

## **Stock exchange influence in promotion of capital market in Bosnia and Herzegovina: SASE case**

Fahrudin Malanovic

*International University of Sarajevo, Faculty of Management and Business Administration*

*71000, Sarajevo, Bosnia and Herzegovina*

E-mails: *malanovic\_88@hotmail.com*

### **Abstract**

Economic efficiency and well being of one country is somehow connected with the efficiency and effectiveness of stock exchange, so the main purpose of this study is to show and explain workings of capital market in Bosnia and Herzegovina through activities of Sarajevo Stock Exchange. The reason for this analysis is fact that the stock exchange performs important, if not key, role in one nation's economy since it provides investment opportunities by offering buyers and seller's places for trading securities, such as stocks and bonds. Such investment opportunities are ways for corporations, governments, and business to obtain funds necessary for expanding business or financing publicly good project.

Another reason for this analysis is the lack of awareness about importance of stock exchange even if performance of stock exchanges affects everybody starting from individuals to large corporations to governments.

Taking into consideration the fact that the stock exchange is an organized place for trading goods, securities, financial derivatives...etc, whose daily volume is measured in billions of dollars, it can be easily concluded that importance of it is huge.

This work is mentioning direct and indirect effects of stock exchange activity on an economy, proving great impact on daily activity, not only of business, but of people as well.

This study also indicates that highly developed nations are closely related to the high level of activity of stock exchanges and see stock exchange, as a component of capital market, a key factor to success. Simply, stock exchange is as important as other public goods.

Less developed nations are not necessarily related to the poor performance of stock exchanges; however, it could also be a main reason for those nations to be considered as a less developed.

All in all, nothing can change the fact that stock exchange creates our destiny regarding our future job orientation, since companies and corporations find stock exchange one of the easiest ways to obtain money to finance their activities. Also, nothing can change the fact that the whole global economy, including economy of Bosnia and Herzegovina is dependent on those biggest stock exchanges around the world where the most important one is the New York Stock Exchange.

This work is divided into three chapters. Section 1 deal with stock exchange and stock market in general. When it comes to Section 2, it deals with stock exchanges in Bosnia and Herzegovina, while Section 3 is actually conclusion part of this work.

**Keywords:** stock exchange, capital market, security, stock, bond

## **1.INTRODUCTION**

### **1.1 Historical review – stock market term**

Stock exchanges have been existing for hundreds of years. Some of them are dating back to year of 1100 such as stock exchange in Paris, stock exchange in Amsterdam...etc. So, as we can see, the origin of stock exchanges is actually Western Europe. In the years of 1600 and 1700 other stock exchanges were opened including one in Belgium, Spain, Sweden and Portugal. During that time, they did not have great impact on the people's lives and economy as a whole, mainly because there was only couple of them. So, the main purpose of stock exchanges was trading of goods and currencies, but not in so high denominations. However, in the year of 1785, the stock exchange in Amsterdam started doing trading with securities and such way of trading was seen as a great innovation and opportunity to increase profit. Founding this way of increasing profit was a reason for other European stock exchanges to follow Amsterdam stock exchange regarding trading securities. It did not take much time for stock markets worldwide (at that time, Canada and Australia stock markets) to start seeing stock exchange as a one of the main ways to increase profit. Great importance of stock exchanges led countries worldwide to open it up, so by 20th century stock markets in Asia, Africa, and South America were opened.

When it comes to US stock exchange history, it can be traced back to over 200 years ago. There were many reasons to start trading securities starting from personal needs, wants, as well as willingness for profit increases to some more complex reasons such as financing war by selling bonds.

The greatest and most important stock markets in the whole entire world, New York Stock Exchange (NYSE) was found in 1817 playing key role in creating business and dictating movement of whole business from year to year.

### **1.2 Definition, significance, and role of stock exchange:**

By simple definition, stock exchange is an organized place for trading goods, bonds, shares, financial derivatives...etc. Stock exchange also refers to the well-organized and well-regulated component of financial market where trading different types of securities such as stocks and bonds, take place at price that is determined by the demand and supply forces. A stock exchange or bourse can also be seen as a corporation providing opportunity and place to its owners or financial market participants for increasing profit by trading company's shares, bonds, and other securities.

Besides this, stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. (Wikipedia, 2012)

Stock exchange certainly has many roles, but providing assistance when trading securities is certainly among most important and most significant role of stock exchange. Not only providing assistance is significant role of stock exchange, but also regulation, transparency and control of buying and selling securities is role of stock exchange.

Many economists are opinion that the stock exchange perform important, if not key, role in one nation's economy since it provides investment opportunities by offering buyers and

sellers places for trading securities, such as stock and bonds. Such investment opportunities are ways for corporations, governments, and businesses to obtain funds necessary for expanding business or financing publicly good project.

Stock exchanges also have one simple but significant role: providing direct job for people. Providing direct job is expressed through different institutions including different brokerage firms, investment banks...etc. It is well known that financial news organizations employ hundreds of thousands of people across globe.

