.6 index points. In the same year, despite the low value of the shares on the Stock exchange had a low turnover - trading volume which shows that only investors who need money for subsistence sell at such low prices.

From 2008 to 2011 the total turnover and the number of transactions are in constant decreasing. The largest decline in total turnover compared to the previous year was recorded in 2008 and it was -70.32 %. The decline of the number of transactions was 69 47 % compared to 2007.

In 2011 there is a high increase in the total turnover of 133.71 % compared to 2010, but the number of transactions continues to decline and compared to the previous year decreased by -8.99%. After the increasing in 2011, the total turnover and the number of transactions decreased in 2012 and 2013 year whereby 2013 is with the lowest turnover and highest number of transactions in the history of the Macedonian capital market .

It is characteristic that in the Republic of Macedonia has no yet IPO (Initial Public Offer - IPO) of shares by which companies will fund their development plans and projects and still are not created and not offered new instruments in the capital market. Investors still use traditional sources of capital - bank loans.

## Movements of the Indices

On November 11<sup>th</sup> 2001 Macedonian Stock started to calculate the Macedonian Stock Exchange Index (MBI), which was composed from the five most liquid stocks on MSE : Alkaloid AD Skopje, Evropa AD Skopje, Komercijalna banka AD Skopje,

Makpetrol AD Skopje i Toplifikacija AD Skopje. MBI was price, unweighted index that, as the first stock index in Macedonia perform its function of introducing the aggregate indicator for quantifying the stock exchange trends.

Even in 2001 when the MBI in 2001 was introduced, was concluded that after a certain time and further development of the capital market, on Macedonian Stock Exchange will be needed to be introduced weighted index. Thus, with the development of the MSE the need arises of introducing a new, weighted index on Macedonian Stock. On the fourth of May 2005 it was introduced new index on Macedonian stock MBI10. With his weighting and market capitalization, was made possible more realistic display of the movements in the prices of Macedonia Stock.

Calculating the MBI10 was performed according to the Methodology for calculating the Macedonian stock index MBI10. MBI10 consists of up to 10 stocks listed on the Official market of the Macedonian Stock Exchange, selected by the Commission for stock index, according to the criteria listed in the Methodology. Commission for stock index regularly (twice a year) and extraordinary (in case of emergency) harmonized the structure of the MBI10 with the market situation.

The Commission for stock index decided, on beginning, MBI10 to consist of the following ordinary shares of 10 listed companies : Alkaloid AD Skopje, Toplifikacija AD Skopje, Komercijalna banka AD Skopje, Makpetrol AD Skopje, Fersped AD Skopje, Stopanska banka AD Bitola, Granit AD Skopje, Makedonijaturist AD Skopje, Evropa AD Skopje i Ohridska banka AD Ohrid. The base for MBI10, with value 1000 takes the value of the index of 30.12.2004.

With the starting of calculation of MSE10 Macedonian MSE stopped indices MBI. On the last day of its existence, 30.12.2004 value of MBI index was 1350.23 index points as compared to the beginning of his calculation is increased by 5 %.

From 18.06.2007 MSE began calculating and publishing new index of shares publicly held companies MBID with a base value of 10,000 index points on 15.06.2007. Given the heterogeneity of companies whose shares are traded on the Market of publicly held companies on the Macedonian Stock Exchange, both in terms of size of capital, and in terms of liquidity , according to the Methodology for its calculation, MBID is a price, unweighted index whose components are selected by the Commission for stock index, taking into account the following criteria : number of days of trading and turnover between two revisions of the index.

Analysis for the period to introduction of MBID showed that shares traded on the Market of publicly held companies has been interesting for investors, especially bearing in mind the obligation of these companies to report to the Commission for price-sensitive information, under the Law on Securities.

The data show that during the year 2007 trading on the Official market accounts for over 73 % of total turnover, trading on the publicly owned companies contributed with significant 21 %, while free market accounts for about 5 %. So given that MBI10 is an index which relatively indicates the movement of the prices of the 10 most representative stocks listed on the Official market, and it has imposed a need to introduce an index that shows the price movement of the shares on the Market of publicly held companies.

The Board of Directors of MSE at the meeting held on 26.06.2006 adopted the Decision for the calculation of Index Bonds on the MSE, named OMB. OMB will be a price index weighted by turnover with a limit, the stake of each bond in the index composition may not exceed 30%. OMB is calculated based on the Methodology for calculating the Index Bonds on Macedonian Stock and is composed of bonds listed on MSE selected according to the criteria listed in the Methodology.

**Table 2.** Movements of the indices in the period from 2004 to 2013

Indices	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MBI <sup>1</sup>	1.351,63	/	/	/	/	/	/	/	/	/
MBI 10	/	2.292,04	3.702,54	7.740,79	2.096,16	2.751,88	2.278,92	1.974,86	1.731,18	1.738,86
MBID	/	/	/	8.413,56	2.213,89	3.035,98	2.458,58	2.084,01	1.734,87	/
OMB	/	/	99,06	105,58	107,6	110,06	116,13	121,16	118,61	124,13

