

NECESSITY AND FUTURE PERSPECTIVES FOR THE INVESTMENT FUNDS DEVELOPMENT IN THE REPUBLIC OF NORTH MACEDONIA

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Abstract

The capital market development in a national economy has an important influence on its economic growth and development and how successfully it will follow the economic trends on a world level. Especially important segment for encouraging the capital market development is the emergence of the investment funds.

In the developed market systems, the investment funds are dominant by their participation in the financial system due to the risk diversification, the working transparency, the liquidity and the possibility to invest smaller amount of funds.

In the developing countries, as it is a case with Republic of North Macedonia, the investment funds have existed for several years and they are at the beginning of their development. The legal framework establishment and the possibility for forming these kinds of collective investors which will enrich the financial market, and which has already been a world practice, have not brought significant changes in the financial system. The insufficient maturity of the capital market, the weak economic base, the limited competition and the closed market towards other countries, as well the fear of investing in something unknown significantly made the conditions for progress difficult.

This research aim is through method of analysis to determine the real situation and the limiting factors, and the possibilities and the necessity for the investment funds development in RN Macedonia towards the economic development advancement.

Keywords: *Investment fund, capital market, financial system, economic growth,*

Clasificare JEL : *G11,G23,*

1. Introduction

The capital market development degree of one economy is an important factor that influences its development and its success in general.

The investment funds are significant segment for encouraging the capital market development through realization of their functions as financial mediators, free financial resources mobilization, mediation between the surplus and deficit entities in the capital market and providing an attractive yield for the investors.

The investment funds as young and efficient financial intermediaries have an important place in developed countries capital markets. Namely, they have highest participation in the financial system's assets and as such they are becoming more serious competition to the banking sector.

The investment funds in RN Macedonia appeared for the first time several years ago, but they have not had dominant place in the capital market yet, because the free financial resources available to them are of insignificant size. The small and not sufficiently developed securities market is a limiting factor for these institutional investors appearance. In order to encourage the investment funds development and with that to create defined preconditions for the economy development in our country, the positive experiences of the developed economies should be used and implemented. Starting from the current situation in our country, the aim of the research is to determine the real conditions and the limiting factors, as well as the opportunities and the necessity for the development of investment funds in the country in the direction of encouraging economic development.

2. The investment funds role in the capital market

The investment funds are the most developed and the most important institutional mediators in the capital market, from which their mutual dependency and connection come out, complementing each other at the same time.

Namely, the developed capital market is a base for the investment funds development through their establishment in as higher number as possible and stressing their attractiveness. If the capital market has high development degree that means that the larger offer of securities and their larger number is a precondition for creating and developing investment funds. The securities liquidity will also increase the interest of the potential investors, which is an important factor for investment funds creation.

The investment funds directly mediate between the surplus and deficit entities in the capital market, where they invest the accumulated free resources in different kinds of securities in the capital market, by which they create preconditions for its higher efficiency and development and growth.

The developed capital market enables implementation of investment projects, which could not be realized prior due to the high interest rates, the monetary policy restrictiveness, the securities insolvency etc. The realization of as large number of projects as possible from its part contributes to higher efficiency of the capital market.

Financial development in a country leads to (or causes) economic growth in that country (Halil D. Kaya, 2021). On the other hand, that economic growth causes financial development in a country because economic growth increases the demand for new markets, institutions and instruments (Halil D. Kaya, 2021).

The investment funds from their side enrich the institutional structure of the financial system. Furthermore, they encourage various forms of saving which influences the saving growth on the economy level, and via investing in profitable securities with some risk degree they strengthen the investments efficiency. In fact, the investment funds are driving force for the effectiveness and efficiency strengthening on the economic system level. Their aim is to provide increased liquidity of the capital market, through the free capital mobilization and putting themselves into the economy development function.

In the developed market economies, the investments funds, besides the pension funds and insurance companies, are the main institutional investors, by the level of representation and by the value of the resources managed by them, taking the place of the banking institutions that have had the leading position for a long time.

The individual investors find the investment funds attractive because they provide them higher yield compared to other ways of saving, such as bank deposits, available resources in any time although a long-term saving is in question, and the working transparency concerning the availability of the information on the resources investing.

