

ANALYSIS OF PROBLEMATICS RELATED TO THE STOCK MARKET IN ALBANIA

Kristal Hykaj

Abstract

The stock market efficiency, the stocks prices volatility or the advanced financial analysis for the individual investment in these capital market instruments are topics that never get outdated and that come under discussions in the academic world now and again. After the fall of the dictatorship system in 1985, Albania went through a lot of economic changes as much as the other Southeastern European countries. Throughout this period, there have been some various novice efforts toward the creation of a market that will connect people who seek money with those who can provide it, or assist the economic growth by shifting the money from less to more productive activities.

Despite of these incentives undertaken in the last 25 years of the post communism period, Albanian proper institutions did not manage to give birth to a well performing stock exchange. Due to the absence of an operative stock market in Albania, there arises the question about the reasons which have influenced this fact. In the following thesis, I aim to underline some of the most reasonable causes such as informality, corruption, lack of political willpower etc. that directly have affected the absence of the organized stock market. Additionally some important measures need to be taken in order that companies which fulfill the required criteria, can list themselves on a stock exchange, gaining in such a way the opportunity to raise new capital for the implementation of new projects that will expand them in the market.

Currently the dominant capital market instruments in Albania are the debt instruments issued by the government, while in the stock market, only take

place some banks and a few private companies. The formation of the stock exchange in Albania requires the commitment of many state mechanisms that will support the market complex economy by drawing policies that determine how beautifully the private agents identify and exploit their economic opportunities, especially the involvement of the government would give an extra encouragement and credibility to the whole process and would be a great hand in the acceleration of EU integration process. The presence of the stock market is crucial to the economic growth of emerging countries.

Keywords: Stock Exchange, Capital Market, Economic Growth, Stocks, Market Capitalization

1 Introduction

In this thesis I tend to bring together the importance of the development of a stock exchange, as the engine-room of a national economy, some of the reasons why it doesn't officially operate in the market, an analysis on the negative reaction of some economic variables due to its absence and the challenges that the future holds for us in order to improve this situation.

In the beginning of the thesis there will be a recapitulation of what stocks and stocks markets are, how these markets function and enable trading of funds, how are they affected by the economic fluctuations and how can a company can make itself public by listing on a stock exchange, including here some priorities of going public.

In the third chapter some insights into the development of the capital market on some Balkan countries are given. The current situation is illustrated with practical examples for countries such as Rumania, Croatia and Greece. These countries has almost experienced the same economic changes. As a result they have similar approaches when implementing the needed legislation and regulations for the stock market.

On contrary of them, Albania did not use to have economic reforms for 50 years, and entering a private property democratic system has been associated with negative features of the other side of the coin that have prevent the integration in the European market and the development of the capital market. The fourth chapter describes the history and the organization of the Tirana stock exchange. Additionally a comparison of other Balkan

countries stock exchanges and their operational level with the current performance of Tirana Stock Exchange is made.

The most essential part regards to the fifth chapter. It includes firstly some analysis on how the Albanian business stands toward the capital market, in terms of fulfilling the requirements for allowing its ownership sale and purchase; secondly the advantages that every integral part of a society gains when information can flow freely and make us take decisions; and thirdly the most crucial point that regards our generation, what has to be changed so that the expectations may be increased.

The thesis ends with some considerations and recommendations based on the personal judgment I gained throughout the research work for this thesis.

2 Fundamentals of the stock market

2.1 Concept of stocks and stock market

The concept of the stock market originates since the European Industrial revolution about four centuries ago. Many of the merchants of that time understood that starting huge businesses could not be accomplished alone and so they came together by contributing their savings to a single enterprise or the so called a joint stock company. The trading of the shares was initially conducted informally on the streets of London but obviously, as the volume increased, it arose the need for a market place where the exchange would take place, and so, in 1773, they used this coffeehouse to meet for their transactions, which was later converted in the London Stock Exchange. In the same way was the New York Stock Exchange created, by a group of 24 merchants in 1792 on the Wall Street, which now facilitates billions of dollars each day. (Valdez, 2003).

Depending on the term of securities available to trade, we have two main divisions of the market: the money market of the short-term securities, which firms and individuals use primarily to store funds for short periods of time until a more important need or a more productive use for the funds arises, and the capital markets for securities with an original maturity that is greater than one year. These securities include bonds, stocks, and mortgages which have a great importance to investors, businesses, and the economy. The primary reason that individuals and firms choose to borrow long-term is to reduce the risk that interest rates will rise before they pay off their debt. This reduction in risk comes at a cost, however, because most long-term

interest rates are higher than short-term rates due to risk premiums. In this paper we're only concerned on stocks and on how the missing stock exchange in Albania can affect some of the economic indicators. (Frederic S. Mishkin, 2012).

The most basic concept of the stock market is the idea that each share of stock represents a small portion of ownership of a corporation. Investors can earn money from holding this type of percentage interest either by an increase in the price of stock over time or by dividends, and of course they can lose money if the price decreases or the dividends change. Taking into account these variables and the fact that stockholders get paid after all the claimants have been satisfied, the stock investment is surely more risky than a bond investment. Nevertheless a stock does not mature and offers the right to vote on directors or certain issues, and the most important: it makes you rich if the company performs well.

2.2 Types of stocks

The two, already familiar, types of stocks are the common and the preferred ones. As mentioned in the previous paragraph, common stockholders have the right to vote, to receive dividends and an extra return if the price goes higher. There might be another classification inside this group of stocks that is related to the way the dividends or the voting rights are distributed in different companies and that can be a very good lead for the investors when deciding to buy shares in these companies. But somehow this is not very reliable because these classes let's say do not have a standard meaning across all companies i.e if we call these classes of stock for example A or B etc., it doesn't necessarily mean that an A stock in Apple Inc. is the same as an A stock of McDonald because these companies may have different policies regarding the dividends distribution.



Figure 1. Example of a stock. Source: Frederic, S. Mishkin (2012)

The other one is the preferred stock with very different characteristics compared to the first one. Firstly preferred stockholders receive a fixed dividend which looks more like a coupon payment of a bond except the fact that it has no maturity and because of this fixed dividend, the price of the preferred stock is relatively stable. Secondly they do not have voting rights, they're only entitled to those if the company has failed to pay their dividends. And thirdly the claims of the preferred stockholders come prior to those of the common ones but still after the creditors and all other claimants have been satisfied.

Statistically firms would more likely raise capital through debt issues rather than preferred stock issues, because when paying interest on bonds they can take advantage of tax deductibility while when paying dividends on preferred stocks there's no such facility which makes the last one more costly to the firm. We can illustrate this by an example. Let us suppose that X-corporation has a target capital structure of 60% common stock, 10% preferred stock, and 30% debt. Its cost of equity is 14%, the cost of preferred stock is 6%, and the cost of debt is 7.5%. The relevant tax rate is 35%. Now, it looks like the preferred stock is less costly than the debt, but considering that the cost of debt is tax deductible we need the real cost of debt:

$$R_D \cdot (1 - T_c) = 0.075 \cdot 0.65 = 0.049$$

or 4.9% which is actually less than 6% of the preferred stock. (A.Ross, 2008) .

