PROBLEMS AND CHALLENGES FACING THE CAPITAL MARKETS OF BULGARIA AND MACEDONIA

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Abstract

The purpose of the report is to analyze the current state of development and the main barriers in front of the effective functioning of the capital markets of Bulgaria (EU member state) and Macedonia (candidate country for EU membership) on the basis of comparative analysis of quantitative and qualitative indicators. The research includes results of empirical testing of main economic factors, influencing the development of the two capital markets. In the course of the research are outlined the main problematic aspects in front of the two capital markets in view of deepening of their integration into EU and the future challenges they face.

Keywords: EU capital markets, integration, EU accession, stock exchanges

JEL classification: E44, F36, G23

Introduction

The regional development and adaptation of the capital markets in Southeast Europe is a slow and difficult process. Progress can be noticed in the harmonization of laws in line with EU requirements. Still the applicant countries for EU membership as Macedonia have introduced only local trading systems on their stock exchanges, while at EU level multiple stock exchanges are in progress of deepening their consolidation. Derivatives trading is in an inception phase of development and initial public offerings are exceptions. At the same time, it is expected that the economic function of stock exchanges is to assess the expected profitability of a large number of listed companies and to evaluate the entire stream of future profits from the ownership of capital. The capital markets of these countries are still far from effective implementation of their macroeconomic functions. Problematic factors facing the capital markets in Southeast Europe remain the limited range of financial instruments and the significant fluctuations in the prices of traded financial instruments. Under development are new financial instruments such as warrants and derivative products, but this process will be long, given the lack of clearing infrastructures for this purpose. With the start of negotiations for accession to the EU the prospects in front of Southeast European capital markets will be to initiate a comprehensive process of adaptation to the European regulatory framework.

The ongoing integration of the capital market of Bulgaria to EU is conducive to the optimal distribution of capitals and is of paramount importance for boosting the economic growth and competitiveness of the country. This process is a result of the mutual operation of the institutional structures and the market forces and it requires further measures by all interested parties to overcome the remaining restrictions facing the capital market of Bulgaria in the integration process. The Bulgarian capital market remains small in size and insufficiently integrated to the EU capital markets at the background of the accelerated consolidation process on the EU stock exchanges. Driving forces behind these processes are the necessity for diversification of revenues generated by the stock exchanges in view of mitigating the risks in the course of the global financial and economic crisis and the subsequent debt crisis in the Eurozone.

Description of the problem. Methodology and data sources

The striving of the EU to encourage stability and democracy through integration in Southeast Europe (SEE) is connected with numerous challenges. A priority in the process of integration to EU is given to the structural changes in the region, establishment of the principles of the free market economy, democracy and the rule of law. From Macedonia, as one of the applicant counties for EU membership, is expected to undertake the preparatory process for integration by development of

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national strategies for economic reforms, fiscal and macroeconomic programme for action, structural reform and competitiveness programs. EU considers that in respect of the SEE region it should adopt a thorough strategy and proper enlargement policy as the fragmented initiatives would not lead to establishment of stable economic growth.

The preparation of Macedonia for full membership in EU requires undertaking an analysis of the current state of the market structure of the capital market of the country (legal base, supervisory and regulatory bodies, stock exchange) and of the market participants (banks, investment intermediaries, institutional investors).

In the course of the ten-years' period from signing of the EU Accession agreement of Bulgaria (on 25th April 2005), the most important place in the adaptation of the country to the European integration is given to overcoming the challenges and conducting proper integration policy directed toward the fulfillment of the strategic goals of the economic development and joining the EMU in the future. The macroeconomic convergence to EU is conducted by applying the strategy of economic catch-up and overcoming the disruption in the social and economic development as regards the EU member states with better economic performance than Bulgaria. This requires further measures to speed up the integration to European markets through encouraging the free movement of goods, services, capitals and labor.

The degree of integration of the capital market of Bulgaria to the European capital markets is based on statistical evaluation of price indicators for financial integration (Stefanova J, 2013) in view of comparing the returns among assets. The statistical analysis includes correlation and regression analysis and testing the hypothesis regarding the existence of integration links between the capital markets of Bulgaria and the Eurozone for the period 2003 – 2013. Following the empirical approach the analysis encompasses integration indicators on the market of government securities, the stock indexes and the banking market.