Besides the above mentioned potential higher revenues, with a relatively lower investing risk, the investment funds offer many other benefits, i.e.: (Sosic, 1996)

- They are easily available to each investor, i.e. he can conclude a contract and buy shares/stakes from the investment fund quickly. After the contract and the enrollment form to the fund signing, the investor is registered in the competent institution, and usually that is the Commission for securities. The investor can deposit funds to the fund's transaction account and after several days he gets a confirmation for owning shares or owning stakes;
- Easy and fast transfer of securities to cash, i.e. they offer high liquidity. Depending on the fund kind, the liquidity can also be different. Namely, the open funds are ready every day to purchase personally issued stakes by the owners. The stakes owner submits a request to the open investment fund for their purchase and that is immediately realized at the NAV value,

i.e. on the request date, and latest 7 days from the given order. On the other hand, the liquidity of the shares of the closed funds is the same as with corporate shares because the fund itself is not obliged to purchase the issued shares, but can sell them on the secondary market;

- There is a risk lowering through the portfolio diversification. The investment funds offer decreasing of the investment risk, without decreasing the yield degree, through securities portfolio diversification. That in fact means owning different securities (shares and bonds), from different geographical areas (securities from the international and domestic capital markets), or from companies that function in different sectors and fields;
- There is lowering of the transaction costs. The investment companies provide lower transaction costs they make on the stock exchange, compared to the individual trading through brokers and investment advisers. That is possible because the investment companies trade with higher financial resources and with that they realize a larger number of transactions, and that has influence on the transaction costs and brokerage commissions height;
- The portfolio is managed by an expert management. The expert management is a warranty for a competent, prompt and efficient placement of the entrusted investment assets. So, it is real to expect that the assets placed by the investment funds mediation, will find the way to the placements with a lower risk and higher yield.
- There is flexibility in the investment fund change. Companies that manage two or more investment funds enable their clients to change the fund in which they have invested, without a commission, once a year, by purchasing the stakes from the one fund and issuing them a certificate for stakes from the other fund;
- Continuous reporting on sensitive information relating to the fund. The investment companies have an obligation to inform the investors for the changes that have occurred and which are sensitive to the fund's way of working and the structure of the investment funds.

3. The investment funds in Republic of North Macedonia

When the investment funds appeared in RN Macedonia, the first effects (although in a small volume) towards higher efficiency in the capital market functioning, were felt. Namely, with their presence they contribute to the financial market offer widening giving a possibility to the interested investors to realize higher profit with a determined degree of risk, encouraging the people to save.

However, the ambient in the capital market in conditions of significantly decreased prices in the Stock exchange in the time when the investment funds appeared, did not stimulate their fast development. Moreover, the high amount of the basic principal for their establishment, the ban for trading in foreign stock exchanges and investment in real estates in conditions of underdeveloped stock exchange, had discouraging effects at the very beginning of their appearance. The law changes that had been made acted as a positive impulse to some extent for the investment funds development in our market, but they have not had significant place in the capital market yet.

3.1.Limiting factors for the investment funds efficiency in RN Macedonia

The following factors have limiting influence on the investment funds efficiency in the Macedonian capital market:

- The capital market low development degree
- Bad economic-political ambient
- Broken trust in the financial institutions
- Small volume of foreign direct investments due to the market unattractiveness
- The citizens' low income
- Not informed population

3.1.1. The capital market low development degree

Undeveloped capital market in RN Macedonia and its high risk degree are conditioned by insufficient number of investors and limited securities offer, as well the undeveloped securities stock exchange which has not significant place in the capital market yet and the undeveloped primary capital market.

The banks that offer credits with high interest rates and at the same time they follow strict principles and request high covers because of which they are not attractive for financing the companies' investment projects, are dominant in the credit market. They do not support financially the new and small companies, but only the already established big companies with which the risk in discharging the liabilities is lower.

3.1.2. Bad economic-political ambient

The capital market efficiency, to a significant extent, is conditioned by the economic and political situation in the country. So, the low GDP growth, stagnation in the reforms implementation both in the production and services, the low export rate and the high unemployment, are other reasons for inefficiency of the Macedonian capital market.

Here, we should also mention insufficient foreign direct investments that have influence on many economic segments, on the economy advancement, and with that the investment funds development through competitiveness strengthening, the increase of GDP and export, unemployment reducing, development of technologies and managing activities.

3.1.3. Broken trust in the financial institutions

The citizens' bad experience after the failures of several saving banks is a reason why they have no trust in the financial institutions, which, of course, has negative influence on the investment funds efficient function.

The citizens have the highest trust in and are inclined to the banks because of the deposits guarantee as a result of the Fund for deposits guarantee establishment by the state, as a secure saving for the citizens.

In order to restore the people's trust in the financial institutions and to encourage savings and securities buying-selling, also other measures are taken, such as tax exemption on the realized incomes from deposits interest and on capital gains realized through securities buying-selling.