2.3 Stocks trading

When speaking about stock trading on stock exchanges, we mean sell stock for cash or buy stock with cash, there are no options like exchange one stock for another even though the name kind of suggests so. The market of capital trading is either a primary market or a secondary one. Corporations enter in the capital market because either they don't have sufficient capital to fund their investment opportunities or they want to preserve their capital to protect against unexpected needs. They introduce new issues of stocks and bonds initially in the primary market and receive the proceeds they need from the sale. This procedure of making securities available to the public for the first time is called an initial public offering or (IPO).

But most investors that buy this issues do not usually stay passive. They'll probably sell bonds before they mature or sell their holdings of stock when they think that it is at its highest price. That's why a secondary market

exist, so that the trade can go on for every individual with access to a broker or an automated electronic broker that operates online. In a typical transaction, the seller thinks the stock is at its peak price, while the buyer expects it to rise in value at some point in the future. All this flow of information, stock ownership, and funds through the stock markets is a critical feature that requires special rules and regulations that provide a well-developed and efficient capital market, so that investors be encouraged to buy stocks and to provide equity capital to businesses with valuable growth opportunities. The liquidity of the secondary markets is a key factor for the existence of the primary ones, because investors would probably think twice before acquiring securities in the primary market if there was not a subsequent liquid secondary market to sell them later.

There are three types of exchanges in the secondary market for capital securities: organized national exchanges, regional exchanges and over-the-counter exchanges. The traditional definition of an organized exchange is that there is a specified location where buyers and sellers meet on a regular basis to trade securities using an open-outcry auction model. As technology grows the electronic model is no doubt more frequently used. Some of the biggest and the most active stock exchanges around the world are NYSE in USA, Nikkei in Tokyo, London Stock Exchange in England, the DAX in Germany, and the Toronto Stock Exchange in Canada. On the other hand, regional exchanges, typically, operate in the same way as national exchanges with the only difference of listing requirements and geographical distribution of the listed companies. These exchanges provide facilities for local companies not large enough in terms of less stringent requirements and also, sometimes, list firms listed in national stock exchanges as well, in order to give the local brokers access to these securities. Many firms believe that being listed in one of the major exchanges can bring a certain amount of prestige for that firm and sometimes they even include this in their advertising. However we cannot put an implication sign between the listed company and its value of the stock, there are not enough proof to support this belief. The last type of exchange secondary market is called over-the-counter market (OTC) which instead of having a building where trading takes place, it has sophisticated telecommunications networks such as NASDAQ for example. The difference between organized and OTC markets stays exactly behind the people who undertake the trading. Whereas organized exchanges have specialists who

facilitate trading, over-the-counter markets have market makers who set bid and ask prices and buy for inventory when investors want to sell or sell from inventory when investors want to buy.

All the markets are interrelated to each other with respect to provide liquidity for an asset because the more liquid an asset is, the greater is the quantity demanded. For example, dealers of a regional market provide liquidity intervention for the thinly traded assets, ensuring in such way qualitative information on these assets for OTC markets.

2.5 Procedures of listing, Corporate stock issues

With an initial public offering (IPO), we should understand the sale for the first time of the stocks of a joint stock company (jsc) to the public. It should not be confused with ‘initial offers’ that represent the following sales of the shares to the public. A stock company may perform only one IPO and “many initial offers” during its economic activity. The other stock issue is seasoned equity issue. It represents offering of new shares from a firm that has already stock outstanding. When firms need to raise new capital through seasoned equity issues, they could easily approach to the current price of their stock in order to price the additional shares. Moreover, the procedures of executing a seasoned equity issue takes less time than an IPO, because the information is already with the involved institution from the IPO process. (Meka, 2007).

Procedures for realization of an IPO

- Step 1: contacting an investment bank or a specialized intermediary, which acts as an advisor and an underwriter. Actually there’s no law or rule that obligates a stock company that wishes to raise capital through an IPO to definitely realize it through the above mentioned services. In case of the execution of an IPO through an investment bank, both parties should agree on the amount of capital of the jsc that will be offered, the type of the securities that will be issued, the price of the security, any specific or special feature of the security and the firms cost for this issuance. There exist two types of agreements between the investment bank and the joint stock company:

1. the guaranteeing agreement (firm commitment agreement). In this deal, the investment bank agrees to buy all the securities issued by the joint stock company, so that after it can resell them

to the public. The investment bank provides the required amount of money to the issuance company and undertakes all the risk to itself, in case of a non-sale of the total securities issued. Generally IPO-s are realized by more than one investment bank, mainly because of issuance risk diversification. So a group of investors (bankers or non-bankers) come together to form a kind of union and choose a director or administrator that designs an understanding letter. This letter serves to formalize the relationships between the union members as much as the relationships between the union and the joint stock company (it has no binding character though). Immediately after the Security Commission approves the prospect of the company, all the parties that have signed this letter, enter in a binding agreement. There exist three types of agreements within this purpose: the agreement between the underwriters, the agreement of underwriting and the agreement of the traders.

- The agreement between underwriters determines the relations between the underwriters, the administrator of the union and all the cases where the administrator acts on behalf of the other union members.

-The agreement of underwriting determines the relations between joint stock companies and the underwriter/s. This agreement is executed by the administrator of the union based on the authority that he carries by the above mentioned agreement.

-The agreement of the traders determines that the traders of the securities have the right of buying some part of the securities issued with a discount from the initial price of the public offer.

2. Best efforts agreement. In this deal the investment bank agrees to sell the securities of the joint stock companies without bearing any risk for the amount of money that will be earned from the issuance. The risk of a non-sale is totally transferred to the joint stock company itself. In this case we have a ‘sales group’ (the underwriters) that supervises the sale of the securities issued. According to the agreement between the group and the stock company, every member of the group takes a portion of the securities that he/she will sell and makes the best effort to sell them completely, and the joint stock company remains satisfied

from the profits realized from the sale, be those partly or total. There's another agreement between the two parties though, called 'everything or nothing', according to which the underwriters agree to do the best efforts for selling the securities within a predetermined maturity date. The total income goes to a special account and not directly in favor of the company. If the securities do not totally sell within maturity, the offer is cancelled and the money raised returns again to the buyers of the securities.