The stock markets in the Central and Eastern Europe countries are characterized by higher levels of information asymmetries and volatilities according to a research by Syllignakis & Kouretas (2006) and rising degree of co-integration links among their stock markets and the stock markets of Germany and the USA. In the short-term period they find stronger influence of country variables rather than that of common factors for their stock markets. Furthermore, in a research of Kostenarov K. (2012) regarding the modifications of the capital asset pricing model (CAPM) on emerging markets, the author concludes that CAPM and its modifications are hardly applicable to Bulgaria (as well as to Romania and Turkey), due to the very low degree of the determination coefficient and the excessively high error in the modifications. Thus the research proves insufficient degree of development of emerging capital markets as the Bulgarian one.

The main assumptions on which the analysis of integration of the Bulgarian capital market to the Eurozone is based are the following:

- Accelerated process of convergence of Bulgaria to EU after 2007 in accordance with the main criteria for EMU (ECB Convergence Report, 2014), which leads to boost in competitiveness and improvements in the market mechanisms;
- Convergence of the average long-term interest rates of Bulgaria to the Eurozone presupposes the operation of the law of one price and the gradual removal of the legal, regulatory, institutional and other barriers in front of investors for immediate change in the structure of their portfolios;
- Assumed possibility for economic agents to have free access to the capital market in Bulgaria due to the high degree of regulatory harmonization to EU and the application of the single passport principle (in accordance with the definition for financial integration of Baele et al., 2004).

Results obtained

1. The Capital Market of Macedonia

The Macedonian Stock Exchange has been in existance since 1995. Just a year later it became a member of the Federation of Euro-Asian Stock Exchanges (FEAS), thanks to which the Macedonian stock indices were included in the Dow Jones FEAS Benchmark Composite Index and Dow Jones FEAS Southeast Europe Index. In 2006, the exchange introduced its own trading system (Bourse Electronic System of Trading, Bestnet) for information and analysis on the current state of the Macedonian market in real time. The shareholding structure of the exchange includes banks, insurance companies, brokerage houses and other legal entities. The exchange maintains cooperation agreements with the stock exchanges of Ljubljana, Athens, Beograde, Zagreb, Sofia, Vienna and Istanbul. The main purpose of these agreements is to promote the further development of the national and the regional stock markets. In 2015 the exchange members are 10 and they are banks and brokerages.

The main indicators of the Macedonian Stock Exchange in 2014 have increased as overall turnover pushed up by 63% and reached EUR 141 million. The share of foreign investors in the total turnover is about 40 %. The index of the ten most liquid companies - MBI10 marked an increase of 6.06% as compared to 2013. Market capitalization in 2014 amounted to EUR 1.7 billion and preserved the trend of 2013. Significant growth was observed in the number of listed companies - from 32 in 2012 they reached 115 in 2014, which is a prerequisite for the further increase in the efficiency and liquidity of the market. Free float of shares on the official market is between 15-20% but in 2014 there was no one initial public offering (IPO), mainly due to the high bureaucratic requirements and documentation in this process.

During the current period the Macedoninan stock exchange has reached certain stage of development, but in 2007 speculative capitals entered the market and caused unrealistic growth of the stock prices. On this market only one initial public offering of securities took place since the existence of the exchange, when the Securities Commission began the process of standardization of procedures. The companies listed on the stock exchange are expected to achieve higher transparency and to submit their financial statements and additional information about their business and their strategies. Macedonia is expected to change its regulatory base and to introduce uniform practices for public offerings in line with European directives in the area. This is expected to attract foreign direct investment in the Macedonian economy (N. Ivanovska et al, 2012).

Macedonia has achieved significant progress in developing the institutional and legal framework necessary for the functioning of the capital market. This market is regulated according to the Securities Act, The Law on undertaking of trade by companies and the Law on Investment Funds. The country's capital market has passed through a number of changes in the direction of a higher degree of harmonization with EU legislation.