Source: Annual buletins 2004-2013

Figure 3. Value of the MBI index in 2004

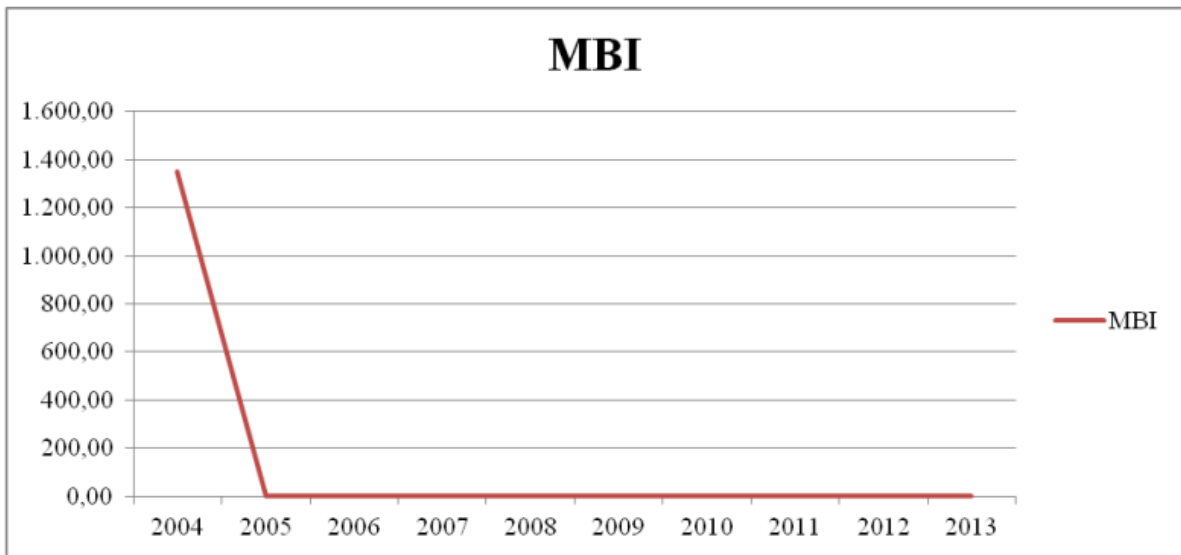
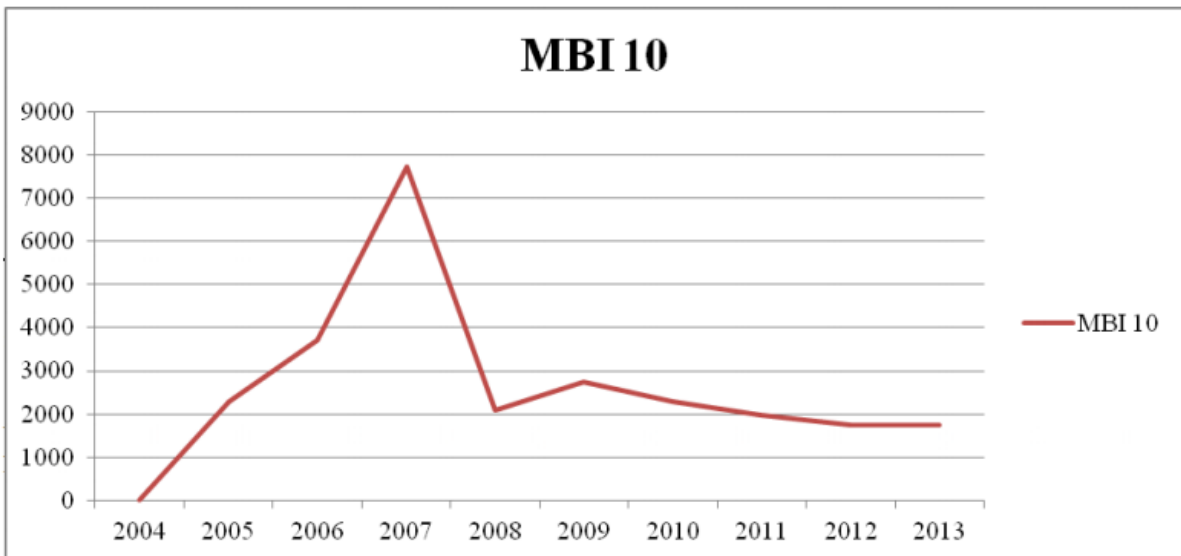


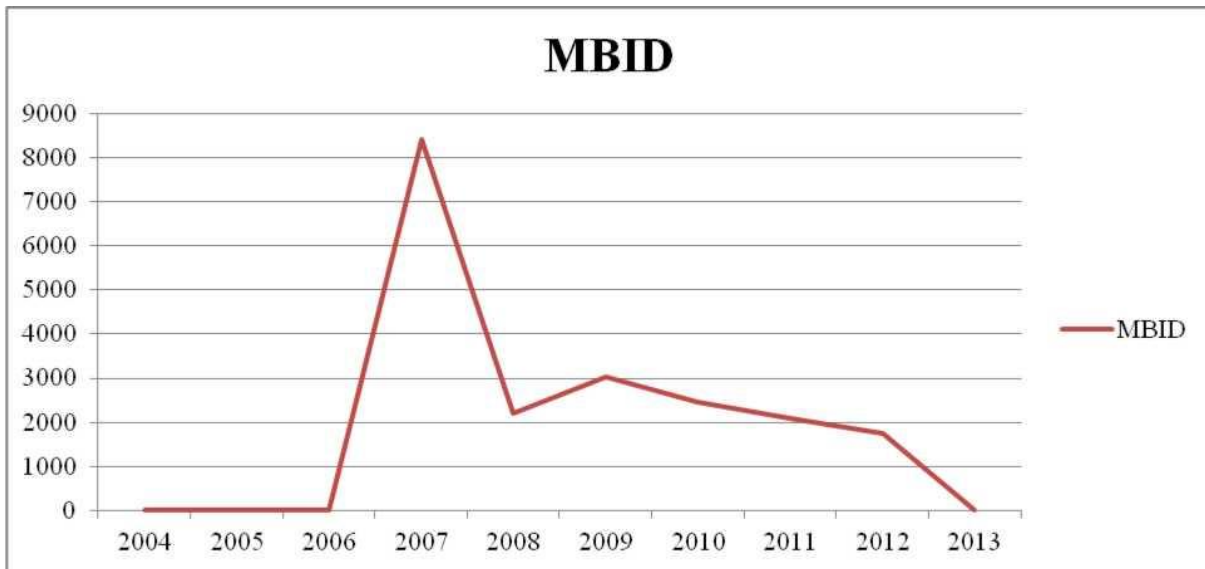
Figure 4. Movements of the MBI10 index in the period from 2004 to 2013



