

**THE FUTURE OF SECURITIES MARKET IN ALBANIA**

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**Abstract:**

In this paper we will analyze the existence and impact of the Albanian stock market on the domestic economy. For many years, there has been a large gap in the Albanian financial market due to the lack of a proper stock exchange. Throughout this period, there have been several different initial efforts to create a marketplace that will connect companies that seek to raise capital with investors. The purpose of the stock market is to influence economic growth by moving money into as many different activities as possible. Nowadays the only functioning (working) stock exchange in the financial market is ALSE (Albanian Security Exchange). The goal of ALSE is to introduce a new cash flow culture in Albania. Stock market efficiency, securities price volatility and advanced financial analysis of individual investments in these equity market instruments are topics that always remain in the interest of researchers, private sector and governments. In this paper we focus on addressing the challenges and opportunities associated with the setting up and operating of ALSE. One of the conclusions we consider to be very important in promoting ALSE is the sensitization of the private sector, and the use of mechanisms that increase the transparency of financial information. The limitations of this paper are related to the lack of data and articles that have addressed the challenges of the stock exchange in Albania.

**Keywords:** Albania Stock Exchange Market (ALSE), Albania, Financial Reporting, Financial Culture, Investors.

**1. INTRODUCTION**

A stock exchange is a regulated securities market, where parties enter into contracts agreements for the sale and purchase of financial instruments [1].

Tirana Stock Exchange is the first stock exchange in Albania. This stock exchange was originally created as a department within the Central Bank of Albania, and was intended to be

separated on its own after a transitional period of several years. It was organized as an order-driven market, and its core activity consisted in the secondary trading of T-bills, and 5 types of government bonds. It also operated in the primary T-bills market until 1 August 1998. After 1 August 1998, auctions were conducted at the Monetary Operations Department within the Bank of Albania's. In 2007, the Tirana Stock Exchange was licensed by the Financial Supervisory Authority for an indefinite period until 2014,<sup>1</sup> "to operate as a securities market for government debt, debt and corporate stocks in Albania" for an indefinite period<sup>2</sup>. The Albanian Stock Exchange (ALSE) was launched as a joint stock company in 2014 as an ambitious project with the support of Credins Bank. Its aim was to create a privately owned electronic trading platform that will enable the matching of securities supply and demand in Albania. This electronic platform would fill the lack of an organized market (stock exchange) where local businesses could raise capital alternatively from the banking sector. The project was presented and lobbied to the stakeholders (domestic and foreign financial institutions) in order to acquire financial support. It then went on to market research, identifying electronic trading systems, preparing the regulations, and its license with the Financial Supervisory Authority (AFSA). In 2016, given the high development potentials of this project, and the favorable conditions for the development of the domestic capital market, two additional financial institutions were added to this initiative: AK Invest and American Investment Bank. In 2017, AFSA's Board licensed the Albanian Securities Exchange ALSE sh.a., as the first Albanian private equity company licensed in the country. The official trading of securities was first launched in February 2018<sup>3</sup>. This paper was conceived as a need to assist investors in the securities market that are characterized by the management of savings raised and invested in financial instruments.

## **2. GOAL AND OBJECTIVES**

In the Albanian market, the creation of a stock exchange is a progressive activity for the country's economy, a meeting place between economic entities and investors to exchange capital. The stock exchange provides increase in companies' capital, as well as financing of local and central government. The stock market also increases the safety of small investors' investments, due to the level of transparency it imposes on the securities trading. This study aims to identify and analyze the key indicators that influence the functioning and success of ALSE. The main goals and objectives of this paper are:

- Studying the history of the Tirana Stock Exchange and the reasons of its failure.
- Suggesting some factors that facilitate the long-term functioning of ALSE.

## **3. WHY THE TIRANA STOCK EXCHANGE DID NOT SUCCEED**

The combination of financial capital with human and natural resources stand at the heart of capitalist production. In developed countries, the circulation of financial capital is regulated through the efficient operation of stock exchanges, which today have turned into advanced electronic transactions, minimizing the proper flow of funds. On the other hand, in developing

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<sup>1</sup> ALSE, History of the Albanian Stock Exchange

<sup>2</sup> Article 80, Law Nr. 9879, date 21.2.2008

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countries it happens differently; capital is limited and the main source of funding is the banking system. Albania is one of the countries that have been hampered by the failure of the financial stock exchange. The small amount of social capital in Albania may partially explain the lack of large joint stock companies, but not fully. The following factors have adversely affected the functioning of the Tirana Stock Exchange:

#### Financial culture

Coleman [2] has defined social capital as the ability of the members of a society to work together for common goals. Albanian society has a low level of financial education compared to other developing countries, especially in terms of financial culture.