The Securities Commission was established in 1992. It regulates and supervises all capital market participants that perform operations with securities. It is responsible for the implementation of the Securities Act, the Investment Funds Act, the Acquisitions Act and the regulatory framework for their application. Other responsibilities of the Commission include issuance of licenses, permits, regulations, approval of prospectuses for issuance of securities and others.

The Securities Act defines the classes of securities that may be issued and the conditions for issuance, trading, clearing and settlement. It also regulates the organization, structure and positioning of the stock exchange and the other market participants. On the basis of this law are formulated the supervisory powers of the Securities Commission, as well as the organization and the powers of the Central Securities Depository .

On the other hand, the Investment Funds Act regulates the conditions for the establishment of investment funds, supervision and control of their operations and the process of selecting a custodian bank. The law provides for the existence of open-ended and close-ended investment funds.

In 2001 the Macedonian stock exchange introduced electronic trading system (BEST), which provides continuous trading and in 2002 were set price limits for trade in listed securities on the official market up to +/-10% of their last official price, which aims to limit the high volatility in securities trading. Since 2004, the stock exchange introduced higher criteria for listing of securities **on the official market** and the **unofficial market** is divided into two segments - Market of joint stock companies with special reporting obligations and Free market. New reporting requirements for companies were also enacted as quarterly unaudited financial statements, publication of dividend calendar and notification of significant equity owners of listed companies. In 2005, the stock exchange introduced electronic application SEI-NET as an official and the only way to distribute information to the listed companies.

Since 2006 began a massive influx of capital from regional institutional investors on the Macedonian capital market. During this period, the state actively participated on this market through the sale of state shares in many joint stock companies (incl. The Macedonian Telecom). With the onset of the financial crisis and falling share prices, foreign investors reduced their turnover to minimum historical levels.

In a study of Lazarevski (2014) for determining the influence of foreign investors on the Macedonian stock exchange, it was found that the proportion of explained variance in the turnover of the exchange due to changes in the turnover of foreign investors is r^2 = 91.7%. The high turnover of foreign investors contributed significantly to increasing the overall turnover of the Macedonian stock exchange.

The period since 2005 up to 2009 was the most notable for the development of the Macedonian stock exchange. For for the period 2005 to 2007 the main stock index MBI10 increased 905 %, while in 2011 it dropped 75% from its highest value.

Table 1

Turnover and number of transactions on the Macedonian stock exchange

Year	Turnover in Macedonian denar	% change as compared to previous year	Turnover in EUR	Number of transactions
2004	7.920.484.812	4,77	129.059.279	17.441
2005	8.889.567.513	12,24	145.003.311	32.111
2006	31.017.933.488	248,93	506.999.177	52.930
2007	41.702.320.447	33.45	681.605.232	141.984
2008	12.378.962.326	-70,32	202.057.197	43.353
2009	6.732.333.490	-45.61	109.826.668	34.437
2010	5.842.963.073	-13,21	94.981.398	25.741
2011	13.655.857.674	133,71	221.942.461	23.426
2012	5.600.304.948	-58,99	91.006.149	14.951
2013	3.234.557.987	-42,24	52.502.793	13.585

Source: Macedonian stock exchange

As is clear from Table 1, in 2006 and 2007 the stock exchange recorded the highest growth in turnover, which was mainly due to the entry of a large number of small investors, mostly individuals who invested small amounts in diversified portfolios. 2007 was the most successful in the history of the Macedonian stock exchange and in this year the exchange marked a turnover of MKD 41.7 billion, while the main index MBI 10 reached its highest value of 7,740 index points (Dimitrova et al, 2013). In 2007 trade on the official market constituted 73% of total turnover, while the trade on the segment of public companies - 21%, and trade on the open market comprised only 5%.

The main types of financial instruments traded on the Macedonian stock exchange are shares, euro- and denar-denominated government bonds. Other government securities are usually traded on OTC market. Currently it is not possible to carry out short sales. The majority of traded shares are ordinary and the companies rarely issue preferred shares. All bonds traded on the Macedonian stock exchange are with maturity up to 10 years and a fixed interest rate. The issuers may offer commercial papers and certificates of deposit. At the moment only short-term government securities are traded on the OTC market and according to their maturity they are quarterly, half-yearly and 12-month government securities, but their turnover is very small.