MSE started calculating the MBI10 index in 2005, and the value in the same year was 2.292,04 index points. The value of this index until 2007 increased to 7.740,79 which is the highest value ever noticed. In 2008 there is a significant decrease in

value of the index to 2.751,88. In 2009 and 2010 the increase in value is to 2.278,92 index points which is highest value noticed in the last four years. Since 2010 index's value is decreasing, except in 2013 when a little increase compared to 2012 is noticed.

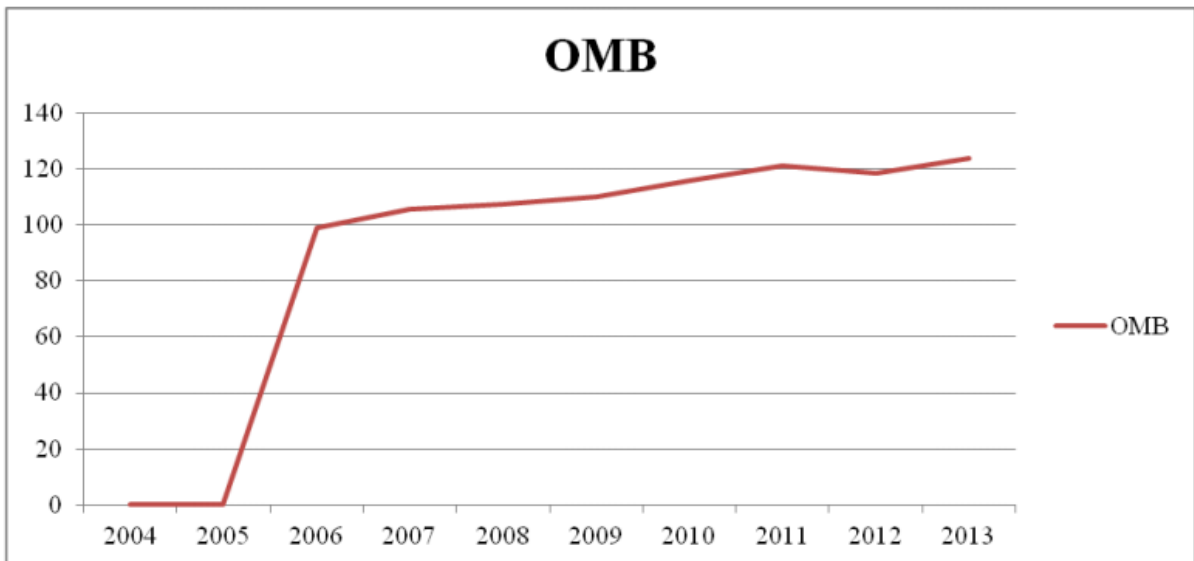
**Figure 5.** Movements of MBID index in the period from 2004 to 2013



The MBID index, same as MBI10, has highest value in 2007, i.e. 8.413,56 index points. In the period from 2008 to 2013 index's value is constantly

decreasing, except in 2009 when a little recovery is noticed.

**Figure 6.** Movements of the OMB index in the period from 2004 to 2013

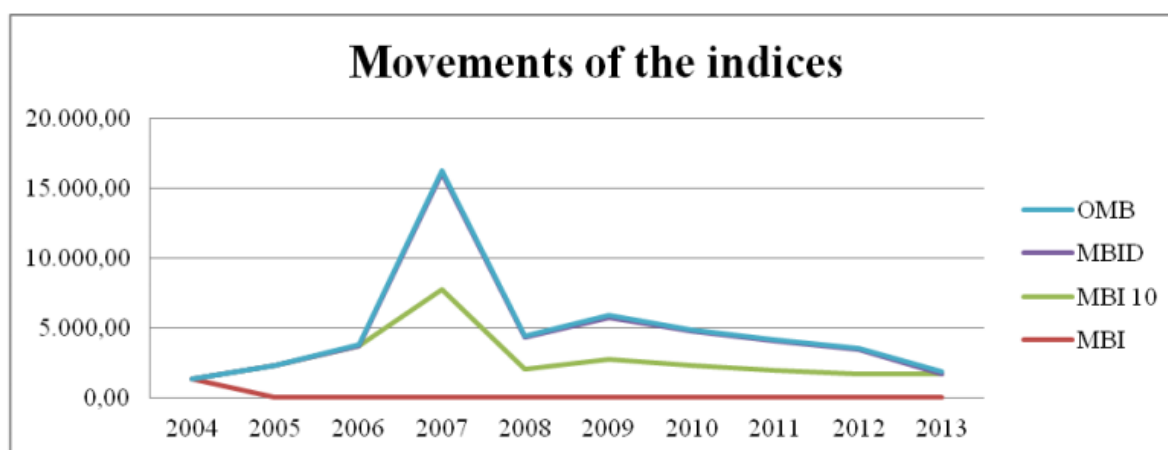


In 2006 the value of OMB index amounted to 99,06 index points. Its value from 2007 to 2011 is constantly increasing, and the highest value in this period is 121,16, noticed in 2011. In 2012 there is a

slight decrease in the index's value. The maximal value of the index, in relation to the previous eight years is noticed in 2013, and amounted to 124,13 index points.