- Step 2: the fulfilling of the legal obligations for a full exposure of the joint stock company economic activity. The jsc must legally design a prospectus. The investment bank or the jsc should fill that in consistently with the rules of and in cooperation with the Securities Commission. The date of the prospectus delivery by the jsc to the SC, is known as the 'documentation date'. The prospectus contains out and out: the information that the investors and their professional advisors would search and hope to find in order to make precise evaluation on: assets, liabilities, financial position, income/losses, future plans of the jsc; rights related to the securities issued, other requirements and norms placed by the SC. There's also another document of great importance such as the declaration of the independent accounting expert on the quality of the financial statements reports of the jsc. After the prospectus is delivered, the Securities Commission is allowed to take some time period called 'cooling off period' in order to revise if the exposure of the information of the jsc is compatible or consistent with its requirements. Meanwhile the jsc attempts to arouse interest on the issuance through a preliminary prospectus, which aims to introduce the jsc to the public and measure the degree of the public interest on the securities issued. The preliminary prospectus contains almost the same information as the prospectus, except of the public offering price and the effective date of the issuance. This two indicators should not be made known during the 'cooling off period'. Also no suggestions, evidence, reports, recommendations or literature of the jsc are allowed. Before the effective date, the jsc organizes a 'due diligence meeting' with the engaged parties, in which all the last minute problems that arise between the documentation and effective

date, are fixed and neutralized. Usually this meeting coincides with the day of the prospectus approval by the Securities Commission. And at the end the prospect is made available to the public with all the necessary information.

To determine the price of an IPO, it is necessary that the specialized intermediary conducts a careful and professional analysis of the following indicators:

1. Financial indicators. In this session the analysis focusses on examination of the financial statements and accounting documents of the joint stock company that are preliminarily audited by the independent accounting expert. More exactly, the following issues are examined:
 - the accounting method used and its effect on reporting;
 - instruments;
 - cost of capital;
 - general and administrative expenses, as a percentage of the sales;
 - long term liabilities;
 - profit margin;
 - owners equity.
2. General indicators. In this session the analysis focusses on the following issues:
 - The field and longevity of economic activity;
 - The product cost;
 - The experience and qualification of the directors;
 - The growth perspectives in geographical and technological terms;
 - The market share of the jsc;
 - First raw materials suppliers.
3. Juridical indicators. In this session the analysis focusses on the following issues:
 - The environmental considerations;
 - Legal liabilities and lawsuits;
 - National, state or local legislation (favorable and discriminatory sides of the jsc);
 - Trademarks, patents or other similar assets.

After the above indicators are analyzed, they determine the amount of money and the price of each security and automatically

calculate the quantity of shares that will be offered to the public. At this point they need to consider an optimum between the price and quantity of the securities, in order to ensure liquidity and a satisfying issuance. Normally one month before the effective date, the jsc and the working group drive a promotion of the joint stock company, which will affect the performance of the jsc in the market. This is known as the “roadshow” phase which is one of the most difficult and important because of its characteristic. This phase involves the execution of some meetings with the high level directors of underwriters, syndicate directors, institutional investors and analysts. It plays an important role in determining the price of the IPO and quantity of shares. The key of success is known as the key of four B-s: Be trustful; Be conservative in evaluations; Be well prepared; Be impressive from the first moment.

- Step 3: The sale and the closure of the IPO. The sale of the IPO can be accomplished through the stock exchange or the demands method. This method can be realized in two forms: at a constant price or a variable price.

After the prospectus approval, the jsc is legally obliged to address a request on writing to the stock exchange for listing its stocks on it. The stock exchange examines the request and the necessary documentation, and if the criteria are fulfilled, it makes the stocks available for trading according to its own procedures.

With the demands method, the sale of the IPO takes place at the bank tellers, where every individual may come across to buy shares of a jsc. An IPO is considered closed or finalized when all the transactions and shares, money, commissions transferring are finished. The closure is different for different methods of an IPO.

The closure, in the case of the guaranteeing agreement, is usually done 1-2 weeks after the effective date, while the one in the case of best efforts agreement (usually used for small issuances), lasts in general 60-120 days after the effective date. At this final phase, the legal representative of the syndicate delivers a closure memorandum, which highlights the parties that will be equipped with original documents, and those with the copy ones. Also a confirmation that the underwriting representatives are actual employers of the subjects

that participate in the process and practice their respective functions, is attached to the memorandum. The independent financial expert issues a document that highlights the accordance of the process with the regulation. The documentation of the final phase in both cases consists of:

- ✓ a document that contains names of shareholders and shares cuts, provided by the jsc or its agent;
- ✓ a notarized confirmation of the foundation act of the jsc;
- ✓ a confirmation by the officials of the jsc that it has carried out all legal requirements, approved the whole procedure until the closure of the IPO and not published any information that could affect the price of the public offer;
- ✓ a document by the legal representative of the underwriter, who gives the final opinion related to the IPO;
- ✓ a document by the legal representative of the jsc, who gives a final opinion on the IPO.

Priorities of the IPO

The main priorities when issuing stocks through an IPO, are:

-unlimited use of funds. The earnings gained from the IPO can be used for wide and different purposes such as: research and development, property or equipment or raw material acquisition, reduction in existing debt, increase in floating capital etc... It's just necessary that the way these funds are going to be used, is stated in the future plans paragraph of the prospectus.

-compensation tool. The execution of the IPO itself, is a perfect recompense strategy to attract and to maintain capable directors and employers.

-improvement of the financial position. The sale of the public offer increases the net value of the jsc and improves its ability of borrowing. If the jsc performs well in the market, it can provide extra funds with more favorable conditions, meaning a probability of investment increase at lower costs.

-purchasing other companies shares. The provided funds through IPO-s, can be used to buy shares of other jsc-s that trade publicly in the stock exchange. So the jsc can buy the above mentioned packages, without the need of borrowing or selling its own instruments.

-prestige. Going public, more information and exposure becomes valuable for the jsc, increasing its marketing and business options. Clients would prefer doing business with a jsc, the financial indicators of which are publicly known.

-calculation of a real market value of the jsc and liquidity providence.

3 The development of some Balkans Stock Exchanges

3.1 General features of the Balkan market capitalization after the 90's

The privatization and the liberalization of the stock markets in the Balkan region occurred mainly in the 90', after the collapse of the communist regime. In the previously communist economies, the financial sector was completely adapted to the centralized planes. In such systems the specialized financial institution didn't operate independently and the allocation of the few financial resources was conducted through a mono-banking system, where the Central Bank was the supreme monetary authority, and at the same time the formal authority. (Karagoz, 2010). After these systems collapsed, each of these countries realized liberal governing programs, initiating so the transition process toward the market economy. A common feature of this region economies is that, in the initial phase of the transition, they avoided any kind of radical reforms in the financial sector and the reforms were developed more in quantitative rather than qualitative terms. The number of the financial institutions increased very quickly, mainly due to the privatization of the big companies and the creation of new financial entities.