The Macedonian stock exchange calculates two indices - MBI10 and OMB. MBI10 has been calculated since 2001 and it is the price -weighted index consisting of the 10 most liquid ordinary shares, which are chosen according to criteria, described in the methodology of the stock exchange. On the other hand, OMB is the bond index computed since 2006 and has a limited weight of 30% per bond.

The protection of investors on the capital market in Macedonia is provided by maintaining a guarantee fund, which is managed by the Central Depository and is used in the event of failure to complete a transaction, or when the Central Depositary members have no sufficient cash for the settlement of their transactions. This fund is filled by compulsory contributions of the members of the Central Depository (Komercijalna Banka, 2014). Since 2006 on the capital market of Macedonia has been introduced Corporate Governance Code applicable to all listed companies on the Macedonian stock exchange. On this market also is applied Handbook of Corporate Governance, which has been prepared under the Program on Corporate Governance in Southeast Europe jointly with the Iinternational Financial Coropration during the period 2006-2007. It aims to increase the trust between companies and their stakeholders, to build an environment of accountability, openness, transparency through the application of recognized standards of good corporate governance.

On the primary and secondary markets there are no taxes imposed on new issues. When selling shares, debt securities and shares of mutual investment funds there is a capital gains tax for domestic and foreign citizens in the amount of 10%. Income tax on individuals is a flat rate of 10 % to be applied on realized cash income from dividends and coupon income from corporate bonds. Individuals who are residents of countries with which Macedonia has signed double taxation agreements can be exempt from taxation. Income received by legal persons is charged by withholding tax at the rate of 10% on cash dividends and interest income from corporate bonds. No withholding tax is charged on interest income earned from debt instruments issued by the government or the National Bank of Macedonia. Foreign investors do not face investment restrictions and they have the same rights and obligations as local residents.

The global financial crisis of 2007 had a significant impact on the operation of the Macedonian stock exchange. In the previous two years it registered considerable growth of foreign institutional investors, but with the onset of the crisis they reduced their investments, leading to a fall in liquidity in the trade of securities in the second half of 2008. Yet Macedonia has not been heavily influenced by the first wave of the financial crisis because of the insignificant investments of local investors in synthetic financial instruments. After the second half of 2008 has been noticed a growing pessimism in the expectations of investors and their decisions to invest in securities.

In 2013 the secondary capital market continued its decline in turnover and in the number of transactions, which was due to the reduction of block transactions and also of transactions in shares and bonds. In the same year the stock exchange introduced a new market sub-segment - segment for mandatory listing on the basis of an amendment in the Securities Act. Thus 113 companies fell under the requirement to list their shares on the Macedonian stock exchange. Foreign investors continue to show low interest to the Macedonian capital market and in 2013 were reported net sales of securities by them in the amount of MKD 205 million.

Transactions on the OTC market are rather random and not permanent in nature, as in 2013 only two bond issues were traded on this market.

In Macedonia there are 13 open-ended investment funds, 9 private fund and 5 management companies. The first investment funds were created in 2007 and they are regulated on the basis of the Law on Investment Funds. Among the reasons for the slow development of these investment intermediaries are the high capital requirements for their establishment and the ban on investment in foreign securities and real estate. They can invest only in shares and bonds listed on the Macedonian stock exchange, which severely limits their opportunities to optimize and diversify the structure of the portfolios of these companies. The global financial crisis severely affected the operation and the rate of return of investment funds due to a reduction in stock prices and the fact that their investments are primarily in Macedonian securities. According to a study of Odraklieska (Odraklieska D., 2013) the population has very little information about the activities of investment funds and about the benefits of investing in securities offered by these companies.