### **1.3 The role of the stock exchange in economy**

Taking into consideration the fact that the stock exchange is an organized place for trading goods, securities, financial derivatives...etc, whose daily volume is measured in billions of dollars, it can be easily concluded that importance of it is huge.

In high developed countries, stock market is as important as other public goods. Metaphorically speaking, it is like highways since both are used as an intermediate between people's needs, wants and wishes. Highways are associated with transferring goods, people...etc, while stock markets are used for transferring securities such as stocks, bonds, futures, options...etc. (Dedovic, 1998, p.1)

Based on this, we can say that trading or investing in securities seems to be one of the most interesting modes of investment. Economic efficiency and well being of one country is somehow connected with the efficiency and effectiveness of stock exchange. Such close relationship is the reason why governments, corporations, central banks, and even individuals in the countries around the world closely watch every activity on stock exchange. "Black Monday" proved that the bulk of economical growth that took place in 20th was mainly dependent on the stock exchanges mainly because if stock exchange activity was high, then there was money and room for improvement. On the other side, if prices of stock went down and activity was low, then recession was unavoidable. Corporations, governments, and small industries simply realized that by stock market investment there is possibility for easy gains of capital necessary for financing activities and easy way for increasing their wealth. Not only corporations and governments see opportunity for increasing profit, but also individuals see stock market as a way for increases in personal wealth. Nothing can change the fact that many of the wealthy people have gained or increased their wealth thanks to investment in stocks and bonds.

Also, nothing can change the fact that the whole global economy is dependent on those biggest stock markets around the world where the most important one is the New York Stock Exchange.

As it is well known, the NYSE is a huge market determining the parameters of the global economy. In principle, when the New York Stock Exchange goes down, the whole global economy will suffer and it will have a domino effect which can affect every stock market in the whole world. In fact, this is what happened in the global crisis in 2008; as when the mortgage crisis jumped into the stock market, this precipitated into a full scale stock market crisis which caused a major crisis all around the world. In no time, there was a huge economic in the global economy, as all stock markets around the world were effected immensely. (Bestgrowthstock-blog, 2009)

In most simply way to explain why the stock exchange is important to economy is that when stock prices go down, companies, ranging from the strongest one to the smallest one, feel the

pain and vice versa. Economy is such science in which changes in one branch mostly leads to changes in other branch. So, changes in stock prices will not affect only companies, but also almost every individuals when most of them are not even aware of it. Mentioning this can sound very pessimistic and negative regarding stock exchange in general. However, it also shows the importance of stock exchange to economy since the stock exchange as a component of stock market as the main dynamo of the economical forces, is a way for the real economy to get strengthened.

**Figure 1 - Importance and stock market development from 1950 – 2007**



(Miskhin, Stanley, 2006, p.6)

As we can see from this figure, stock prices and stock market activities have been constantly increasing from year to year. In last fifty year, there has been boosting of economy which is mostly because increasing in stock market activities as well as prices.

However, people do not know much about that. In some sense it creates our destiny regarding our future job orientation, since companies and corporations find stock exchange one of the easiest ways to obtain money to finance their activities.

To make this more clear and convincible, let us assume a day when Wall Street marketers announce that price of certain company's share/stocks extremely went down by, say, 35%. How would it affect companies and people? When it comes to people, fear of increases of economic unemployment is the way to affect them. In many cases, loosing job means increases in personal debt which further leads to insolvency or inability to repay all liabilities. Further consequences are shown in loose of houses, discouragement, financial dependence...etc.

On the other side, decrease in company share's prices leads to financial dependence meaning that companies facing that situation rely on money from bank. However, in order to obtain funds from bank companies usually have to agree on repaying principal back with high interest. Repaying principal back together with interest usually results in company's less profit which further leads to less innovation, less competition, economy of scale decreases...etc. Besides that, borrowing funds from bank is heavily regulated.

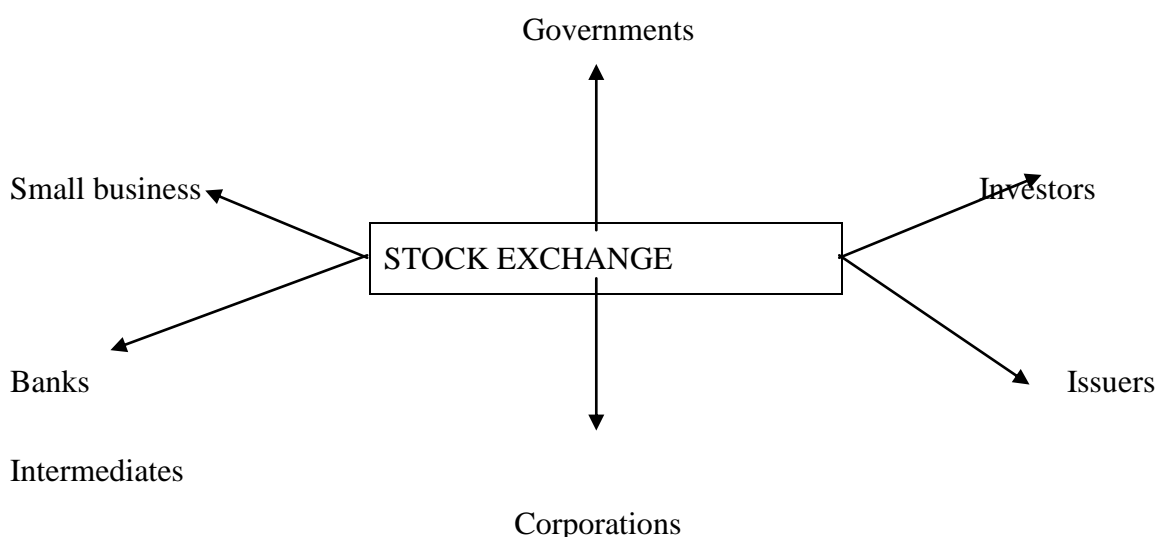
As Frederic S. Mishkin and Stanley G. Eakins mentioned in their book *Financial Markets and Institutions* (2006, p. 49), stock exchange is an important factor in business investment decision because of shares affecting the amount of funds that can be raised by selling newly issued stock to finance investment spending.