In some of these countries, like for example in Bulgaria, the financial sector incurred an immediate exposure to the foreign investors. The Balkan stock markets are still very young compared to the developed markets of Europe and United States. Their activity started in the middle '80 and '90 with very few listed companies which weren't even that much of sufficient liquid companies. During 2000-2006 the stock prices in the region markets increased, on average, more than 70% (in US dollars), which is very high compared to the increase of 15% of the world index.

Turkey, Rumania, Bulgaria and Croatia are considered to be the most developed countries with regard to capitalization and performance of the market. (Samitas, 2008). The financial control in this markets has been strengthen a lot and the amount of bad credits has decreased at an acceptable level. With respect to these developments and the exposure of the exchanges

toward the global financial markets, the financial intermediation is seriously increased and central banks are forced to implement new regulations to keep the system under control. (Raport i Bankës Botërore, 2011).

The experience of our region countries shows us that the financial market cannot be developed spontaneously without a strong interference of the state which must enable sufficient conditions for its normal functioning and performance. In the following sections we are describing some facts related to the foundation and development of three main stock markets in Balkan, in terms of capitalization and liquidity of the titles traded.

3.2 Athens Stock Exchange

Athens stock exchange (ASE) was founded on 1876 jointly with the approval of the first legal package for this type of market. Initially, it started its activity as an independent statutory public institution. Later on 1918, it was transformed in a public legal entity, and on 1928, the roles and liabilities of the stock traders and financial intermediaries were clearly specified. On December 1997, the Greek government sold 1.983.270 shares of the ASE to chosen investors. On November 1999, it was implemented a new computerized modern system for stocks and derivatives trading, called Integrated Automatic Electronic Trading System (in their language, it's OASIS). On August 2000, the Hellenic Exchange (HELEX) company was listed in the main market of the ASE. On 2002, the two companies, ASE and HELEX, were united to form the new leading company of the stock market, ATHEX. There operate approximately 100 companies, which exchange mostly stock and bonds. The issuance of the titles happens in the primary capital market, while the trading happens in the secondary one, represented by ATHEX. They also have other classification of the markets, based on the size of the listed companies (main, parallel or new market), or based on the trading titles.

The surveillance of ASE is done by the National Economy Ministry, which provides conformity between all the parties engaged in trading, as well as the applicability of the laws and regulations. The Capital Market Commission (CMC) is an independent authority which controls the capital market and protects public investments from illegal actions.

The orders for shares in the Greek market are performed through the electronic system OASIS, during the determined hours and in accordance with the rules set by the Board of Directors of ASE. The orders sent in the

system before the daily opening of the exchange, set the initial price of the respective titles. If there are no orders, then the opening price corresponds to the closing price of the previous day, modified naturally by the last news. The orders are combined based on the price: the buying order with the highest price is automatically combined with the selling order of the lowest price. The CMC decides for the maximum fluctuation of the price of the traded stocks. The closing price for automatic transactions is determined by an weighted average of the prices of the last 10% of executed orders. The closing price of the stocks that trade with the ‘calls’ method, corresponds to the price of the very last call. The Greek stock market is characterized by:

- Investors who make transactions in ATHEX through brokers
- ATHEX members who must own a license to operate in this market by the CMC
- The electronic system OASIS that replaces the traditional method of executing transactions
- Central Securities Deposit that guarantees protection and unbiased conditions for the transactions
- Simple investors who own an account for an automatic conduction of transactions.

3.3 Zagreb Stock Exchange

The Croatian stock market was regenerated in 1991 when 25 banks and 2 insurance companies founded the Zagreb stock exchange. Due to exchanges volume increase and economic development, the number of the exchange brokers reached 40. In the beginning, the transactions were done through large auctions that took place in the main office of the exchange where every member was present. The leader of the auction and the members would observe the offers and transactions, and only one security could be traded in a certain moment. In 1994, it was made available the implementation of an electronic trading system, TEST-1, that could afford transactions within the Croatian territory. From 1995 to 2000, the capitalization of the Zagreb exchange increased at least 10 times. The Zagreb exchange is too much active even on national rang: it is one of the cofounders and members of Euro-Asian Stock Exchanges Federation. It has collaborated with the Organization for European Economic Co-operation (OECD) for designing drafts on companies’ governance, and has hired advisory experts from western and American well known stock exchanges.

Due to progressive growth of trading, on April 1997, ZSE introduced a new electronic system TEST-1.5, similar to the previous one, but with an advantage of that members could now automatically connect to the market, in any time, for any sale or buying offer. On May 2000, ZSE implemented the MOST-ich system which offered more transactions transparency and allowed for monitoring of trading on the internet in real time. Meanwhile even the auctions of Croatian Privatizations Funds were increased, and so, on 2001, ZSE made its system available for these auctions commitment. On 2007, a Croatian capital market known as Varazdin Stock Exchange, joined ZSE, increasing again the number of listed securities, volume of the transactions and market's participants' interest on new financial products. From 2007, NASDAQ OMX's X stream has served as the securities electronic trading platform. The market is open from 10:00 to 16:00, except of vacations day. The exchanges reports and daily prices are transmitted by financial specialists in the website and press, through an information distribution system, ZSE monitor. This system is projected for the use of investors, shareholders, managers, analysts and all those who need quick and accurate information.

3.4 Bucharest Stock exchange

The first Romanian stock market was established on 1981, together with the approval of the law for financial markets and brokers, which as well as the Greek law, was based in the legal French model. The Bucharest Stock Exchange was inaugurated on December 1982 in the Romanian Commercial Room. The revolution of 1989, brought a set of reforms that would also relate to the development of financial institutions, such as Bucharest Stock Exchange. A group of specialists of different economic fields aided in the performance of this difficult process that started on 1992. Initially, a legal package on the securities and markets, was adapted and a sensitizing campaign on the stocks trading rules, was conducted. Until June 1995, the Bucharest Stock Exchange had become a modern public interest institution. The first trading session was developed in November 20 of the same year. The next year the number of the brokerage houses reached 62. The government ended successfully the privatization process and as a consequence of a larger trading activity, the stock exchange started to perform two sessions in a week.

A meaningful progress of the stock exchange was the launching of the official index BET as a real barometer of the market in 1997, and one year later, also the second official index BET-C which included all the member companies of the exchange except of investment funds. The upcoming years revealed a necessity for the improvement of the standards of the companies that wanted to list. And so, on 2001, a new code on the companies' governance that guaranteed an equal treatment for both small and big shareholders, was implemented. Also in this period, two big companies, Romanian Bank for Development and National Oil Company, were listed on the exchange and a new electronic system for the securities exchange was implemented.