#### Pyramid schemes in Albania during the 1990s (Ponzi schemes)

In the mid-1990s, some large Albanian companies were established, which functioned almost as joint stock companies, but instead of selling stocks, they collected deposits directly from the public. But how was that possible? The small amount of social capital of Albanian society was supplemented by the government with the implicit support it provided to those companies. These companies went bankrupt; If we look at it from a long-term economic point of view, the bankruptcy of these companies led to the loss of confidence and trust of the Albanian people to the large domestic joint stock companies (in Albania).

#### Non-disclosure of financial statements in compliance with the financial reporting standards.

Publication of distorted financial statements results in large losses to the investors [3]. In Albania, tax authorities' requirements for accounting information continue to prevail over those of other market participants, such as creditors and investors [4].

We cannot ignore the “fears” that companies have in listing in the stock exchange, as they are often characterized by the lack of transparency and a tendency to avoid the fiscal system. The high level of informality in the economy, makes companies not interested in using the stock exchange as an alternative financing option [5]. As a result, almost all companies try to avoid reporting under IFRSs, which would have potentially brought more potential (both) large and small investors. On the other hand, the perception of local individuals with a low financial culture, is that companies never report real information and this creates uncertainty in investing.

#### Lack of proper promotion of the Tirana Stock Exchange

The Stock market is a market where everyone is expected to benefit, but not everyone knows its function. The opening of the Tirana Stock Exchange did not have the expected impact. One of the ways that could raise public awareness in participating in it, is the use of mechanisms for familiarizing with this new form of financial exchange, promoting it and how could they be part of it. Information is often the main factor to make a decision.

#### **4. WHAT IS EXPECTED TO BE DONE DIFFERENTLY WITH ALSE**

Albania has an asymmetric financial system, with the banking sector being the only pillar that has been developed. Meanwhile, as part of the non-bank financial sector, Albania has a market where the capital market is almost absent, although many market operators are licensed (brokerage firms, custodians, investment funds, pension funds, life insurance, etc.). On the other hand, despite a clear presence of collective saving schemes (investment funds and pension funds, life insurance schemes) in recent years, their further development has been prohibited by the lack of the domestic capital market and alternative investments. Only a few years ago it was possible the drafting and approval a new legislation in compliance with EU Regulations and Directives, and the licensing of ALSE after the evaluation in accordance with the legislation requirements of all documentation related to the subject of activity, capital, management bodies of the company, infrastructure and technological systems needed to carry out its activity. Among other factors that promote the efficient functioning of the stock exchange are:

- I Continuous improvement of business climate for the private sector.
- Promote the application of international financial reporting standards.
- Expansion of the stock exchange at regional level, in order to promote diversification of the participating companies thus enabling portfolio diversification
- Intensify mechanisms for information distribution on stock listing.
- Financial education of younger generations as future financial investors.

#### **5. CONCLUSIONS**

An efficient stock exchange in Albania would be a strong competitor and at the same time beneficial for the banking institutions as the increase of the efficiency of the stock market affects the increase of the debt rates, thus the increase of the banking activity. In the course of this paper we have tried to analyze some of the reasons of the non-functioning of the Tirana Stock Exchange and give our suggestions regarding the functioning and advantages of the functioning of the Stock Exchange in Albania.

The annual balance sheets of the companies in our country are currently unreliable. Being listed in the Stock Exchange forces companies to be more transparent, thus reflecting their turnover and real profit. This is another reason that prevents companies in listing on the stock exchange.

When it comes to listing on the Tirana Stock Exchange, the stock exchange itself should provide more information about the advantages of listing in it. Moreover, one of the main obstacles of listing on the stock exchange is the fact that the majority of businesses in our country are small businesses. In these conditions, we think that more work should be done or more attention should be paid to other opportunities, such as attracting foreign capital.

Over the years in Albania, there has been an improvement in the financial culture, however, it is not sufficient to encourage them to invest in stock markets. Today's generation will be the future investors, so their financial education is very important.

In a situation where a company needs funding in order to make further investments, it may choose to reach out to the public through listing on the stock exchange. The interest rates paid on debt securities are lower than bank loans interest rates.

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