Table 2

Correlation coefficients among stock indices in SEE

Stock Index	MBI - Skopje			
	2011	2012	2013	2014
BELEX15 - Beograd	97.3	61. 9	57.1	-18.4
BET - Bucharest	89.2	41.9	-64.8	-65.0
CROBEX - Zagreb	96.6	36.2	83.1	-56.2
EUROSTOXX 51 index	84.7	-20.7	-76.3	-17.4
SBUOP - Ljubliana	88.1	0.8	-14.9	30.6
SOFIX - Sofia	92.4	-53.2	-87.3	68.8

Source: National Bank of Macedonia, 2014

From Table 2 above it can be seen that in 2013 the correlation of the main stock index in Macedonia MBI10 to most regional stock markets continued to decline. These differences in the correlation of MBI10 to the other major indices in the region reflect possible divergences in the behavior of investors on the local market of Macedonia and are an indicator of the low degree of integration in this market with the other regional markets.

2. The Capital Market of Bulgaria

According to a World Bank report (World Bank, 2011) Bulgarian legislation is characterized by a high degree of harmonization with EU directives in the field of regulation of capital markets. In 2014 began the process of introducing the new European regulations and directives (for short selling, OTC derivatives, central counterparties and trade repositories, the directive on managers of alternative trading systems, etc.) which is an important priority for the Bulgarian regulatory authority in the face of the Financial Supervision Commission, as well as for market participants on the capital market of the country.

The new regulatory framework for the capital markets in the EU covers all stages of trade on these markets. It includes trade on regulated and OTC markets, clearing and settlement of securities and significantly expands the scope of financial instruments that are subject to regulation and disclosure. The expected positive effects of the new regulatory framework on the capital markets in the EU are greater access to finance for Bulgarian companies in the course of the closer integration of the Bulgarian capital market to those in the EU. Due to the small size of the Bulgarian public companies and investment intermediaries there is no active interest to them from the pan-European counterparts. From this perspective, yet the regulatory framework for the single passport and alternative trading systems have minor effects on the small-scale capital market in Bulgaria.

In 2014 the Bulgarian capital market remains limited by its size and underdeveloped compared to the Eurozone countries and Central and Eastern Europe member states. In a report of IMF (IMF, 2012) it has been emphasized the need for further development in Bulgaria with a view to increasing economic growth and productivity through further structural reforms. It should also be noted that while the Central and Eastern Europe countries (especially Hungary and the Czech Republic) are at an accelerated process of convergence towards the economic structure of the EU, for Bulgaria the expectations are that the differences compared to the average EU indicators will remain significant (Institute for Economic Research BAS, 2012). Main problematic factors to competitiveness and financial development of Bulgaria remain the high levels of corruption, inefficient effectiveness of institutions and limited access to financing. To overcome these weaknesses in the economic environment of the country in accordance with the Strategic Framework of the National Programme for the Development of the Republic of Bulgaria: Bulgaria 2020 (Council for Development at the Council of Ministers, 2012) has been proposed optimization of the institutional capacities, effective use of financial instruments for start-up and growth small and medium-sized enterprises and implementation of policies to improve competitiveness in accordance with the principles of sustainable development.

In the period after the global financial crisis, the market capitalization as a proportion of GDP preserves the tendency to further decline and by 31.12.2014 it was 11.88% of GDP (Bulgarian stock exchange, 2014), but remains very low compared to the euro area countries (average indicator of 58.1 % for 2013, Convergence Report, 2014, ECB). The low liquidity is a major shortcoming of the capital market in Bulgaria. It is due to the low volume of shares freely traded on the exchange and the outflow of foreign investors from the Bulgarian capital market in the course of the financial and economic crisis.

The market capitalization for 2014 is BGN 9.7 billion, which is a decrease of 2.05% as compared to 2013. In respect of the indices a tendency to increase has been noted for Sofix by 5,76%, BGBX40 by 4.61 %, BGREIT by 12.08% and BGTR30 by 16.28%. In 2014 the turnover on an annual base reached BGN 759 million, while in 2013 it was BGN 1,521 million. The greatest absolute reduction was observed in the turnover of shares (approximately 55% decrease).

The number of issues of financial instruments admitted to trading in 2014 was 444, down by 51 compared to 2013. The largest turnover was realized on the segment of shares (66% of total turnover), followed by bonds (20%) and shares of joint stock companies with special investment purposes (11%). In sectoral terms 38.92% of the turnover was realized by the financial sector (banks and insurance companies), 31.98% by trade, repair of machines and motorcycles and 16.02% by the manufacturing industry.