The visual and printed media have played an important role in making the Romanian capital market an interesting sector, by publishing information and market analysis. The Bucharest Stock Exchange was now considered by international experts one of the 57 markets with the best growth. Total market capitalization in 2004 was approximately 17% higher than the country's GDP. In the beginning of 2005 they installed the electronic platform ARENA to support the quick transactions and launched the ROTX index, which was designed based on the CECE rules. In 2006 the BSE merged with the BER company, the founder of Rasdaq market. These changes have made the investors and issuing companies trust to increase gradually. The market capitalization increased and the daily turnover reached more than €10million. Until 2007 the domestic currency had incurred a significant increase, interest rates had fallen and the market indexes had reached their record levels. But a higher sensitivity to the global economy caused more insecurity and high volatility in the market, and the previous positive trend stopped. The market capitalization felled from €30billion in the end of 2007 to €1billion in the end of 2008. A high correlation with other developed markets caused high volatility in the domestic market. On the upcoming years, less companies have been listed on the stock exchange, maintaining in such way a low market capitalization, since the traded stocks are not at considerable high prices.

4. The development of Tirana Stock Exchange

4.1 Some history on the institutional development of the capital market in Albania

The development of financial markets is closely related to the economy of a country, reflecting often beside others, its political and juridical development. It's necessary to emphasize that financial markets (banking systems and securities markets) finance the economic growth. Logically, the stronger a country is from the economic and political point of view, the better organized and stable the financial markets are. During the years, the financial markets have moved toward an integration process more than ever, because the connection and the activity between the economies has increased significantly. The securities (capital) market is one of the most important sectors of the financial markets. It gives a chance to individuals to do something with their savings, ideas or talents. Differently known as the investment market, it serves as a very functional and efficient method, through which, individual, firms and governments can raise their profits. According to the Albanian legislation the securities that trade in the market, are also called titles (Ligji Nr.9879), which consist of: stocks, trading companies and local government bonds, treasury bonds, titles issued by the Bank of Albania, investment funds stocks or quotes, and other financial instruments that are approved by Financial Supervision Authority. It's understandable that the titles definitions is different for different countries of the world, but still there are common elements that represent the essence of their existence. According to the international doctrine, securities consist of all those ownership forms that are freely traded in the capital markets. They are investment certificates that represent the capital (ownership in a certain corporation) or the debt (a credit loan for a certain issuer) (Choi S.J., 2008). The securities market is essentially similar to any other market. There are at minimum two subjects, the businesses or the government on one side, and the investors who sell and buy securities, on the other side. According to the Albanian government, our economy has approached to an increasing trend, while the securities market has actually been almost inexistent. Some of the reasons of this absence can be the source and capability deficiency of the proper authority, or the lack of political willpower, or informal economy etc..., but we'll mention them again more widely.

As we mentioned before, the more developed a country is, the more important and crucial the role of financial markets is. Jointly with the private

and public pension funds, the investment schemes have turned out to be very important players for developing countries and economies (Carvajal, 2009). It should be mentioned though, that unfortunately, academic studies from economists or professionals of this field that could show the proportion of the securities market in the development and economic growth, are missing.

In Albania, Tirana stock exchange doesn't officially work and the business or the investors sell shares in the informal market. The experts of the Financial Supervision Authority state that, the capital market still remains the most undeveloped sector. The initiation of the privatization process in 1991, revealed the need for the creation of a legal and institutional framework, which was accomplished with the great support and assistance of the British "Now How Fund" and USAID.

There have already been some novice efforts in this point such as the approval of securities laws in 1995 and the foundation of SRC (stock registration center) in 1996, the existence of Securities Commission and the Tirana Stock Exchange since 1996 (which was initially organized as a special department of the Bank of Albania until July1,2002 when it was separated to continue its functioning as a joint stock company), or the contraction of GMA Capital Limited by the Ministry of Finance in 2004, which prepared a detailed study on the future of capital market in Albania. This report identified the factors that support and hamper the development of a capital market in Albania. The results of this pros and cons analysis favor the creation of an effective stock exchange and the development of capital market. According to GMA, prior to the development of the private debt market, comes the stabilization of the public debt market (that should increase within a short period).

Another important institutional step was the creation of Supervising Institution of Pension Funds, because a stock exchange cannot be disconnected from the institutional investors (investment funds, pension funds, insurance companies etc.) or other financial intermediaries. On the contrary, it should serve as a window for the promotion and the creation of these funds, which are going to use the stock exchange as the most appropriate forum for the investment of accumulated funds and also provide (metaphorically speaking) air to the transactions that occur on the stock exchange.

The Security Commission of the Republic of Albania is created based on the Law no. 8080 on 01.03.1996, modified by the Law no.8168 on

05.12.1996 and Law no.8745 on 22.02.2001 ‘for some supplementary changes of the Law 8080’. The Commission consists of 7 members that are approved by the Parliament and it conducts regular meetings, where decisions are taken, priorities are determined and the perspective projects are discussed. The Commission is financed with subventions by the State budget until it functions as an independent institution. Some of its main functions are:

- 1) Licensing, observation and surveillance of the activities of the securities markets, the suppliers of the securities transactions, traders, investments advisors, the licensed funds of the securities;
- 2) approves the statute and the rules of the licensed companies to operate as securities markets, the registered depositors of the securities and the securities funds;
- 3) supervises and settles the rules on the management of the above mentioned ones including the revocation and the suspension of the licenses;
- 4) stimulates and encourages high standards for the investors protection and the integrity between the licensed agents;
- 5) supports the functioning of the securities market in order for it to be properly opened and informed;
- 6) supervises the trading method and the type of the securities that are traded in the respective market, and approves the securities market laws related to the membership, listing, minimal participation, capital adequacy or sufficiency, new offerings, periodic reports, and the reports for all the transactions.

For the fulfilling of its legal mission, the SC (securities commission) has raised its own administration, which is obliged to apply all the taken decisions and the determined duties in the Commission meetings. The governing bodies of the administration are the Board of Members and the Chief Executive of the Administration of the SC. The Commission applies a careful and stable employment policy, based on professional qualities, qualifications and experience of the selected personnel. Considering the liberalization of the capital markets in the world, there arises a huge importance for a collaboration in the framework of international standards, laws, rules and procedures of capital markets. The Albanian Securities Commission is a member of IOSOCO (international organization of

securities commission) since 1998, and also a member of Emerging Markets Committee. (KLV, 2002).