**Figure 7.** Movements of the indices in the period from 2004 to 2013



The decrease of the indices' values of the listed companies is a result of the decrease in the trading volume and number of transactions. The OMB index is increasing because government securities are the

safest financial instrument, so investors had decided to invest in securities.

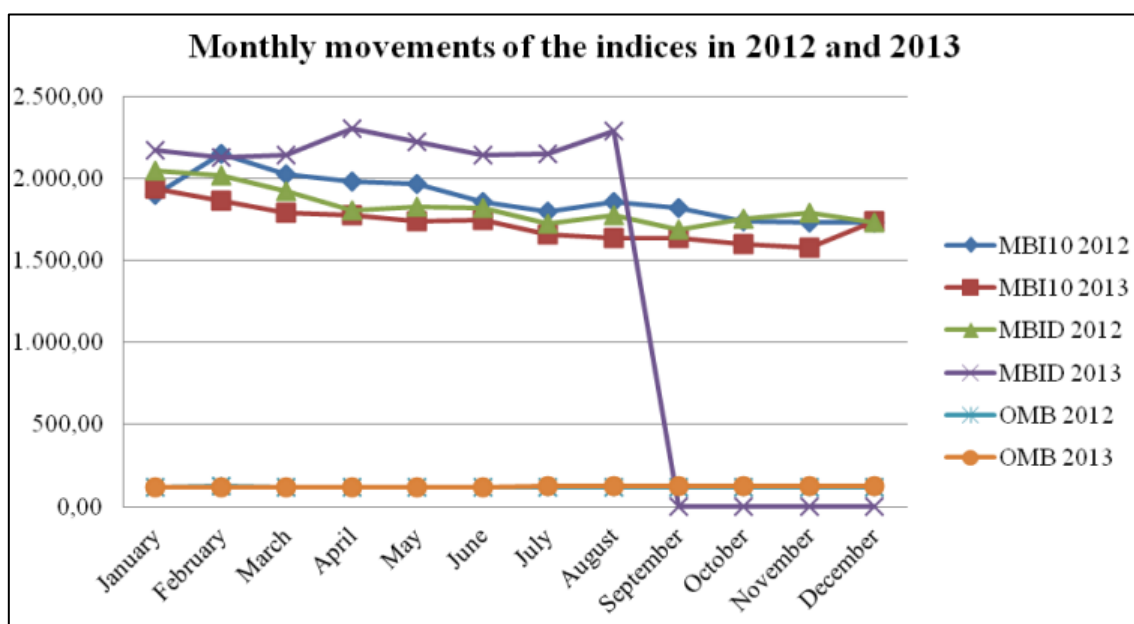
The movements of stock indices by months in 2012 and 2013 are shown in the following table:

**Table 3.** Monthly movements of the indices in 2012 and 2013, source: Annual bulletins for 2012 and 2013

Month	MBI10	MBI10	MBID 2012	MBID 2013	OMB	OMB
January	1.899,39	1.939,88	2.044,30	2.170,92	120,59	120,11
February	2.149,86	1.866,14	2.018,38	2.125,54	122,68	119,28
March	2.025,33	1.792,09	1.925,00	2.142,76	121,04	119,89
April	1.982,33	1.774,54	1.801,50	2.303,12	121,50	120,65
May	1.968,00	1.740,69	1.827,89	2.219,78	120,58	121,48
June	1.858,01	1.745,48	1.819,44	2.140,51	118,83	120,33
July	1.797,57	1.655,55	1.726,05	2.152,74	118,89	122,51
August	1.856,07	1.633,63	1.772,00	2.288,45	118,75	122,19
September	1.822,36	1.634,43	1.687,29	0	118,68	123,71
October	1.742,11	1.602,37	1.756,56	0	118,51	122,55
November	1.728,15	1.575,38	1.791,45	0	118,51	121,92
December	1.731,18	1.738,86	1.734,87	0	118,61	124,13

Source: www.mse.mk

Figure 8. Monthly movements in 2012 and 2013



Participation of foreign and domestic investors in the total turnover in December in the previous ten