In simply words, this means that a higher price for firm's share leads to a larger amount of collected funds, which can further be used to finance different business activities starting from inventory changes to rebuilding new company's facilities.

Well functioning economies are closely related to the well functioning of stock exchange also for other reasons:

Channeling funds from savers to borrowers - channeling those funds results in promoting economic efficiency as well as effectiveness in a way that competition increases, more funds are provided, unemployment decreases, more projects being implemented... etc.

**Figure 2 – participants being served by the stock exchange**

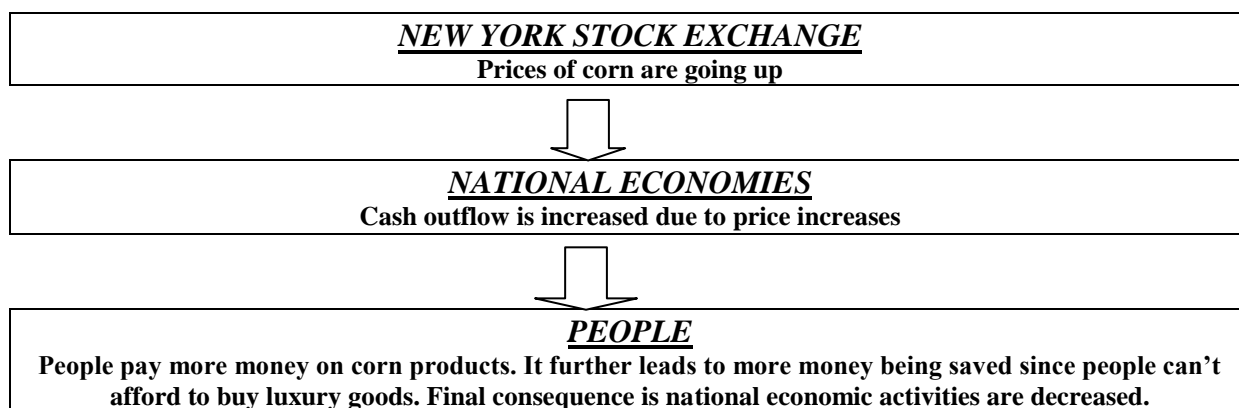


- More innovation – highly developed countries are associated with innovation because people in those countries always want something new and sometimes have relatively unrealistic wishes and demands.
- Wealth of people is going up since they have job. This further leads to increases in their spending and result in profit increases of firms.
- Governments also benefit from this since people spend more, firms earn more, and more taxes are collected.
- Professor Mihailo Dedovic said in his book, “Stock Exchange” (page 2) that stock exchanges is not only important because huge amount of capital being involved.

Far from being the case, it is mostly important because it is actually place where prices of goods, services, capitals as well as money are determined.

What does this mean for us? In order to better understand consequences of stock exchange activities regarding price determination, let us take a look on the picture below:

**Figure 3 – consequences of stock prices going down**



Taking close look at this picture, we can notice that a New York Stock Exchange (NYSE) activity determines not only activities of national economies, but also activities of people being part of those economies. It is unwritten rule that when people have to pay necessities a bit expensive than they used to, in order to keep their cash at balance, they will turn to spending less money. This will further lead to less money on market and economic activities will decrease.

Stock exchange helps company to raise fund which are necessary to expand its business. How is that work? Let us take simple example.

Imagine yourself as an owner of small manufacturing company for producing furniture. You have some amount of money which you use to buy a machine for production, found couple customers, and you just started doing the business. So far, the business is doing well, profit is increasing, you are winning new customers and soon you face situation in which you simply can't satisfy all customers' needs and wants. Now you are facing the dilemma of whether to increase the business and profit, but require you to spend certain amount of money or you can just let your competitors take potential customers away from you, but you are letting competition to increase and putting yourself in risky situation regarding your future business and profit as well. In order to increase the business you have to buy new machines which costs, say, \$100,000. Now, you can wait for some period to earn more money to buy that particular machine, but you are certainly going to lose many customers simply because they can't wait for you to make product. So, they will switch the company. You can also borrow money from bank, but it is heavily regulated and soon you get money you will have to start returning more money back than you borrowed because interest is included. Finally, you can issue share which is third and most reasonable option to do. So, if I you do that, meaning if you sell part of your company to third person, you will not be a 100% owner, but you will have money necessary for financing your activity. In fact, third person is actually investor having claims on company's future earnings. At first sight it seems that you earn less amount of money. Far from being the case, your business is increased and you earn more money.

