

THE ECONOMICS OF THE NAME CHANGE: LONG-TERM ADJUSTMENTS TOWARDS EU/NATO OR SHORT-TERM RESOLUTION OF POLITICAL UNCERTAINTY?



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- Greece vs. (North) Macedonia: Exclusivity over the name “Macedonia”
- Prespa Agreement → Referendum’s question: *Are you in favor of European Union and NATO membership by accepting the agreement between the Republic of Macedonia and Republic of Greece?*
- The domestic market dropped by 6.4% a week after the referendum
- Brexit’s referendum instigated systematic and sectoral shocks due to the departure from EU
- EU referenda → “second-order” elections → political elections cause stock market turbulences
- What the process of the name change meant for the Macedonian economy: step closer to the EU/NATO or resolution of political uncertainty?

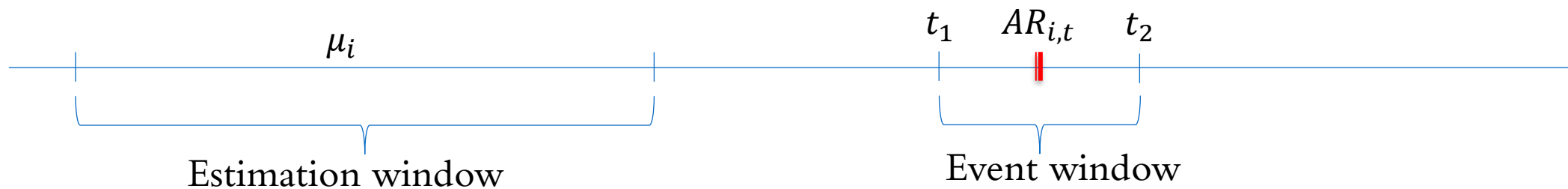
- **Purpose:** to analyze stock market movements around four (six) events related to the name change: (the announcement and signing of the Prespa agreement; the referendum; the vote for initiation of constitutional changes; and the ratification of the agreement by the Greek Parliament)
- **Contributions:**
 - first study testing the implications of the name change on the economy
 - an emerging market – frequent political instability (event studies)
 - Brexit – the political side of the story

Events/Hypotheses	June 12 th and 17 th , 2018 (Agreement)	September 30 th , 2018 (Referendum)	October 19 th , 2018 (Parliament vote)	January 16 th and 25 th , 2019 (Ratification)
Expected effect	EU/NATO adjust. Positive	Negative	Positive	Positive
Political uncertainty	No effect	Negative	Positive	No effect

- 14 firms frequently traded at Macedonian Stock Exchange
- 3 portfolios: banking, non-banking and sample
- Historical mean model

$$AR_{i,t} = R_{i,t} - \mu_i \quad (1)$$

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (2)$$



Results (Summary)

Events/Hypotheses		June 12 th and 17 th , 2018 (Agreement)	September 30 th , 2018 (Referendum)	October 19 th , 2018 (Parliament vote)	January 16 th and 25 th , 2019 (Ratification)	June 1 st , 2017 (Government election)
Expected effect	EU/NATO adjust.	Positive	Negative	Positive	Positive	No effect
	Political uncertainty	No effect	Negative	Positive	No effect	
Actual effect		No effect	Negative (prior-event positive for 4 non-banks)	Positive	No effect	Positive (firm specific)

- Once political uncertainty resolved, the market disregarded the finalization of the name change process
- The market estimated the probability of EU/NATO integration as rather low
- Whether the 4 firms become prosperous due to the political connections? Potentially, two of them.

- The resolution of the name issue opened the pathway towards EU/NATO
- How did the investors perceive the process?
- The market was concerned with the political uncertainty which arose around the referendum and constitutional changes vote, not with cherry-picking
- The political turbulences deter investors out of the Macedonian market
- Evidence that political connectedness significantly contributes in rising the share values of the connected companies
- The political links may be beneficial for some companies during the integration processes

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