

The Capital Market and Its Challenges in the Albanian Economy

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Abstract— The capital market is part of the country's financial market and includes the buying and selling of shares, bonds, and investments in other financial instruments. The capital market is a key component of a country's economic development and provides opportunities for investors to buy shares in companies and diversify their portfolios. Three decades after Albania embraced capitalism, the stock market, or capital market, is one of the most unknown tools for its economy. Today, almost all money circulates in cash; businesses only use banks to request loans. The capital market is poorly developed, even though the first attempts to create a stock exchange date back to 1996. The capital market is dominated by the primary market of government securities and other segments, such as the secondary market, investment funds and voluntary pension funds, that still have a moderate performance, which means that the unused potential remains high. The development of capital markets is very important as it is a fundamental means of ensuring macroeconomic stability, reducing volatility of interest rates or exchange rates. This study helps to develop knowledge and ways to manage and invest successfully in the capital market.

Keywords— Capital market, securities, financial instrument, interest rate.

I. THE FINANCIAL SYSTEM

The financial system has a key role in the economic development of the country. The financial system in Albania is a structure consisting of institutions, markets and financial instruments that help in the collection, use, and distribution of financial resources, which has faced many challenges and difficulties in the way of its development and consolidation during the last 30 years.

Albania has an asymmetrically developed financial system with a developed banking sector pillar, and a moderately developed non-banking sector. Thus, as part of the non-banking financial sector, Albania has a market where the capital market is almost absent, although many market operators are licensed (brokerage firms, guardians, investment funds, pension funds, life insurance, etc.).

On the other hand, despite the clear presence of collective savings schemes (investment funds and pension funds, life insurance schemes) during the last years, further development has been strictly hindered by the lack of internal market capitals and alternative investments.

Here are some key elements of the financial system in Albania:

- Commercial banks: Banks are the main component of the financial system in Albania.

These institutions offer traditional banking services, including savings accounts, loans, and payment services. Commercial banks are regulated and supervised by the Albanian Financial Supervisory Authority (AFSA).

- Capital market: Albania has a capital market called Bursa Alse, where company shares can be bought and sold. This market is a part of the financial system and offers opportunities for investments in shares and other financial securities, but it is not yet developed like the other components of the Albanian financial system.

- Investment institutions: In Albania, there are several specialized investment institutions that offer various services, including portfolio management and financial advice to clients.
- Insurance institutions: The financial system also includes insurance institutions that offer various insurance products, such as life insurance, vehicle insurance, and others.
- Payment and money transfer companies: These companies offer money transfer and payment services, including electronic funds transfer and credit card services.
- Regulatory authorities and supervisory agencies: The financial system in Albania is supervised and regulated by several government institutions and agencies, including the Financial Supervisory Authority (FSA) and the Bank of Albania.
- Debt market: In Albania, a specific debt market has been developed where you can buy and sell various debts, including government and corporate debts.

Although the financial system is part of the economic development of the country and helps to support economic activity, investments and payments, the financial market is unconsolidated and a large part of individuals do not have the necessary knowledge about this process and must learn to have investment potential. It is important that this system operates effectively and has appropriate mechanisms for its supervision and regulation to ensure financial stability and integrity.

II. HISTORY OF CAPITAL MARKET

The capital market is an important element for the economic and financial development of the country, as it is a very competitive alternative to the banking sector, reducing the costs of mediation for businesses and all economic operators by providing cheaper alternatives for financing the activity. For years, Albania has suffered from a shrinking financial system.

The financial system lacked what is perhaps the most important and dynamic part of the economy, the capital market.

Tirana Stock Exchange was established more than two decades ago, but it has not functioned as a real stock exchange; no company had listed shares in it until the time of closing and without a real stock exchange, one cannot talk about genuine joint-stock companies, which are one of the indicators of the existence of social capital. The Tirana Stock Exchange began operations as a department of Albania's bank, in 1996. It served as the primary market for the issuance of Albanian government bonds until 1998, and then this function moved to the Monetary Operations Department, at Bank of Albania. The stock market continued to operate as a secondary market, but with little activity and it gradually died down. In July 2002, the Tirana Stock Exchange was separated from the Bank of Albania to become a joint-stock company with the sole partner being the Albanian government. A year later, in July 2003, the Tirana Stock Exchange was licensed as a securities market by the Financial Supervisory Authority. Throughout its 11 years of existence, the Tirana Stock Exchange focused its limited activity mainly on education, promotion and training related to capital market instruments. However, it never managed to exercise its main function that of financial instruments market.

After the closing of the Tirana Stock Exchange, another initiative to open a functional stock exchange in Albania came from the private sector. In 2018, the Albanian Stock Exchange (ALSE) was licensed, investment of several financial institutions in the country. The existence of a functioning stock exchange would in theoretically bring a new alternative for financing private sector projects.

Until now, the market has been dominated by financial intermediation carried out by commercial banks, with the exception of a development in the private placement bond market, a market developed mainly by the banks themselves, as an alternative to diversifying regulatory capital instruments.

III. HOW DEVELOPED IS THIS MARKET IN ALBANIA?

According to the AMF, the capital market in our country is currently in the first steps of development, where a significant weight is occupied by the market of investment funds. Although only a few years have passed since the first mutual fund was licensed and with a limited number of funds, the investment funds market has seen significant growth.