So, all in all, whenever a company decides to expand business or strengthen its capital, it has two main ways to obtain funds: either taking a loan from bank or issuing shares through the stock market. However, the stock market is the primary source for company to raise funds whenever it needs it.

- There is saying that stock exchanges have predicted 3 out of last 10 recessions.

One simple thing that can warn us that particular event can take place is lack of responsibility regarding trading securities. This simply means that if, say, New York Stock Exchanges (NYSE) does not run the business in a way it is supposed to or fully carry out its duty regarding overseeing the stock trading process the investors will simply lose faith in the transparency, fairness and safety of the New York Stock Exchange. If this happens then all of the economic activity that the stock exchanges create will decrease and this will lead to an overall drop in economic activity. The stock exchanges must be sure that investors are not taken advantage of and that investors continue to have confidence in the system the stock exchanges created.

- It is mentioned previously that the stock exchange is closely related to the economy of country in a way when stock prices go down; all participants in the economy, starting from individuals to large corporations are affected. This is mainly because the economy is such science in which changes in one branch affect and leads to changes in other branch of the economy.

**Figure 4** – domino effect



(Dreamstock, 2011)

The above picture explains effects of stock prices going down. As it is said, not only large corporations and small business are affected, but also almost every individual even if many of them are not aware of it. This is simply because of stock exchange, being one of the main factors in the economy as well as acting as dynamo forcing changes in economy together with well-full functioning stock market will help increase the strength of the reel economy.

All in all, the stock exchange is one of the most important sources for companies, governments, small investors...etc, to gain money to expand business or finance their activities. The stock exchange activity is actually our destiny creator in the sense that small changes can cause positive or negative domino effect of worldwide business affecting directly us as individuals. Watching news about changes in share prices during whole day, seven days a week, it is just worth considering that stock exchange being part of our life.

People's awareness, especially of those holding shares, about stock exchange activities should be increased because the first impact they will see is fall or increase in their wealth. This can also cause domino effect since fall in wealth leads to people being more hesitate to spend money. Further effect is fall in consumer spending and list goes on.

Taking into consideration everything mentioned, it is worth to say that nothing can change the fact that well functioning stock exchange is a way to create new jobs and way to create funding for companies from the biggest to those with small capacity. It is also fact that without a proper functioning of stock exchange, it is not possible to have a healthy economy. Simply saying, stock exchange is one of the key factors in producing high economic growth.

## **2. STOCK EXCHANGE IN BOSNIA AND HERZEGOVINA**

When it comes to stock exchange of Bosnia and Herzegovina, where the most important one is Sarajevo Stock Exchange (SASE), daily volume is measured in millions of dollars. Likewise abroad, the company's easiest way to obtain funds for financing its activities is through issuing stock on the stock exchange. However, not all companies can participate on the BH stock exchanges. In order to trade securities either on SASE or BLSE, the particular company must be listed there. Sarajevo Stock Exchange (SASE) and Banja Luka Stock Exchange (BLSE) set up certain requirements that company must fulfill in order to participate on the stock exchange including: minimum amount of capital, minimum amount of size of shares, minimum number of class holders, which is 150...etc.

As it is said previously, the way of trading of securities is being done on two stock exchanges located in Sarajevo (SASE) and Banja Luka (BLSE). Both, SASE and BLSE aim to provide quality and transparency as well as fair trading environment for their market participants which include both domestic and foreign participants.

Over here in Bosnia and Herzegovina, business is done electronically meaning that brokers are sitting at their offices and do the business through technology. So, we can't see people over here running around screaming and yelling like we see on American movies which actually show real picture of American stock market's working environment.

Stock exchanges in Bosnia and Herzegovina, with annual turnover measured in hundred million of dollars, has been recording improvement in the way of working as well as profit increasing from year to year. The performances of SASE and BLSE exploded especially in last couple years. Such improvement and profit increases lead to capital market strengthening which has also been recording improvement and people awareness from year to year.

Since 2002, market capitalization has risen by around twenty times and at the end of 2005 it was EUR 3.3bn (Wiener Börse: EUR 107.1bn). The average daily trading volumes have also soared in the past few years and hit EUR 1.5mn by 2005 (Wiener Börse: EUR 342mn). The leading index of the Sarajevo Stock Exchange, the BIFX, rose from 1,264.20 at the end of 2002 to 4,045.57 points at the end of 2005. (SASE, 2011)

### **2.1 Criteria for Admission to the Admission to the Sock Exchange Listing**

Stock exchange is not like ordinary market where everybody can enter in, do the business, and walk away. Far from being the case, there are certain regulations and rules that particular company must implement before participating in stock market. A particular company must first be adjusted and registered by SEC (Security Exchange Commission) and even when it is adjusted process is not done yet because the particular company must do two other regulations: informing stock exchange about all circumstances affecting its business and providing stock exchange with annual and semi-annual financial statement.



