THE FIRST PUBLIC OFFERING OF A CORPORATE BOND ISSUANCE AND THE EXPECTED IMPACT ON THE SECURITIES MARKET AND ECONOMY IN ALBANIA

Eugen Musta[1], Elvin Meka[2]

[1] Department of Business Administration, Canadian Institute of Technology, Albania, eugen.musta@cit.edu.al, ORCID: 0000-0003-2861-1172

[2] European University of Tirana, Albania, elvin.meka@uet.edu.al, ORCID: 0000-0003-3404-7475

Abstract:

This study aims to investigate the anticipated importance of the inaugural corporate bond issuance through public offering on the Albanian Stock Exchange (ALSE) and its potential ramifications for the bond market, investors, the broader financial sector, and the Albanian economy. Given that the ALSE has been predominantly characterized by government bonds, the initial public offering of the first corporate bond represents a noteworthy landmark that could facilitate the advancement of the Albanian financial market. We will scrutinize how this progression may result in heightened market liquidity, by appealing to both domestic and international investors, thereby increasing the aggregate trading volume and liquidity, within the exchange. Additionally, we will deliberate on the function of corporate bonds in diversifying the array of financial instruments accessible on the ALSE, which may assist in risk mitigation and the cultivation of a more stable financial environment.

Moreover, we will analyze how the issuance of corporate bonds could promote superior corporate governance practices, culminating in increased transparency, more rigorous financial reporting, and bolstered investor confidence. Finally, we will contemplate the potential of corporate bond issuances to stimulate economic growth by supplying companies with an alternative avenue of funding for expansion and investment initiatives. This can result in job generation, enhanced productivity, and comprehensive economic development in Albania. By examining the anticipated consequences of the first corporate bond issuance on the ALSE, this study will illuminate the potential advantages and challenges associated with this development, laying the groundwork for future inquiries as the market undergoes further evolution.

Keywords: Albanian Stock Exchange (ALSE); initial public offering, corporate bond issuance; market liquidity; financial sector diversification; economic growth.

1. Introduction

In the early 1990s Albania transitioned from a centrally planned economy to a market-based one. In the immediate post-communist era, a series of economic reforms were introduced to liberalize its economy. These reforms included the creation of a two-tier banking system, the privatization of state-owned enterprises, and the introduction of a securities market, albeit on a rudimentary scale and phase. In 1996 the Tirana Stock Exchange was established, as part of the country's efforts to develop its capital market, but it faced many challenges due to the underdeveloped state of Albania's financial sector and the absent sophistication of big businesses, let alone the low level of transparency and financial disclosure ("History and Development" n.d.). The exchange started operations as a separate department of Bank of Albania and it was organized as an order driven (call) market, trading mainly T-bills (both primary and secondary market) and 5 government bonds (Meka, 2013).

In 2002, Albania introduced a new Securities Law to further advance the development of its capital markets. This law established the Albanian Securities Commission (ASC), which was tasked with regulating and supervising the securities market. This same year TSE spun-off from Bank of Albania and with a newly acquired license from the ASC started operations as a stand-alone institution structured as an organized market on financial instruments.

Despite these developments, Albania's capital market remained relatively underdeveloped compared to its regional peers. For many years, the market was characterized by low liquidity and limited product diversity, trading only government securities of different maturities. Even though the exchange in 2007 got their license renewed for an indefinite period, by the then newly established Albanian Financial Supervisory Authority (AFSA), Tirana Stock Exchange closed operations in 2014, and in 2015 their license was also revoked.

The second attempt to build up Albania's capital markets began with the formation of the Albanian Securities Exchange (ALSE) in 2017. ALSE received its license from AFSA during that same year and became the first private securities exchange in the country's history. Operations didn't begin until

*Corresponding author:

February 2018, and at that time the exchange's only trades were in government securities.

After several years of apparent stagnation, in 2023, manages to introduce for the first time a private corporate bond, which was listed on the ALSE in July and made accessible to private companies and individuals in Albania. This event marks a significant advancement in the development of the country's capital markets. This listing demonstrated Albania's capital markets' potential for growth and diversification and opens the road for a new phase of development, where the dynamics of ALSE may change. This can be the beginning of a period of expansion for the Albanian securities market, suggesting more investment options and it might draw in more investors, thus boosting the market's overall efficiency and liquidity. Building on these assumptions and expectances, our primary goal in this study is to comprehend the advantages, potential effects, risks, and difficulties associated with this event.