3.1.4. Small volume of foreign direct investments due to the market unattractiveness

The weak intensity of foreign direct investments at the moment is not enough to encourage expansion of the Macedonian economy, and with that to stimulate the investment funds development in RN Macedonia, as a result of the fact that the Macedonian market is small, unattractive and limited, with high corruption level, financial affairs, not reformed judiciary, underdeveloped economy etc.

3.1.5. Low citizens' income

Another factor that has limiting influence on the investment funds is the citizens' low income because of which there is not an interest in investing. But on the other hand, due to the small trust in the financial institutions a large part of the citizens who have higher incomes decide to invest their money as a deposit in a bank, choosing it as a traditional and more secure way of saving.

3.1.6. Not informed population

Starting from the fact that the financial literacy and awareness of the citizens in our country are on a very low level concerning these institutions, about the possibilities and benefits offered by the investment funds, about their existence in the capital market and their functioning, the negative influence of this factor on the investment funds development and advancement is clear.

4. The investment funds perspective in Republic of North Macedonia

In order to put real foundations towards the future perspective of the investment funds, it is indispensable to implement many changes, to have advancement in all areas of the social life and an accelerated development, for which a longer time and many reforms are needed.

Should some significant changes in the whole social system are not made we cannot expect the capital market advancement and efficiency, in which the investment funds will have a key place.

In order to provide real foundations for development and future perspective of the investment funds it is indispensable to implement some measures. Namely, it is indispensable to overcome the problem with the insolvency and the credit risk which is present in the Macedonian economy, then to have investment advisers who will provide all necessary information to the potential investors for strengthening the trust in the financial institutions. Furthermore, the tax exemptions of the individual investors and the harmonization of the Macedonian legislation with that of the European countries where there is higher control will, of course, have influence in this direction.

The mobilization of the population's financial resources will be more easily realized in conditions of stable fiscal, monetary and banking system and many other factors, such as: existence of a developed capital market and secondary market, then higher competition between the deposit and non-deposit financial institutions, and more extensive offer of financial services and products.

The degree of the people's awareness concerning the advantages of investing the free money in the investment funds is a key factor for the potential investors to recognize the advantages and disadvantages offered by these financial institutions for an efficient allocation of their financial resources. Here, first of all we can mention the following ones: the small investors' accession to the capital market and the possibility to invest in the securities, a possibility to invest how much they want and when they want, and the same is true for the stakes selling, a possibility to follow the stake price movement every day, the portfolio diversification and lowering the risk of wrong investments by the professional portfolio managers. Here, we should also mention the yield that can be realized by investing in an investment fund which is usually higher than the yield that can be obtained by some of the traditional ways of saving.

It can be concluded that the investment funds development is highly conditioned by the population's education and awareness degree in relation to the benefits they would have from investing in the investment funds.

5. Conclusion

The existence of the market economy is in a close relation to the capital market functioning. This market enables the financial saving encouraging, higher efficiency in the resources use, higher degree of the long-term assets sources availability and increase of the offer of services offered by the financial institutions. And the capital market's functions can be successfully performed through the function of the financial institutions that provide connection of the surplus and the deficit entities in the market.

The investment funds will gradually develop thanks to the benefits they provide to the potential investors. Namely, they provide higher yields compared to the saving deposits, they are more liquid and due to the portfolio diversification they are rather safer and more acceptable for different investors' profiles. The investment funds have big influence on the capital market advancement. In fact in the developed economies the investment funds have in disposal capital of high volume with which they contribute to the market development. The investment funds, through securities buying directly help the companies in providing the capital needed for realization of their planned projects.

The investment funds in our country have been established in order to advance and develop the capital market and enrich the financial sector. They have contributed to a small movement in the capital market, but have not had the role as in the developed countries yet and they have not provided the expected result. More factors are the reason for that, but the most important are: the capital market inefficiency, undeveloped stock exchange, unattractive securities, small volume of foreign investments, the population low standard and insufficient financial information to the people.

Undeveloped capital market in our country and non-existence of a wide securities offer that are listed on the stock exchange are the reasons for the bad acceptance of the investment funds, and not having a perception of their true importance is a problem to which we should react.

The investment funds have an important role in the capital market advancement and its effective functioning. On the other hand, the developed capital market also contributes to the investment funds efficiency. In order to advance the investment funds efficiency, it is indispensable to: encourage the securities issuance by the companies, the local self-government and the state with which the securities offer will be significantly widened, have financial education and advertising campaign for the benefits of investing in investment funds etc.

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