Table 1 indicates that securities which complete the below listed criteria can be admitted to the listing.

**Table 1 – Criteria for admission of securities**

The issuer is a joint stock company registered at the Commission	
Years of business	3
Reality and objectivity of accounting reports	Revised accounting reports for the last three business years
<i>Capital</i> (the overall capital by the last balance sheet: capital stock, paid surplus, reserve, assigned revenues or loss from previous years, revaluation capital, undivided revenues or the business year loss)	KM 4,000,000
<i>Minimum share size class</i> (considered to be the bookkeeping value of share, i.e. market capitalization, if a share already was a part of any segment of the organized market)	KM 2,000,000
Share class percentage at the public offer	At least 25%
Share class owners	At least 150

**Table 2 - Criteria for admission of bonds:**

Years of business	3
Reality and objectivity of accounting reports	Revised accounting business report for the last three years
Overall nominal value of the sold bond series	KM 3,000,000

**Table 3 - Obligations after adjustment**

Obligation after approval by security exchange commission:	
-	to inform stock market about all circumstances affecting its business
-	to provide stock exchange with annual and semi-annual financial statement

## 2.2 Institutional framework of Sarajevo Stock Exchange

Well-functioning institutional framework in Bosnia and Herzegovina is necessary for transparency. On the other side, transparency and fairness are closely related to attracting of new investors while investors are considered to be most important players in a game called capital market. Institutional framework can be divided into several segments:

### 2.2.1 Security exchange commission

Security exchange commission is body established for the implementation of different tasks which is mandatory for fair and transparent trading on Sarajevo Stock Exchange. Without this body, it would not be possible to regulate and promote secure capital market in Bosnia and Herzegovina. Another reason for the existing of security exchange commission is protection of investors. Once we have body that works on behalf of investors in a way that protects their rights, it is easy to attract new investors because they feel secure. Security Exchange Commission aims to promote capital market of Bosnia and Herzegovina to foreign investors and they found that building trust in the efficiency, effectiveness and fairness of the capital market is key to succeed in it.

#### ***General overview of responsibilities of Security Commission of Federation of Bosnia and Herzegovina (KOMVP,2011)***

The Securities Commission of the Federation of Bosnia and Herzegovina has a broad regulatory authority. Its responsibilities, among other, include the following:

- Regulation of conditions and methods of securities issuances and trading;
- Approval of issuances of shares and other securities by companies and banks;
- Approval of securities issuances by fund management companies, investment funds, mutual funds, and other legal persons that issue securities;
- Regulation of conditions and methods of bond issuance by cantons and municipalities;
- Prescribing the rules and control of securities trading based on securities exchange and system of listing, using electronic means;
- Protection of investors' rights;
- Prescribing and enforcement of standards of disclosure to investors and the general public on business operations of securities trading participants;
- Prescribing of conditions, issuing approvals of operations, and control of professional intermediaries (e.g. brokers and dealers), and other securities trading participants.

**2.2.2 Registry of Securities** – in most simple way to explain Registry of Security is place where data on securities are being held. Article 2 of the law defines that the Registry of Securities performs operation of registration, safekeeping and maintenance of data on securities, operation of transfers in accordance with the law regulating the issuance and trading of securities. However, it is not only duty and operation performed by the Registry of Security. Far from being the case, it may also perform other operations including clearing and settlement as well as all other operations that are related to clearing and settlement, but which are firstly approved by Security Commission.

#### **The Registry performs the following operations for securities issuers:**

- registration, safekeeping, keeping and maintaining data on securities;
- making the list of shareholders and list of securities holders with the balance as of the day requested by the issuer;
- making other reports as requested by the issuer;
- services in case of changes in property status and in case of changes in securities due to conversion, securities denomination, merger and division of issuer's shares;

- Services in exercising the rights derived from securities (submitting data to issuers on securities holders, data on shareholders, who have the right to: vote in the shareholder meeting, payment of dividend, as well as other rights) and other, in accordance with the special contract.