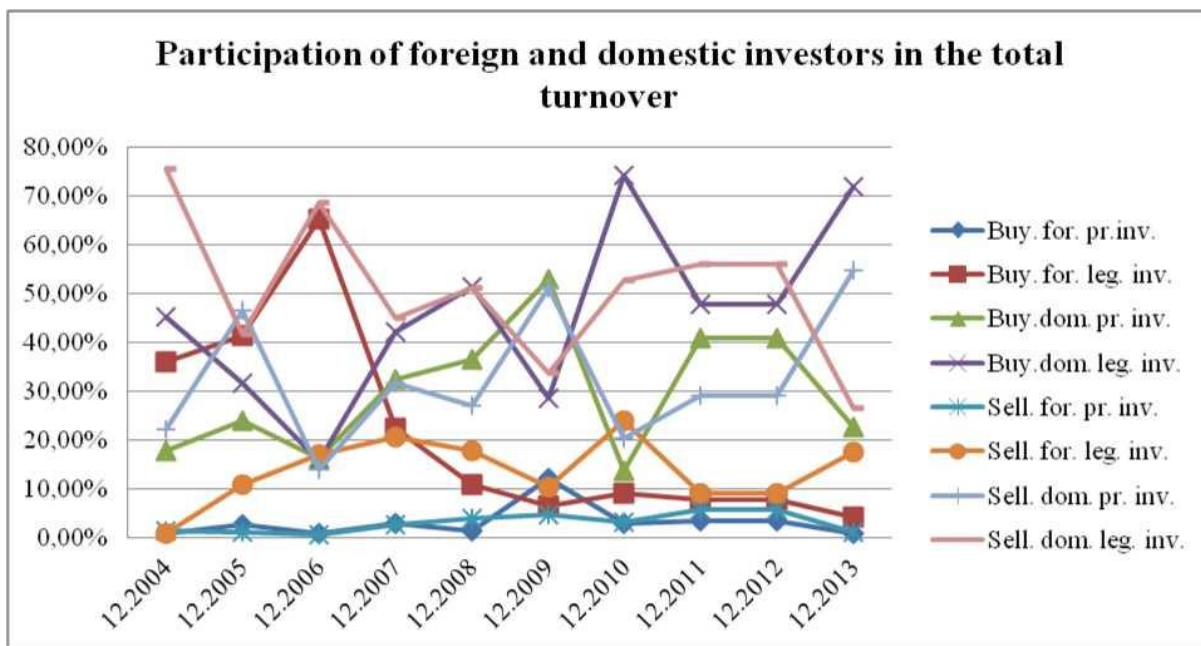
years is shown in the following table:

Table 4. Participation of foreign and domestic investors in the total turnover

	12.2004	12.2005	12.2006	12.2007	12.2008	12.2009	12.2010	12.2011	12.2012	12.2013
Buy. for.	0,92%	2,71%	0,97%	2,85%	1,27%	12,18	2,94%	3,50%	1,24%	0,96%
Buy. for. leg. inv.	36,08%	41,54%	65,30%	22,39%	10,8%	6,41%	9,09%	7,68%	11,33%	4,27%
Buy.dom. pr. inv.	17,75%	24,00%	16,26%	32,54%	36,58%	52,87%	13,79%	40,99%	22,32%	22,78%
Buy.dom. leg. inv.	45,25%	31,75%	15,80%	42,30%	51,35%	28,54%	74,18%	47,83%	65,11%	71,99%
Sell. for. pr. inv.	1,44%	1,10%	0,63%	2,61%	3,84%	4,72%	3,07%	5,71%	2,28%	1,13%
Sell. for. leg. inv.	0,88%	10,75%	16,93%	20,57%	17,76%	10,27%	23,96%	9,02%	11,32%	17,49%
Sell. dom. pr. inv.	22,16%	46,54%	13,85%	31,77%	27,14%	51,19%	20,45%	29,19%	15,58%	54,73%
Sell. Dom. leg. inv.	75,52%	41,62%	68,60%	45,04%	51,26%	33,82%	52,72%	56,08%	70,83%	26,65%

Source: Annual bulletins for 2004-2013

**Figure 9.** Participation of foreign and domestic investors in the total turnover in the period from 2004 to 2013



In the total turnover in December 2004, biggest volume have the sales of domestic legal entities with 75,52% and the buying of domestic legal entities, i.e. 45,25% of the total turnover. Buying of foreign legal entities also has a significant volume in the total turnover of 36,08 %.

The sales of domestic private entities participates with highest percentage in the total turnover in the last month of 2005 with 46,54 %. The sales of domestic legal entities and the buying of foreign legal entities are approximately with the same participation in the total turnover with 41,62 % and 41,54% respectively.

In December 2006, most significant place in the total turnover have the sales of domestic legal entities, and the buying of foreign legal entities with 68,60 % and 65,30 %. The other participants have significantly lower part in the total turnover in this month with less than 17%.

The sales of domestic legal entities has biggest volume in the total turnover in December 2007, i.e. 45,04 %. Also, a significant part have the sales of domestic legal entities, or 42,30 %. Next are the buying of domestic private entities and the sales of domestic private entities with more than 30% in the total turnover.

With 51,35 % and 51,26% the sales and the buying of domestic legal entities are participating in the total turnover in 12.2008. Also, a significant volume has the buying of domestic legal entities, or 36,58 %.

A most significant place in the total turnover in the last month of 2009 have the buying and the selling of domestic private entities, i.e. 52,87 % and 51,19 % respectively. The other participants have a lower volume of less than 33,82% in the total turnover.

With 74,18 % the buying of domestic legal entities takes a biggest part of the total turnover in the last month of 2010. The sales of domestic legal entities, also has a significant part in the total turnover, i.e. 52,72 %.

In the last month of 2011, 56,08% of the total turnover have the sales of domestic legal entities. As other participants in the total turnover in this period appear the buying of domestic legal entities and the buying of domestic private entities with 47,83% and 40,99% respectively.

In December 2012, the sales of domestic legal entities again has a biggest volume as in the previous year, i.e. 70,83% of the total turnover. 65,11% of the turnover belongs to the buying of domestic legal entities, as second most important investors in this month.

The buying of domestic legal entities has a biggest volume in the total turnover in the last month of 2013, i.e. 71,99%. Also, a significant part have the sales of domestic private entities by 54,73% of the total turnover.

According to this data, a conclusion can be drawn that in the last months of the past ten years of operations of MSE, the sales of domestic legal entities has one of the main roles in the total turnover. These investors in the last month of each year analyzed participate with highest percent in the total turnover. It is important to note that also the buying of domestic legal entities, except in 2005, 2006 and 2009, has a significant place in the total turnover in the last months of all years which are subject of this analysis.