In the first section we will look at the potential impact of corporate bonds, trading on the exchange to market liquidity. It is anticipated that the issuance of these innovative financial instruments will attract both domestic and foreign investors, who are looking to build a diversified investment portfolio. This increase in participation has the potential to increase trading activity within ALSE, improving the market's overall liquidity and efficiency.

In the second section of our study, we'll examine how corporate bonds help ALSE become more diverse and have a wider range of products. Government bonds have dominated the Albanian securities market up to this point, giving investors quite few alternatives. With the introduction of corporate bonds, investors now have the chance to spread their risk across a wider variety of financial instruments. The diversification of financial instruments not only aids in the better risk-return management of individual investors but also enhances the stability of the financial system, as a whole.

The potential impact on corporate governance is covered in the third section of the paper. Companies that seek capital from the bond market open themselves up to scrutiny from regulators and investors. This scrutiny is anticipated to result in improved corporate governance procedures, which in turn could increase transparency, accurate financial reporting, and investor confidence in the Albanian market.

In the last section of our paper, we'll examine how corporate bond issuances might affect the macroeconomic environment. Anticipating and assuming that, companies presented with an alternative source of financing might be encouraged for business expansion and investments, potentially accelerating Albania's economic development leading to an increase in employment, productivity, and wealth creation.

2. Background

The road to establish a capital market in Albania has been long and marked by both progress and setbacks. It began with the creation of the Tirana Stock Exchange (TSE) in 1996, which was a significant step towards building a securities trading platform. However, the exchange faced numerous challenges during this time. The country was undergoing a significant transition where not only the economy but also society as a whole had to adapt and transform to the new socio-economic model.

This period was marked by early-stage and basic business structures and an underdeveloped financial sector and there was also a lack of government policies or focus to support the growth of a functional capital market. At this time the market was characterized by low liquidity and limited product diversity, trading chiefly government securities and privatization vouchers. TSE was never connected, either directly or indirectly, with the privatization process as a whole; such a process has been a "forbidden apple" for TSE and, historically, it has been excluded from any possible inclusion with this process (Meka, 2013). Such practices are known to have been successful when implemented in other countries of the Eastern Block. The weak performance eventually led to the closure of the Tirana Stock Exchange in 2014 and the revocation of its license the following year.

Even though this was not a surprise, it marked a significant setback for the Albanian capital market. After a few years of inactivity, in 2017, the establishment of the Albanian Securities Exchange (ALSE) opened a new chapter in the development of Albania's capital market. This time the initiative came from private entities. However, despite the promising start, the ALSE and the Albanian financial market have continued to be characterized by limited diversity and a dominance of government bonds, resulting in a market that offers few options for investors.

The issuance of the first corporate bond in 2023 by NOA sh.a., a microfinance institution, via an Initial Public Offering (IPO), signaled a change in this scenario and probably marked a turning point in the evolution of Albania's capital market. Practically, this is not the first issuance of a private corporate bond, as Credins Bank is the first corporate in Albania to issue corporate bonds, in late 2011. This security was offered in the Albanian market through private placement (Meka & Baholli, 2015).

As the first publicly-offered security, NOA's bond presents the potential for a new phase of growth and diversification in the market; it marks the first step towards the maturation of the domestic financial market, and offers a glimpse of optimism for the future of Albania's capital market.

In April 2023, the Albanian Financial Supervisory Authority (AMF) approved a prospectus for the country's first-ever corporate bond issuance to be listed on the local stock exchange, the Albanian Securities Exchange (ALSE). The bonds were issued by the local microfinance institution NOA sh.a., which has been operating in the country for 25 years. It provides credit to small businesses, farmers, and families, and has an active portfolio of 65 million euros, serving 14,000 clients. The bond issuance was targeted at private companies and individuals, marking the first of this kind by a corporation in the country. The underwriter for the bond issuance was Albania's Credins Bank, and the public offer listed for trading on the ALSE closed on June 21, 2023, with the signing of the total offered amount of ALL 500 million (US$4.85 million/EUR 4.5 million). The five-year corporate bond, with a nominal value of ALL 500,000,000, carries a fixed coupon of 8% p.a., with payments due semi-annually ("Karakteristikat e Obligacionit," 2023).