With changes in the National Code of Corporate Governance the corporate practice on the Bulgarian capital market was harmonized with that in other EU countries by applying the principle of "comply or explain". The principle requires in the event of failure to apply any of the recommendations in the Code the listed companies to outline the reasons thereof. Good corporate practice ensures the implementation of the requirements for transparency, accountability and business ethics, as well as equal treatment of all shareholders.

Despite the high degree of harmonization of the legal framework and market practices to EU level in Bulgaria continue to operate a number of limitations to the effective functioning of the capital market. In particular at **micro-level** can be outlined:

- low quality of publicly listed companies, resulting in minor volume of freely traded shares;

- small capitalization of listed companies;

- companies with high capitalization are structurally and sectorally important and of interest to major national and foreign institutional investors;

- low liquidity, which leads to higher costs for execution of transactions with certain volume and increases the price volatility.

At the **institutional level** may be outlined such restrictions as:

- the lack of infrastructure for clearing, which hinders the development of the derivatives market in Bulgaria;

- the slow process of integration of the Central Depository to the European settlement infrastructures;

- the major differences of the Bulgarian capital market with developed European markets,

- the lack of political will for change etc.

For the adequate removal of these restrictions the market forces and incentives have the leading and decisive role. The institutional structures are expected to remove still existing legal, tax, regulatory and other barriers as well as to carry out continuous monitoring of the capital market and its participants in order to preserve the financial stability and prevent systemic risks.

Based on performed empirical analysis for the adaptation of the Bulgarian capital market to the EU (Stefanova J., 2013), the following results can be outlined:

• The indicators for the integration of securities markets show mixed results, so that in respect of the Bulgarian and German government bonds was observed moderate correlation in yield spreads. For 2-year maturity Bulgarian and French government bonds were reported weak correlations due to the insufficiently long statistical series. Furthermore, it must be recognized that the Bulgarian government securities have a higher degree of country risk due to differences in the credit ratings of Bulgaria, Germany and France. It is necessary to take into account also the differences in perceived credit risk and liquidity. Lastly, but not least is the poorly developed secondary market for government securities in Bulgaria, which is an obstacle to liquidity as well as the less developed repo market in the country.

• the indicators for the integration of the stock markets of Bulgaria (stock index SOFIX) and the German market (stock index DAX) reported a strong degree of correlation in the post-crisis period, mainly due to the following reasons: the Bulgarian stock market is using the XETRA platform and this unification of standards facilitates the listing of issues in the cross-border context; Bulgaria is a small country with a high degree of openness of its economy; increasing influence of common data variables from international capital markets during the global financial and economic crisis.

• the indicators for the integration of the banking market of medium and long-term assets and liabilities generally show moderate correlations confirming that retail banking still remains a typical local business in Bulgaria, in which banks maximize their comparative advantages in the local context in order to maximize their benefits. The increase in banking concentration leads to less competitive pricing on loans and deposits to the population. Furthermore, the fragmentation of these markets is explained by the presence of asymmetric information and the significant costs for changing service banks.

In an empirical study (Stefanova J., 2015) of the influence of factors on the development of the Bulgarian capital market (FDI, GDP, interest rates, R&D expenditure, legal rights index[76]) it has been established that only the indicators GDP and the legal rights index are statistically significant to the market capitalization of the stock exchange in Bulgaria. The legal rights index for the period 2004-2014, shows constant value of 9, (which is indicative for more than average level of protection). The correlation coefficient between GDP, the legal rights index and market capitalization on the Bulgarian stock exchange is 0,643, which confirms the presence of medium correlations. On the other hand the determination coefficient estimates that 41% of the changes in the market capitalization of the Bulgarian stock exchange are due to changes in GDP and the legal rights index, while the remaining 59% are influenced by other factors.