On the other hand, buying and selling of foreign private entities has a smallest volume in the total turnover compared to the other investors, i.e. in the last months of the past ten years, these investors did

never participate with more than 12,18% in the total turnover.

A notable fact is that investing of foreign entities is booming until 2006, and from 2007 they withdraw from the Macedonian capital market.

### Market Capitalization

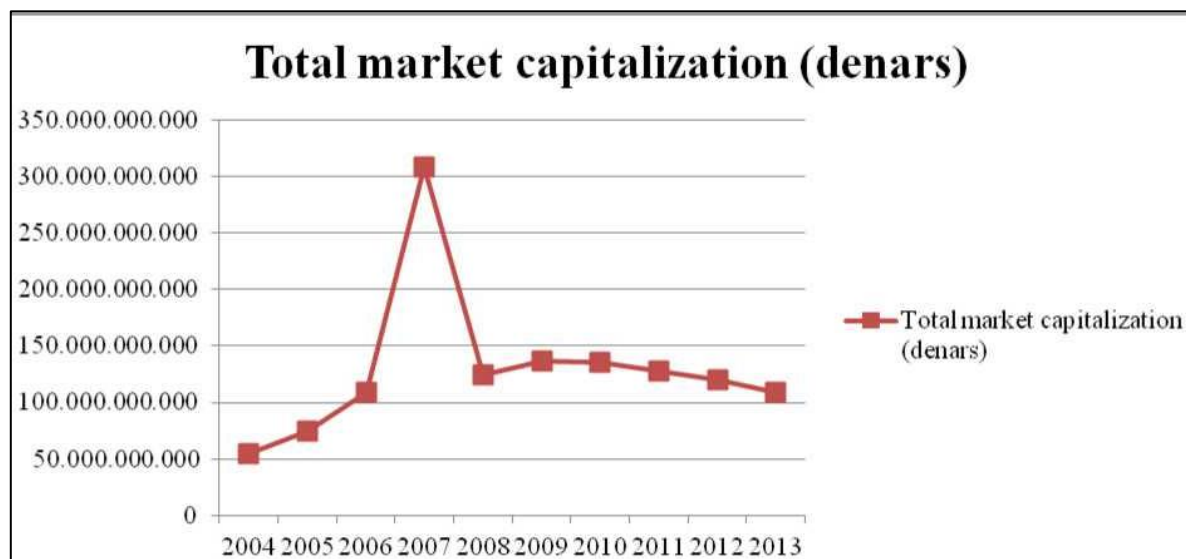
Analogous to the trading volume expressed through the turnover and the number of transactions, the market capitalization of the listed companies is also increasing. This means that until 2007 there is an increase in the market capitalization (as a result of the increase in the securities' prices), and from 2008 to 2013 it has been constantly decreasing.

**Table 5.** Total market capitalization in denars in the period from 2004 to 2013

Total market capitalization (denars)	% change (compared to the previous year)	
2004	54.418.858.377	39,29
2005	74.397.929.106	36,71
2006	108.918.468.343	46,40
2007	309.074.466.349	183,77
2008	124.503.220.753	-59,72
2009	136.963.407.038	10,01
2010	135.089.617.756	-1,37
2011	127.604.837.784	-5,54
2012	120.370.521.057	-5,67
2013	109.334.567.562	-9,17

Source: Annual bulletins for 2004-2013

**Figure 10.** Total market capitalization in denars in the period from 2004 to 2013



Total market capitalization in the period from 2004 to 2007 is constantly increasing, and in 2007 it reaches its maximum in the last ten years. It amounted to 309.074.466.349 denars, which is 183,77% more than the previous year. In 2008, the total market capitalization decreased rapidly by - 59,72%. 2009 was a year of a slight recovery and after that follows a four-year period of constant decrease of the total market capitalization.

### Efforts for Movement on the Macedonian Capital Market

To provide a greater offer of securities on the Macedonian capital market, in January 2013, the Law on Securities and the Listing Rules were amended, which changed the parameters for listing in individual market segments. Listing of securities means the procedure of entering the official security market in accordance with certain criteria set by the stock

exchange and commitment to regularly publish price-sensitive financial and non-financial information and data to the public. In accordance with the amendments to the Law on Securities of 23.01.2013 (Official

Gazette no.13/2013) was introduced an obligation for mandatory listing of securities of issuers that meet the following criteria on the market sub-segment "Mandatory listing":

1.Accuracy and objectivity of financial reports	Audited financial statements for the last two years
2.Nominal capital	At least 1.000.000 euro
3.Distribution of shares' yield to the general public	At least 1%
4.Number of shareholders	At least 50

The distribution of at least 1% of the shares of a particular kind should be in possession of at least 50 shareholders. When calculating the percentage of the top paragraph, exempting the shares which are owned by:

a) members of the management bodies of the issuer, if they are holding over 5% of that kind of stocks,

b) significant shareholders (individual or institutional) with over 10% ownership of the shares of the same kind, and

c) shares owned by the Republic of Macedonia and state institutions, if they have over 10% of the same kind of stocks.

- Under this obligation, 113 Joint Stock Companies from RM had an obligation no later than April 30 2013 to list its shares (securities), through the listing sponsor, to submit the following documents:
- request for listing, signed by authorized officer of the issuer,
- decision of the appropriate authority of the issuer, which approves the listing of securities,
- decision of the appropriate authority that accepts the provisions of the Listing Rules and all its subsequent amendments,
- statement of the person responsible for the accuracy of the date of the listing documentation,
- three copies of the Prospectus for listing,
- consolidation of the statute of the issuer in printed and electronic form;
- confirmation from an authorized depository, no older than 3 days, certifying that limits are not set on the portability of shares of the same kind, which are applied for quotation,
- proof of paid one-time fee for listing;
- a copy of the current condition of the company, no older than three days,
- audited annual financial statements for the previous three years,
- copies of all decisions brought by the issuer which approved all changes in capital equity of the issuer that occurred in previous years,
- statement from the listing sponsor, in accordance with Article 15, paragraph 2 of the Listing Rules.