Until 2006, the financial markets in Albania functioned under a vertical model of financial regulation and supervision. For each financial market, there existed a special authority that was responsible for the regulation and development of respectively banking system, insurance, securities and supplementary private pensions markets. This model adapted very well to the previous developments of our country, but the markets started to intertwine with each other. On the other hand, many European Union countries had started to change the architecture of their financial supervision, understanding that the institutional model did not still respond to the time progress. Based on the Government initiative to reform the non-banking financial system toward a unified, consolidated, regulatory entity and based on the technical support of World Bank and International Monetary Fund, on October 2006, it was accomplished the unification of the Insurance Supervision Authority, the Securities Commission, and the Supplementary Private Pension Institutions Inspectorate which all together gave birth to the “conglomerate” that we recognize today as the only institution responsible for licensing, supervision and regulation of non-banking financial activities in Albania, the Financial Supervision Authority. In this way the financial supervision in Albania changed from the vertical or institutional model to the horizontal one. FSA activity lies down in four main directions:

- a. licensing through the process of evaluating and approving based on criteria for operating in the market,
- b. regulation and standards, the Authority has undertaken continuous steps toward the improvement of the legal and regulative framework in order to protect the consumers as much as the market, and tries to settle the standards approaching
- c. supervision (through monitoring the markets and governing ability, financial capital sufficiency or internal control systems efficiency of the subjects that operate in this market)
- d. viability. Based on its power by the law, FSA has full competences for the investigation of and measures taking against the subjects that violate the legal framework, outraging the consumers interests. In this context, the Authority has a tight cooperation with homologue institutions and competent domestic or foreign entities that fight against the organized financial crime.

The regulated subjects under FSA’s jurisdiction are: life and non-life insurance companies; reinsurance companies;

4.2 Organization of Tirana Stock Exchange (TSE)

As it is mentioned before, Tirana stock exchange (which we will denote by TSE, but do not confuse it with Tokyo Stock Exchange) was initially created as a special department of BoA (Bank of Albania) on May 2, 1996 and operates as a joint stock company since July 1, 2002. On July 1, 2003 it was licensed by SC to trade ownerships and titles. The license was renovated for the next two years on 2005, and on 2007 became unlimited by the FSA. TSE has only shareholder, the state, which covers for its financial sources through the state budget, besides revenues realized by itself. Its main purpose is to provide the necessary capital (be that home or foreign) for private and public sector financing. It should supply individual and institutional investors with wide variety of investment and diversification possibilities guaranteeing at the same time their legal protection. This institution aims to trade stocks, treasury bonds, and government, municipalities and corporate bonds. The scheme below, shows the organization structure of Tirana Stock Exchange.

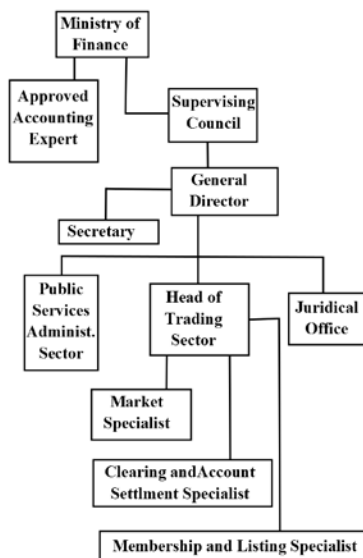


Figure 2: Organization structure of TSE.

A crucial aspect of this institution activities with other domestic and foreign institutions such as for example the signed agreement for

collaboration between Tirana Stock exchange and International Finance Corporation (IFC). In terms of these agreement, IFC will provide technical assistance, staff training, different activities that will inform the business on the capital management and markets. This is crucial because most of the business undertakers do not have a lot of knowledge on the non-banking financial system, and a promotion would make them aware of their capital acquiring options and would make them believe in the advantages of financial instruments trading. Tirana Stock Exchange is also a member of full rights Euro-Asian Stock exchanges Federation. (Bursa e Tiranës).

According to the law ‘for the tittles’, the organized markets by the TSE are the official market and the parallel market. The official market is a ‘high level market’ divided in two trading levels. While the parallel market is that one in which the titles of the stock companies that do not fulfill the listing criteria for neither of the two levels of the official market, are accepted. The markets are also divided in segments, depending on the type of issuer and title: the stock segment, the bond segment and the short term tittles segment. The trading method of the tittles is the open calls trading, in a certain queue. In this model, the process is manual, that is, the requests or orders are transmitted verbally from the commissioners to the stock exchange specialists, which execute the transactions. The call markets are usually feature of less developed and low liquidity stock exchanges.

In the absence of an organized market, shares continue to trade between private shareholders only by registering or updating the ownership modifications in the catalogues of joint stock companies. During the year 2007, around 647 thousand shares of the Albanian companies were trade on the unorganized market and through the years gone by, there have been sold 13 million shares in the same way. In the end of 2007, the Stocks Registration Center (SRC) encountered 49 registered joint stock companies. This center is a joint stock company itself, which is owned 85% by the state and is licensed as a stock register. It provides services like the dividend calculation, confirmation of the updated situation of each shareholder in any time or the announcement for general collection of each shareholder’s account. The number of the traded shares in the unorganized market, in 2007, made up around 4,76% of the shares of all companies listed in the SRC. During the 2008 there have been traded approximately 1,3 million shares and at the end of 2008, SRC counted 47 registered joint stock companies. The number of transactions has increased from 262 in 2007 to

494 in 2008. At the end of 2011, SRC counted 86 registered joint stock companies but the number of transactions has decreased from 602 in 2010 to 263 in 2011. (AMF, 2011) There's definitively a wide range of factors that make the process of financing and exploiting the financial opportunities by trading companies, very complex. In the following table are shown the main statistics of the transactions occurred from 2009 to 2011.

Table 1: Table of the shares traded, transactions,...etc, from SRC.

Classification	Statistics 2009	Statistics 2010	Statistics 2011
Total Nr. of Joint Stock Companies registered in SRC.	51	62	86
Total Nr. of Company Shares registered in SRC	23 622 165	420 931 118	446 865 951
Total Nr. of Companies, whose shares have been traded	24	28	33
Total Nr. of the executed Transactions during the year	369	602	263
Total Nr. of the traded Transactions during the year	2 273 704	60 062 390	3 973 405
Percentage of the traded Transactions during the year	9,62%	14,27%	0,89%

4.3 Comparison between TSE and Balkan stock exchanges

Albania is the only country in the region and Europe without a virtual stock market. While other Balkan countries have managed to support the creation of both legislation and a market that is governed by those laws, Albanian proper institutions have only worked toward theoretical issues, and not practical ones. The main feature here is that public companies should have gone private through the public offerings (IPO-s), a method that has not been applied till now. While there is a complete freely flowing information about the traded shares on the Balkan stock exchanges, the orders in TSE are transmitted verbally and the changes on the new ownership of a company is stated manually in the SRC's offices. According to the statistics of the Financial Supervision Authority the most active segment of the securities market in Albania is the one of the government treasury bonds and notes. The Balkan countries have worked really hard, through adaption of advanced electronic systems time by time or the mergers with other market stock exchanges, to make their stock exchanges of a public interest. In Albania this advertisement is missing and it is the state responsibility to work through the problematics that hamper this financial development.