Currently, the shareholders of the ALSE Stock Exchange are Credins Bank, with 45.59% of the shares, American Investment Bank, with 8.82% of the shares, and the financial institution AK Invest, with 8.82% of the shares. Currently, the ALSE stock exchange has only three-member commission companies; others are commercial banks, Credins Bank, American Investment Bank and Intesa Sanpaolo Albania Bank.

Until now, the activity of the Stock Exchange has consisted of a moderate volume of trading of Albanian government securities. According to the most recent data, which belong to the first quarter of 2023, the total trading volume for this period consisted of only 35 transactions, with a total value of 165 million ALL. The year 2023 brought, for the first time, the listing of the securities of a private commercial company on the ALSE Stock Exchange. On May 24, the financial institution

NOA announced the public offering of bonds worth 500 million ALL. The public offering was successful and the offered amount of bonds was sold within the first week of the offering. Once the public offering phase is legally and operationally closed, the bonds will be admitted to trading on the ALSE Stock Exchange. The listing of the first private issuer securities will officially mark the launch of the Stock Exchange in Albania. Experts see significant potential for new listings of securities, especially debt ones.

Thus, seen from all points of view, the capital market is expanding in terms of financial intermediaries (new and existing), financial services, financial instruments, improving the legal and regulatory framework, increasing the level of quality and efficiency and supervision by regulatory authorities. Until now, the only essential factor in the capital market on the supply side has been the Albanian Government, as the largest issuer of bonds issued in the country. With the launch of the first private placement bond issues, banks became the main issuers of this financial instrument.

The development of the capital market now aims at a regulated market/Stock Exchange, through public offering issues. All the weight of the non-banking market in general, but also that of capitals in particular, remains small within the financial sector (according to data from the Bank of Albania it is less than 7% of the Gross Domestic Product), it must be said that in recent years, we have a relatively rapid and qualitative increase in the presence of this market and its operators.

Currently there is a constant interest of investors for new investment alternatives, which can bring a higher rate of return for their savings portfolios (demand side for securities) as well as an increase in the business need for diversification or quality improvement of sources and financing parameters of their activity (the supply side for titles).

IV. LEGAL FRAMEWORK

During 2020, the new law on capital markets, Law 62/2020, was adopted, which aimed to increase the growth potential of the capital markets, as the opportunity for issuers to find capital and finance the economy increases, the opportunities for investors to profit grow better, opportunities for intermediaries increase, profitability of capital markets infrastructure increases. The objective of this law is the regulation of the capital markets, the manner and conditions of providing, buying and selling financial instruments in the Republic of Albania, as well as defining procedures for the regulation and supervision of instruments of financial markets.

This law replaces the "On Securities" of 2008, which presented loopholes regarding the shape the market had taken and the need to regulate and promote it. Like a good part of the Albanian legal framework, it is compatible with European directives and international standards. In parallel with the requirements for the market, the clarification of financial instruments, the protection of investors, the law gives new attributes to the Financial Supervision Authority, adapting its powers according to the requirements of the time. This law regulates the operation of financial market players, completing the entire functional framework of market operators, contributes to completing the legal framework with the

elements and links necessary for a genuine capital market to exist.

In addition to the legal side, the trading and post-trading infrastructure has been created, with the Securities Exchange operational since 2018, the Albanian Securities Registry (ALREG), which acts as a Central Depository, as well as licensed commercial banks in the role of financial intermediaries for the function of signing financial instruments.

V. CAPITAL MARKET: OPPORTUNITIES AND CHALLENGES

Some of the benefits that the development of the capital market offers to the economy of Albania are: 1- If entrepreneurs invest their money in the capital market, they can have a higher rate of profit and can become shareholders of different companies, as well as they can be involved in lending to businesses or even the government. 2- On the other hand, businesses that need liquidity can turn to this private capital market, easing their budgets from high loan interest or necessary collateral.

Private equity has many benefits as it enables growth, but has a cost, limiting independence. SMEs must understand that the relationship of trust does not come overnight. Trust must be earned. For a successful cooperation, it is not enough just to sign the agreement, which is a process that requires transparency.

The challenges currently following the capital market in Albania is the lack of trading of business titles, one of the points that limits the development of this market. Also, we can say that the financial education on securities trading by commission companies is at moderate levels and the lack of corporate securities trading in the secondary market. The challenges facing the capital market and the securities industry in Albania are endless.

The main one has to do with the structural deficiencies of the current market architecture, from a technical point of view, but in not a few cases, the lack of legal and regulatory aspects also makes it problematic.

VI. CONCLUSIONS

The capital market in Albania is a very important part of the country's financial system and has undergone significant changes in recent years. Some conclusions about the capital market in Albania can be:

1. Development of the capital market: The capital market in Albania showed an increase in the number of companies registered on the stock market, marking an increase in the capitalization of the ALSE stock exchange. This development is the result of the regulation of the legal framework in the capital markets and the establishment of the first private Albanian stock exchange.

2. Increased interest from investors: Local and foreign investors have been attracted to the capital market of Albania by the increase in financial awareness-raising and the increase in investment opportunities. Meanwhile, there has been an increase in the number of individual and institutional investors.
3. Need for increased transparency and regulation: To ensure that the capital market continues to develop successfully, it is important that there is strong regulation and high levels of transparency in its operation. This is an important challenge for the financial authority in Albania.
4. Potential for further growth: Although the capital market in Albania is developing, there is still room for further growth, especially as the investment climate improves and the investor confidence increases in the Albanian capital market.

In general, the capital market in Albania is progressing and becoming an important source of financing and investment for companies and investors. However, it is important to continue working on increasing market transparency, regulation and security to further develop this market.

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