By these changes in the terms of listing, the supply of securities increased, and was expected that

the movement of the trading volume would have an upward trend.

In order to see the effects of the undertaken actions for revival of the trade on the Macedonian capital market, in the following tables are presented the trade volume per month for 2012 and 2013, and comparative graphical representations.

**Table 6.** Monthly turnover in 2012

Month	Trading in best		Block transactions		Public auctions		Public offering		Total	
	Value MKD	%	Value MKD	%	Value MKD	%	Value MKD	%	Value MKD	%
January	154.349.399	5,60	85.735.205	3,57	-	-	-	-	240.084.604	4,29
February	280.675.069	10,19	443.699.808	18,49	-	-	15.050.481	15,38	739.425.358	13,20
March	356.968.928	12,95	18.808.950	0,78	19.540.684	5,63	-	-	395.318.562	7,06
April	166.369.003	6,04	31.655.537	1,32	33.250.366	9,58	8.784.846	8,98	240.059.752	4,29
May	362.025.553	13,14	21.621.222	0,90	-	-	-	-	383.646.775	6,85
June	288.417.088	10,47	18.753.592	0,78	227.846.000	65,65	-	-	535.016.680	9,55
July	140.324.965	5,09	426.394.877	17,77	-	-	-	-	566.719.842	10,12
August	159.233.090	5,78	78.419.900	3,27	-	-	-	-	237.652.990	4,24
September	217.163.394	7,88	50.831.160	2,12	-	-	74.025.231	75,64	342.019.785	6,11
October	179.098.088	6,50	12.310.368	0,51	31.886.761	9,19	-	-	223.295.217	3,99
November	182.716.839	6,63	1.207.178.421	50,30	-	-	-	-	1.389.895.260	24,82
December	268.129.618	9,73	4.481.400	0,19	34.559.105	9,96	-	-	307.170.123	5,48
<b>Total</b>	<b>2.755.471.034</b>	<b>100,00</b>	<b>2.399.890.440</b>	<b>100,00</b>	<b>347.082.916</b>	<b>100,00</b>	<b>97.860.558</b>	<b>100,00</b>	<b>5.600.304.948</b>	<b>100,00</b>