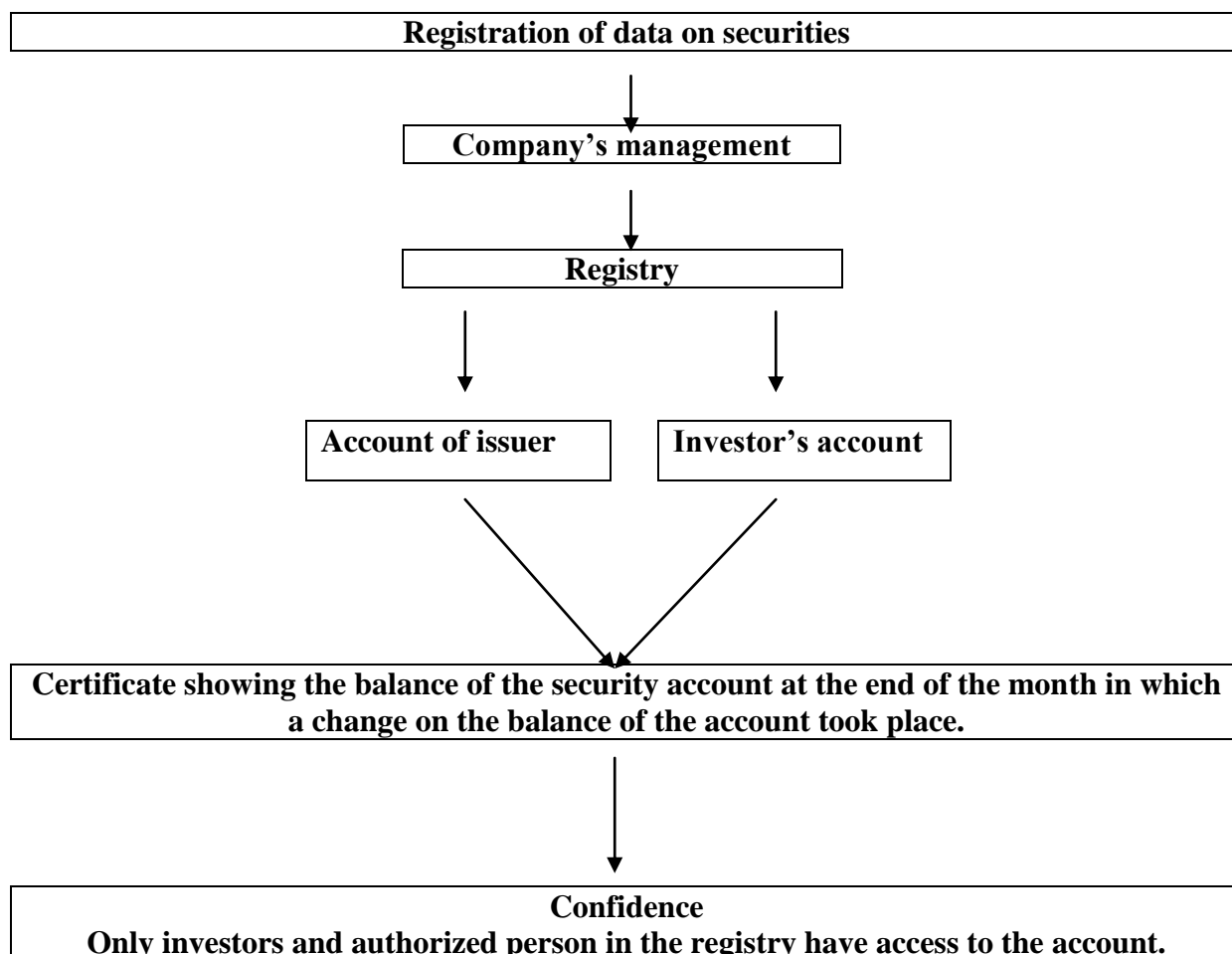
**The Registry performs the following operations for the securities holders:**

- keeping the balance of securities on securities holders' accounts;
- transfer of securities based on applications for transfer of securities, submitted directly to the Registry by the security holder;
- issuing certificates – statements and confirmations on balance of the securities account;

- Services in connection with keeping, on separate accounts, the rights of third parties on securities, of the lien, right of limitation of disposition, usufruct right and other rights;

Service in connection with joint stock company takeover and conducting tender offer based on a special contract between securities holder and the Registry.

**Figure 5 - Registration of data on securities**



As we can see on the picture above, registration of data of securities is a process consisted of couple steps. First step is approving of security by security exchange commission. After it is approved, it goes to the registry as a central place where securities are being held. In the registry, two accounts are must be opened; account of issuer and account of investor. Such accounts serve the purpose of providing certificate that shows the balance of the security

account at the end of the month. However, not all accounts are included, but only accounts in which a change on the balance of the account took place.

### 2.2.3 Professional intermediates – brokerage firms

A brokerage firm or brokerage house refers to company which is allowed or licensed to buy and sell securities. A brokerage firms are basically connection between buyers and sellers.

A brokerage firm is a financial institution that facilitates the buying and selling of financial derivatives between a buyer and a seller.

Brokerage firms serve a clientele of investors who trade public stocks and other securities. (Wikipedia, 2011)

**Figure 6** – brokerage intermediation



Being a connection or an intermediary between buyers and sellers, brokers as employers of brokerage houses make, simply saying, clients' wishes come true. In other words, it is brokers who carry out client's needs and wants when they decide to do trading on the stock exchanges. So, brokers do trade but usually not on their own account and they are usually paid on a commission basis.