5 Stock exchange in today's economic conditions

5.1 The Albanian business toward the capital market, the current problematics

The general observations have revealed that the Albanian companies operate locally, as their credibility in international market is low. This leads to limited opportunities in undertaking projects and activities. As a result their business success is not predictable and depends on the duration of those small and limited operations that they already have. Such an unstable market doesn't offer any certainty or guarantee to work on projects during all the operation time. Another aspect: some of the businesses have low activities – entering a stock exchange market requires a long term stability of the company performance. No one would invest in such poor companies. As it's already known, the return of the shareholders from the company's success is seriously correlated with the risk of the business activities. It is obvious that bearing so little risk, wouldn't lead to high returns. That's why maybe the Albanian companies are not attracted to the stock exchange idea, because requesting from investors to put their savings in a 'pool' that doesn't preserve competitiveness and growth, does not promise to pay them off at a satisfying rate of return. This looks like a symbiotic relation between the market and the business that operate in it, which obviously doesn't function the way it is supposed to be. There is also the large business, represented mainly by limited liabilities ((llc) and joint stock companies with a private ownership, which extend their business in various fields of economic activity, especially in those that are characterized by quick circulation and profitability. This concentration may also prevent the quick orientation toward the use of stock market. Despite all these facts, the analysis show that a major part of the llc-s are concentrated in the production sector, and this can be considered as a positive incentive for a potential offer of listing in the capital market. Below a summary table of the operating companies in Albania is shown, demonstrating the potential of the production sector in our country. In 2011 the number of the companies with more then 50 employees in the goods production is 455 and in the service production is 503. According to the recommendation of the European Commission of 3 April 1996, these companies are considered to be medium and big companies and would be the most appropriate to be listed in the stock exchange.

Table 2: Distribution of companies in terms of operating field (Source: INSTAT)

	Year	Market producers	Goods producers	Services producer	Total Industry	Construction	Transport and Telecomm.	Trading	Services
Nr. Of Companies	2011	78.429	13.609	64.820	9.873	3.736	9.097	35.776	19.947
	2012	80.722	12.607	68.115	9.322	3.285	8.301	37.775	22.039

We mentioned before the reliability of the financial statements and other company related documents. Even though the standards of reporting the performance of a company and the audit companies do exist, some of the Albanian businesses still do not sensitize with the legal environment. This is part of the informal economy, which is very harmful for a society development. Recently, the government has taken real measures to decrease this informality, by implementing strict rules on the *workers registration for example. Going public, requires companies to give a trustful and qualitative financial information so as to reveal a real situation of their position. According to an observation analysis made by Prof.Asoc.Dr. Elvin Meka, over 61% of the companies observed (which are 1/3 of the total companies in Albania), consider the transparency and quality of financial statements an issue that varies from no problematic to middle effect problematic. Anyway this issue is quoted as one of the serious problems of all the companies that makes them to fail the fulfilling of an essential criteria of listing.*

We can still mention the limited knowledge of the Albanian business owners on financing alternatives and their respective costs, as a factor that negatively affects their orientation towards the capital market. This may be because of the general and technical financial culture or negligence and little incentives by the appropriate organs that must promote the benefits that come from development of this sector. Medium and large business cannot rely only on banking loans since their costs are considered high and not attractive. A stock exchange can at least make some competition on banks. Banks in the emerging markets should not be intimidated by the development of a stock market, because an increased efficiency of the stock market will cause higher debt interest rates and so on more banking activity. (Demirguc-Kunt, 1995).

The last reason worth mentioning is definitely the lack of political willpower. The Albanian government could have done more toward the development of the stock market, like: 1)listing the state enterprises in the stock exchange, including the TSE in the privatization of state enterprises, as

it has happened in any country of Eastern Europe similar to Albania; 2)the appointment of TSE as the government “agent” for the issuance of public debt securities in the primary market; and 3)creating simulative incentives for the companies to be listed in TSE. The government should have also applied more facilitating fiscal policies.

5.2 The advantages of operating in the stock market

The trading in the stock exchange presents lots of advantages. In the following some of them are mentioned.

The stock market serves as a meeting location, where the confrontation and accomplishment in time and quantity of the demand and supply for securities can be very quick. The computerized network realizes the screening of the number of traded stocks and their price. Two primary advantages that the stock exchange can offer to our economy can be: the decrease of the transactions costs and the improvement of the quality of businesses or companies administration. The transactions costs must be afforded when individuals transfer their property rights of the economic activities and they also guarantee the integrity of these exclusive rights. Actually the measurement of an economy transactions costs requires technical and professional studies but luckily in Tirana there already exist specialized economic institutions and a project like this would be very necessary and worthy. Of course speaking today, the complexity of the legal structure and the insufficient transparency in our country only lead to high transactions costs. That’s exactly what a stock exchange is supposed to do: firstly by expanding the opportunities of exchange it increases the physical and monetary volume of the trade between economic agents, and this reasonably means less cost per unit; and secondly the stock exchange itself represents an institutional guarantee for trusting the information that becomes public, a fair treatment toward the investors etc., and these will obviously require that the related supporting mechanisms of the state such as tax-offices, prosecution institution, the judicial system etc. become more responsible, more efficient and more transparent. In other words a failure of the stock exchange is directly related to the failure of these mechanisms in accomplishing their mission, and otherwise.

Another aspect is that, in the majority of the Albanian businesses, the activities management is done by the owners themselves, or in the best case, by administrators which are already related to the owners outside the

business area. But if we are assuming that the business should grow with the development of the stock exchange, a division of the ownership from the administration of a company, is a necessity. We are aware though that, jointly with this comes the going concern principle that deals with the elimination of the possibilities of abuse by the agents. When we talk about growth of the business, we mean long term growth, and for that, the Albanian businesses or at least those visionary businessmen should welcome and precede the alternative of a legal environment. In this context, the stock exchange would play a triple role: firstly, it would serve as a forum for the coordination of the companies that need to grow through the investment of others savings, secondly, it should prepare the companies better in terms of competition in the European market, and thirdly, it would give the institutional investors a chance to invest in weakly managed companies so after to remove the incapable and abusive administrators and lead the company to a legal environment.

The long term benefits of being publicly traded are numerous and can include: improved liquidity, higher company value, the ability to make acquisitions or attract and retain employees with the newly public companies stock and greater access to capital at a lower cost. In addition, having public trading status allows a company the ability to make acquisitions with their stock, since publicly traded stock is viewed as currency for mergers and acquisitions. Moreover, public trading status often leads to a higher price for a later offering of a company securities.