A number of other studies (La Porta, Lopez, Shleifer and Vishny, 1996) confirm that investor protection is essential because of the agent problem, and so the countries with low degree of investor protection have significantly smaller in size and depth debt and equity markets. These studies point to a link in the direction from the legal system to economic development. According to Komijani *et al* (2012) protection of shareholders has a positive and significant effect on the development of the stock market and 1% growth rate of the index of investor protection leads to an increase in market capitalization to GDP by 9.542%. The Bulgarian stock exchange has adopted and implemented a National Corporate Governance Code, which guarantees high corporate culture in listed companies. Despite the high degree of legal protection (legal rights index value 9), the country reported high corruption index (Global perception index - value 43, Transparency International, 2014) and highest share of gray economy in Europe (Visa Europe, 2013).

Regarding the impact of GDP on the development of capital markets a number of other studies (Demirguc - Kunt and Levine (1996a), Singh (1997), Levine & Zervos (1998)), also confirmed the positive two-way relationship between economic growth and the development of stock markets in the long period. The Bulgarian stock exchange reported the highest levels of market capitalization during the years in which real GDP grows. Therefore, it is important for the exchange to take advantage of this positive relationship, particularly through measures to attract local and foreign investors (eg. by cross-listing of shares of companies).

The empirical analysis of the integration links of Bulgaria and the SEE region shows strong correlation links with the capital markets of Serbia (correlation coefficient of 0,993), Montenegro (correlation coefficient of 0,966) and Austria (correlation coefficient of 0,915). It has been established that 12 % of the changes in the Bulgarian leading stock index SOFIX are due to fluctuations in the Serbian index BELEX 15, and about 16 % of the changes in the Bulgarian stock index are due to variations in the Austrian and the Montenegrin stock indices. The Macedonian capital market is the only one in the SEE region, which shows weak correlation links with the

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[76] The legal rights index is calculated by the World Bank and measures the degree to which legislation relating to collaterals and insolvency protects the rights of creditors and debtors and thus facilitates lending. The highest score of the index is 12, which shows that the legal framework is established in such a way that widens the access to financing.

Bulgaria, Serbian and the Montenegrin markets, and when compared to the stock market of Austria, the correlation coefficient is even negative.

Serious infrastructure problem on the Bulgarian capital market is the lack of a clearing institution, without which it is impossible to develop a derivatives market in Bulgaria. An important strategic objective of the Central Depository is to achieve integration into the European financial markets and to establish links with other depository institutions. One of the main initiatives in this direction is the potential for integration with Clearstream and/or Euroclear. By providing a direct connection to these institutions the Central Depository will have an opportunity to attract foreign investors and to build a more effective structure of its operational costs. In case of a legal merger with another depository institution it is expected to achieve a competitive edge, while the technical merger and the introduction of a single platform is a prerequisite for reducing costs. Since 2010 the Bulgarian Central Depository has a number and BIC for SWIFT, which enables other depositaries to connect directly to it (in 2013 it established a direct link with the Central Depository of Romania). Thus, the Central Depository is expected to increase its compatibility with the participants of the European and regional capital markets.

Conclusions

Macedonia has reached significant progress in the development of the institutional and legal framework, necessary for the proper functioning of its capital market. This market has undergone various changes in the direction of attaining greater harmonization to EU legislation. The updated legal framework guarantees application of the principles of legitimacy, transparency, non-discrimination, competition, safeguarding the rights of investors and legal certainty. Positive factors for the future development of the capital market on Macedonia are the increased transparency of the listed companies, the activities of the investment funds, the favorable tax regime and low inflation. A step for accelerating the integration of Macedonia to EU was taken by the country in 2014, when the stock exchanges of Macedonia, Bulgaria and Croatia concluded an agreement for the establishment of an integrated regional platform for trade in securities with the financial assistance of the European Bank for Reconstruction and Development.

Under conditions of global competition the capital market of **Bulgaria** faces the threat to remain in the “periphery” of the integration processes unless measures are taken at institutional and microeconomic levels for linking the trading systems/merging or entering of the Bulgarian stock exchange into a strategic alliance with a leading regional/ European or world stock exchange. These processes will lead to improved market efficiency, long-term maximization of profits and minimization of average transaction costs for the users of stock exchange services. The prospective strategic alliance or other forms of horizontal integration of the stock exchange operator of Bulgaria would lead to increased transparency of the Bulgarian listed companies and practically would ensure access to greater investor base under conditions of heightened competition coming from alternative trading systems in EU.

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