#### **Operations performed by brokerage houses on SASE**

- Buying and selling securities, not on their own account, but on the accounts of clients,
- Buying and selling securities on their own account,(dealers)
- They help in promotion of capital market,
- Portfolio operating,
- Investment consulting

### 2.2.4 Investment funds

Investment fund is actually firm that invests money which is collected from different investors. Having money of many, small investors, investment fund invest it into in securities, bonds...etc. By this, an investment company gives an opportunity to small investors to invest their money in different securities. This becomes more important if we take into consideration the fact that those investors would probably never have such an opportunity. Another benefit of investing in investment funds is that small investors do not worry about trading costs which can sometimes be high. It is investment fund, not small investors that can gain economies of scale in while doing trading. There are two worldwide known investment companies:

open-end which includes mutual fund,

closed-end that includes investment trust

### **2.2.5 Depositary banks**

Over here in Bosnia and Herzegovina, depositary banks are actually commercial banks that are allowed to do everything related to depositary job. Every brokerage house has its own depositary bank which is used to make payments. In order to be allowed to perform depositary job, a particular bank must be approved by Security Exchange Commission.

Depositary bank offers the following services:

- Takes care of the fund property by keeping special accounts for property of each fund and separating property of each fund from property of other funds
- In case of mutual fund, repurchases and pays for shares, and makes payments to the owners of share of mutual fund from fund profit
- Takes care of the fact that calculation of net value of some stock or share in the fund was made in accordance with the Law, other regulations, prospect and Statute of the Fund
- Reports the Company on corporative affairs referring to the fund property, which it is taking care of, and executes the orders resulting from these affairs
- Pays all incomes and other rights due for the fund benefit, which are resulting from its property
- Keeps business operations records performed as the bank depositor for each fund and harmonizes it with Company's records regularly
- Provides auditors and other persons authorized for auditing, including the Commission, with access to data and accounts related to the fund and its property (BIB, 2011)

### **2.3 Comparison of SASE, in terms of annual turnover, with regional stock exchanges in last two years.**

Before comparing turnover of SASE with regional stock exchanges, we should first see turnover of SASE from 2004 to 2010.

As the table below (Table 4) indicates, starting from 2004, activity on SASE, in terms of money earned, had been constantly increasing till 2007 when the annual turnover was 1.274.340.116 KM. In 2008, in a year when recession started, activity on SASE dramatically decreased by more than five hundred million of KM. Fall in activity was continued in the following years and in 2010, annual turnover was the worst in SASE history with the amount of 108.55.379 KM.

Based on this information we can divide turnover of SASE into two parts: prerecession turnover and post recession turnover. It is noticeable that before recession there were constant increases in turnover. However, when recession started, there have been constant decreases in turnover.

**Table 4** - Turnover from 2004 to 2010

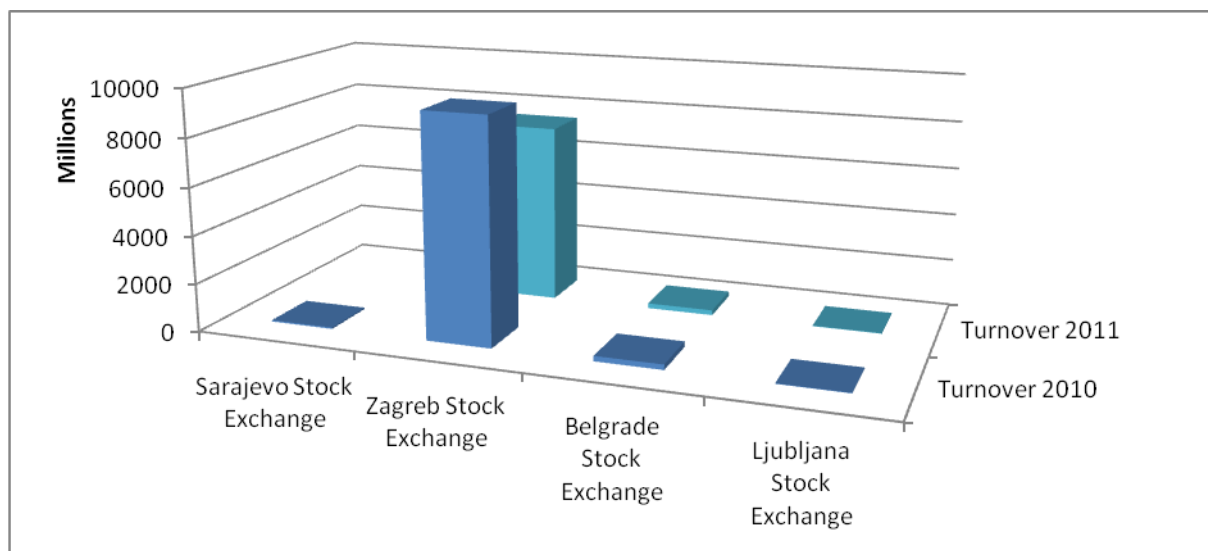
<b>Year</b>	<b>Turnover</b>	<b>% percentage of total turnover on B&amp;H stock exchanges</b>
2010	108.554.379 KM	38,38 %
2009	219.085.458,65 KM	62,32 %
2008	477.079.376 KM	63,43 %
2007	1.274.340.116 KM	94,48%
2006	654.717.252 KM	59,45%
2005	555.353.951 KM	66,51%
2004	231.137.332,00 KM	67%

The table below (Table 5) shows the comparison of Sarajevo Stock Exchange turnover for the years of 2011 and 2010 with regional stock exchanges such as; Zagreb Stock Exchange, Belgrade Stock Exchange and Ljubljana Stock Exchange. As it is noticeable, the Zagreb Stock Exchange had the highest turnover followed by Belgrade Stock Exchange whose turnover in last two years was over 400 million of euro. Capital market of Bosnia and Herzegovina is less developed than those of Serbia and Croatia, which means that annual turnover of SASE, is lesser with turnover around 100 million of euro in last two years. The last one Ljubljana Stock Exchange with turnover less than 100 million of euro in last two years. However, it does not mean that capital market in Slovenia is undeveloped. Far from being the case, it is among most developed in Balkan region, but it is obvious that recession took place in this country.