The last issue we should discuss as an advantage of the stock market, is the principle of diversification as seen by the individual investor's point of view. When we talk about investing in stocks or bonds, we mean creating an optimum portfolio that will give us a maximum return in exchange for the risk we are undertaking. This implies that considering just a desirable risk-return relation when combining a lot of unique individual securities, is not enough. On contrary, the relation among the investments should also be taken into account, in order to create that optimum portfolio that will satisfy our objectives. The first basics of portfolio theory and assets pricing model were developed by Harry Markowitz (1959), who derived a measure of expected return and overall risk of a portfolio of risky assets. We are going to present here only the general formula for the standard deviation of a portfolio that Markowitz developed, which helps to understand the principle of diversification. (Reilly, 2003).

$$\sigma_{port} = \sqrt{\sum_{i=1}^n w_i^2 \sigma_i^2 + \sum_{i=1}^n \sum_{j=1}^n w_i w_j Cov_{i,j}}$$

Where: σ_{port} - the overall risk of the portfolio
 w_i, w_j - weights invested in asset i, j respectively
 $Cov_{i,j}$ - covariance between asset i and j ,

Covariance tends to measure the degree to which two variables “move together” relative to their individual mean values over time. But since its value indicates if it is positive or not, but it does not allow to interpret if it is high or low, it should be standardize by taking into account the variability of the two individual return series, which yields the correlation coefficient of returns: $r_{i,j} = \frac{Cov_{i,j}}{\sigma_i \sigma_j}$, which like any correlation coefficient it varies in a range of [-1,1].

We can see there that standard deviation of a portfolio is not only function of the weighted average of individual variances, but also a function of weighted covariance between all the asset. When adding new investment in a portfolio, one should not consider that investment variance, rather than its average covariance with other investments.

Markowitz portfolio theory reveals the benefits from the principle of diversification. It is possible for a conservative investor to experience both lower risk and higher return by diversifying into a higher-risk–higher-return asset assuming the correlation between the two assets is fairly low. Since Albanian market is an emerging market, we would not expect it to be serially correlated with financial instruments of other developed capital market, and this offers a good opportunity of diversification.

5.3 The expectations of the future

Although the current observation show the Albanian enterprises to have managed to perform even in the absence of a stock market, there is no doubt that sooner or later, every entity will adapt to the new options of financing.

The interest respective groups such as the banking sector and the government should intensively work to minimize and keep control on those factors that contribute in high level risks for the economy. The Financial

Supervision Authority, jointly with the business community, should transform those problematics that arise between the companies and the banks or their services, in favorable elements and options for the usage of capital market instruments. These instruments will help in a financial system with more balanced distribution of risks. The appropriate representative institutions of the capital market should proceed with continuous efforts toward the business awareness for the regulation and understanding of the capital market. In order for the Tirana Stock Exchange to become a real financial instruments market and the listing process to be as more productive and natural, a public-private cooperation is required. The business community and especially the second level banks should consider the undertaking of preliminary measures for the offering of intermediation and specialized financial consulting services.

What it really matters to the future, is the question if the stock market development is going to cause an increase in economic growth or not. Many intensive theoretical and empirical studies have argued on whether the banking sector or the stock market promotes economic growth. Boyd and Prescott (1986) and Stiglitz (1985) that banks can aid in the process of resource allocation better than the stock market. Arestis et al. (2001) also show that in the long run the banking sector effect is much higher than the stock market development one. But let us think of the feature that characterizes the two sectors: banks are supposed to finance only the well-established, safe borrowers in order to prevent an adverse outcome; while stock markets are allowed to finance also the risky and innovative projects. If the financial system would be composed only by banks, there would definitely exist shortcomings of debt financing because of asymmetric information, and this is not an efficient allocation of capital. Demirguc-Kunt and Levine (1995), Levine and Zervos (1993, 1995, 1998) have argued that a stock market should increase savings and efficiently allocate capital to productive investments, which leads to an increase in the rate of economic growth. In the following graph we can see the IS-LM model. It confirms that by an increasing savings, the total line of investment savings shifts on the right determining an increased level of interest rate and an increased level of GDP.

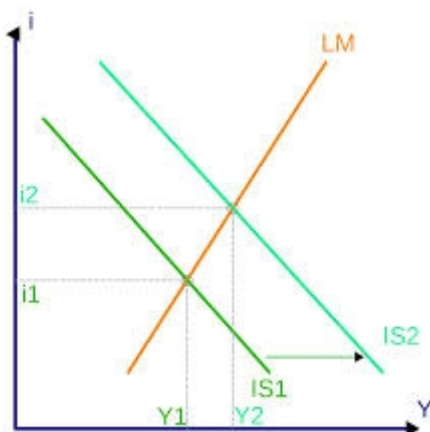


Figure 3: IS-LM Model (Source: Money banking and finance)

Maybe on the upcoming years, we shall have a real organized stock market, and we'd be able to conduct our own tests if there is a causal linkage between the stock market development and the economic growth.

6 Conclusion and Recommendations

Until now, the financial resources for public companies come mainly from the state or long term loans, while the private companies rely themselves on self-financing or short term banking loans. The second level banks in our country are increasing in number and financial power, but they could never replace the role of other financial institutions such as Tirana Stock Exchange. The capital market development still remains a challenge to be undertaken, be that still because our country started from a “zero” inheritance or of the complicated character of our economy performance and the business itself. Beside that fact, there are no, or at least there do not apply fiscal facilities for the investments in securities, especially in the ownership titles. The absence or malfunctioning of the capital market in the economy and the non-usage of a combined financing through debt and equity, makes that the proportion “debt/shareholder capital” of a company increases, weakening in such way its financial structure. In the long term, this puts in danger not only a company's paying capability but also the liquidity of the creditors themselves. The stock exchange is even more sensitive than the second level banks to economic informality, absence of real financial position, a one member ownership mentality etc., and while these phenomenon still exist, we cannot think of a healthy financial environment.

Since the Albanian business lies its activity between the formal and informal sectors of the economy, there is no reason for us not to believe that their position is much better than their statements show it to be. Speaking for a short term period, the private sector seems to remain non-included in Tirana Stock Exchange, due to the reasons we have already mention in one of this thesis sessions: non-fulfilling of the qualitative requirements for listing, the kind of business activity which seems to be characterized of little investment and quick profit, the ownership model, a weak financial culture in the administration representatives, the absence of a pure competition be that in local or international level, the low intervention of the state as the main provider of the stocks to the stock exchange.

The benefits that the development of a stock market is expected to generate are numerous, be that in macroeconomic, microeconomic or political terms. Except of what is mentioned during the thesis, we can also think of the promotion of Albania, the attraction of foreign direct investments or financial portfolio investors, a better management of public debt etc.

Immediate measures need to be taken such as: a favorable fiscal system for the companies that are listed, a protective legal environment, an electronic system that will provide periodical accurate information for the investors, and different propogandas that invite every company that fulfills the minimum requirements to list.

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