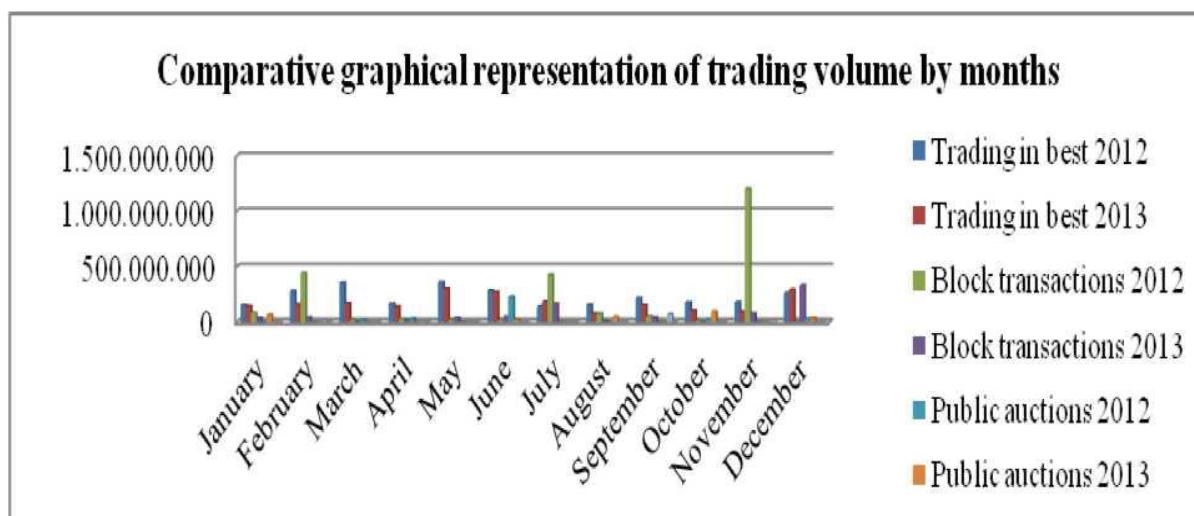
Source: Annual report 2012

**Table 7.** Monthly turnover in 2013

	Trading in best		Block transactions		Public auctions		Public offering		Total	
Month	Value MKD	%	Value MKD	%	Value MKD	%	Value MKD	%	Value MKD	%
January	144.815.555	6,82	37.716.000	4,60	66.158.016	24,08	0	0,00	248.689.571	7,69
February	164.112.976	7,73	42.261.386	5,16	1.845.830	0,67	0	0,00	208.220.192	6,44
March	172.864.969	8,14	3.987.000	0,49	0	0,00	0	0,00	176.851.969	5,47
April	142.835.179	6,73	18.185.450	2,22	0	0,00	0	0,00	161.020.629	4,98
May	304.096.774	14,33	38.588.012	4,71	0	0,00	0	0,00	342.684.786	10,59
June	275.992.431	13,00	48.707.361	5,94	22.978.113	8,36	0	0,00	347.677.904	10,75
July	188.092.754	8,86	168.940.477	20,61	0	0,00	0	0,00	357.033.230	11,04
August	79.997.662	3,77	7.676.601	0,94	48.760.000	17,75	0	0,00	136.434.263	4,22
September	154.568.663	7,28	41.129.330	5,02	0	0,00	0	0,00	195.697.993	6,05
October	104.896.936	4,94	0	0,00	97.667.454	35,55	0	0,00	202.564.390	6,26
November	95.471.668	4,50	82.024.000	10,01	0	0,00	17.514.884	100,00	195.010.552	6,03
December	295.025.164	13,90	330.343.982	40,31	37.303.361	13,58	0	0,00	662.672.507	20,49
<b>Total</b>	<b>2.122.770.731</b>	<b>100,00</b>	<b>819.559.599</b>	<b>100,00</b>	<b>274.712.773</b>	<b>100,00</b>	<b>17.514.884</b>	<b>100,00</b>	<b>3.234.557.987</b>	<b>100,00</b>

Source: Annual report 2013

**Figure 11.** Comparative graphical representation of trading volume by month in 2012 and 2013

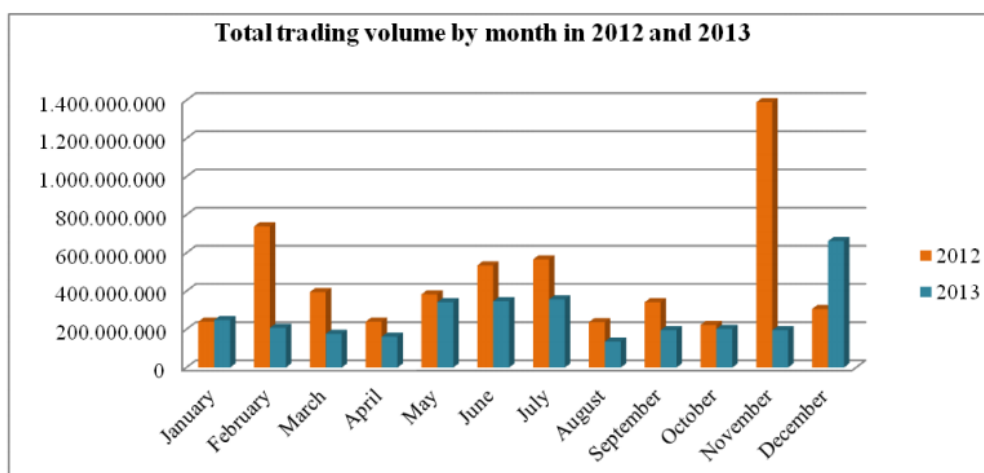


**Table 8.** Total trading volume by month in 2012 and 2013

Month	2012	Structure	2013	Structure	%
January	240.084.604	4,29	248.689.571	7,69	103,5841
February	739.425.358	13,20	208.220.192	6,44	28,15973
March	395.318.562	7,06	176.851.969	5,47	44,73657
April	240.059.752	4,29	161.020.629	4,98	67,07523
May	383.646.775	6,85	342.684.786	10,59	89,32299
June	535.016.680	9,55	347.677.904	10,75	64,9845
July	566.719.842	10,12	357.033.230	11,04	62,99995
August	237.652.990	4,24	136.434.263	4,22	57,40902
September	342.019.785	6,11	195.697.993	6,05	57,21833
October	223.295.217	3,99	202.564.390	6,26	90,71596
November	1.389.895.260	24,82	195.010.552	6,03	14,03059
December	307.170.123	5,48	662.672.507	20,49	215,7347
<b>Total</b>	<b>5.600.304.948</b>	<b>100</b>	<b>3.234.557.986</b>	<b>100</b>	

Source: Annual bulletins for 2012 and 2013

**Figure 12.** Total trading volume by month in 2012 and 2013





According to the table and graphical illustration with data about the total trading volume by months in 2012 and 2013, it is noticeable that in November 2012 the volume is highest and amounts to 1.389.895.260 denars, and it is lowest in August 2013, i.e. 136.434.263 denars. Also, it is noticeable that the trading volume is higher in 2012 than in 2013. In 2012 lowest volume is recorded in October, i.e. 223.295.217 denars which is by 63,67% more than in August - the lowest volume noticed in 2013. Highest trading volume in 2013 is recorded in December

### How to Proceed?

The general conclusion is that the enterprises in the Republic of Macedonia do not have a satisfactory level of knowledge on the legislation of securities. In order to increase the level of knowledge an extensive campaign is needed (through print and electronic media, preparation of manuals and brochures, organizing round tables and panel discussions, individual visits, etc.).

No less important is the cooperation with individuals who are an important link in the chain of potential investors whose savings could be invested in securities, rather than being kept under the pillow or in banks. Also, individuals would acquire the habit of using the services of professional investment advisers to diversify risk and minimize losses of the invested capital.

The regulator of the capital market should create legislation that will make the process of securities issuance simpler. It means to prescribe what form and documentation is required for securities emission.

A creation of new financial instruments is needed, which would increase the supply of securities on the Macedonian capital market.

Also, a creation of a regional integration of capital markets is needed, which will simplify the procedure of foreign investors' entry on the secondary capital market in the country.

(662.672.507 denars), which is by -52,32% less than the biggest trading volume known for 2012.

The presented data imply an apathy towards the Macedonian capital market, although a big part of the listed companies according to the revised financial reports show sound financial results. In order to increase the operations on the capital market, a creation of suitable economic and political climate which will attract foreign capital investors, is needed. *The stock exchange (capital market) is a mirror and a barometer of general developments in a society.*

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