**Table 5** – Comparison of SASE turnover with regional stock exchanges in last two years

<b>Name of Stock exchange</b>	<b>Year</b>	<b>Turnover</b>
Sarajevo Stock Exchange	2011	/
	2010	55.668.921 EUR
Zagreb Stock Exchange	2011	749.911.956,6 EUR
	2010	934.882.913,7 EUR
Belgrade Stock Exchange	2011	208.180.538 EUR
	2010	222.475.934 EUR
Ljubljana Stock Exchange	2011	19.352.083 EUR
	2010	20.485.947 EUR

**Figure 7** – The graphical comparison of Sarajevo Stock Exchange with regional Stock Exchanges.



As it is mentioned previously, the Zagreb Stock Exchange had the highest turnover in last two years. Based on this information, it is noticeable that Croatia has highly developed capital market, especially in last two years. According to this fact capital market in Bosnia and Herzegovina is far from level at which capital market of Croatia is in terms of development. Since, capital market over here is less developed; SASE should follow some strategies used by Zagreb Stock Exchange.

### 3. CONCLUSION

Even if the facts, graphs, and tables shown in this work are promising, the general picture of capital market in Bosnia and Herzegovina is still relatively unfavorable. The development of BH capital market is related to the development of primary and secondary market. It means, when primary and secondary markets are involved in high activity, the capital market is strengthening. If we make comparison of capital market of Bosnia and Herzegovina with those of developed countries, it is still underdeveloped and most of all, it is still seen as relatively unimportant to the development of domestic country's economy. One of the main reasons for being less developed is corruption. This further means that there is legal uncertainty which prevents investors to invest.

It is also important to realize that economic development of Bosnia and Herzegovina must rely more on financial institutions as well as capital market. This means that the close relationship between economic development and financial institutions must be established. So far, stock exchange together with the banking industry is seen as a key factor in producing high level of activity on capital market and economic growth as well. However, it is still far from desired level of liquid financial market which is another problem of capital market of Bosnia and Herzegovina being undeveloped.

Professor Mehmed Ganic is mentioning, in his work about current problems of capital market (page 14) five reasons related to a possible recovery in the capital markets of B&H which must be taken into account.

First, the process of ownership concentration is largely complete, so the new owners have lost an interest and incentive to appear in the capital market. It underestimates the shares and leads to the discharge of the market. Consequently, this makes it unlikely to stimulate interest both domestic and foreign investors;

Second, the benefits of financial markets resulting from the significant effects of established organizational networks, as well as development and trading securities guided, above all, the unit fixed costs. If the market is less liquid, then the trading costs are high. This ultimately reduces the benefits of capital markets, discourage investors, in other words, a lack of demand. In addition, B&H has not yet fully adopted the culture of financing by issuing of new shares which means that companies regularly resort to capital markets for the raising of fresh capital.

Third, that the performance of capital markets is still under the influence of bad political and economic environment of instability and poor social status of most citizens.

Fourth, there is a weak mobility of the issuers and limited of trading in securities of the local companies, which resulted in the competitiveness of capital markets because of such restrictions at a very low level.

Fifth, the capital market of B&H is limited due to the slow and incomplete process of privatization, following its further growth.

Another reason for capital market of Bosnia and Herzegovina being unfavorable and underdeveloped is because of lack of foreign investors. Foreign direct investment plays an important role in development of capital market in Bosnia and Herzegovina, so capital market should be attractive in order to make foreigners invest their capital in Bosnia and Herzegovina. However, capital market of Bosnia and Herzegovina is undeveloped, and it means that investors do not want to take risk and invest. They usually turn to developed financial markets which is key to encouraging them to take a risk and invest.

Capital market of highly developed countries is characterised by various short-term financial instruments. However, it is not case in Bosnia and Herzegovina. The overall financial market should encourage all, starting from companies to financial institutions to governments to start issuing short-term financial instruments.

By this time, banking industry and stock exchange are key for producing high level of activity on capital market in Bosnia and Herzegovina. It is them which contribute to developing of economy of B&H.

All in all, capital market and stock exchanges as a segment of capital market play key role in our daily lives and we should start seeing this of great importance. Being key of producing high economic growth, government should attract investors by providing security and transparency while companies should be offering more diversified financial instruments in order to attract customers.

Once again, nothing can change the fact that stock exchange plays key role in our daily lives and it is stock exchanges that in some sense create our destiny.

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