3. Impact on market liquidity

Theoretically, the introduction of corporate bonds in a securities exchange can significantly enhance market liquidity, which is a critical factor in the development and growth of capital markets. In the literature market liquidity refers to the ability to buy or sell a significant amount of securities without causing a substantial change in the price. A liquid market is characterized by a high level of trading activity, which allows transactions to occur with minimal impact on price stability, thus high liquidity is desirable in a market because it facilitates smoother transactions, encourages participation, and helps ensure fair market pricing (Goldstein et.al, 2019; Chordia et.al, 2001).

The issuance of corporate bonds has the potential to increase market liquidity in several ways. Firstly, corporate bonds offer an additional investment option for investors, and so they can attract a broader range of investors, from institutional investors, by way of providing investment alternatives for pension funds and insurance companies, and enabling them to design and offer long-term saving and investment schemes & products (Meka & Baholli, 2013), to individual investors, looking for fixed income investments. The cash flow provided by bond securities correlate well with obligations of many institutional investors (banks, pension funds, and insurance companies, etc.) and helps such investors better match the maturity of their assets and liabilities and manage risks (Huang & Zhu, 2009). Also, as (Meka & Baholli, 2025) put it, bonds are viewed as an opportunity for the investing public to diversify its savings on a wider range of investment alternatives, not only in the risk management perspective, but also in terms of channeling its savings into more productive investments, thus increasing social welfare. This can be because of the fact that corporate bonds offer higher yields compared to government bonds, even though with a higher level of risk. With this increased participation higher trading volumes can be stimulated, which are a key determinant of market liquidity.

Secondly, corporate bonds can help diversify the product offering in the securities exchange. Until now, the ALSE has been mainly dominated by government bonds, thus offering limited options for investors. The introduction of corporate bonds offers an opportunity for investors to distribute their risk over a wider range of financial instruments. This diversification could attract potentially a larger pool of both domestic and foreign investors, thereby increasing trading activity and market liquidity.

Thirdly, the entry of corporate bonds could also increase market activity through the facilitation of secondary trading, which denotes the purchase and sale of bonds subsequent to the initial issuance. An active secondary market can contribute to overall market liquidity by providing investors with confidence that their bonds can be sold with ease, if necessary. Moreover, corporate bonds can stimulate competition within the market. With more securities available for trading, issuers and investors could engage in more robust competition, culminating in efficient pricing and enhanced market liquidity.

Hence, through the attraction of a wider range of investors, increased trading volume, and the potential stimulation of secondary market activity, the debut of the first corporate bond could significantly contribute to increasing market liquidity on the ALSE.

4. Financial market diversification

Financial market diversification stands as a vital pillar for the stability and resilience of an economy. In this context, diversification signifies the enlargement of financial instruments, services, and participants in the market. This diversity gives way to a broader range of investment possibilities, which has the potential to allure a more varied spectrum of investors, both domestically and internationally. In a diversified financial landscape, risks get distributed across an array of investments, mitigating dependency on a singular asset or class of assets and thus forming a safeguard against financial tremors. Such diversification contributes towards enhancing the steadiness and resilience of the financial sector (Gilles Saint-Paul, 1992).

The introduction of corporate bonds in the Albanian Securities Exchange (ALSE) marks a considerable stride towards financial market diversification as corporate bonds distinctly offer an unparalleled investment prospect. Unlike equity securities, corporate bonds indicate a debt obligation from the corporation to the investor. This implies that the corporation is duty-bound to reimburse the investor with the principal sum of the bond, in addition to periodic interest payments. This can engender a steady income flow for investors, rendering

corporate bonds an appealing investment choice, particularly for investors inclined towards risk-aversion.
To elucidate, the expected impact will be on:
- Diversification of Financial Instruments and Investment Choices: Until now, as we have highlighted, the ALSE has been predominantly dictated by government bonds. The introduction of corporate bonds infuses a fresh financial instrument into the market. This allows for a wider array of choices for investors, empowering them to distribute their investments over a more extensive range of asset classes, thus offering them more avenues for diversifying their portfolios. Bonds can present a steady income stream and are usually perceived as less risky compared to stocks, which could make them attractive to more cautious investors. Consequently, investors can navigate their risk and return trade-offs with heightened efficacy.
- Induction of New Participants: The issuance of the first corporate bond could also draw new market participants. These could encompass institutional investors such as pension funds and insurance companies with a penchant for fixed income investments, along with individual investors.

5. Impact on corporate governance

Corporate governance is a term that encapsulates the set of rules, practices, and processes by which an organization is steered and controlled. This system necessitates harmonizing the interests of numerous stakeholders associated with a company, such as shareholders, management, customers, suppliers, financiers, government, and the community at large. The issuance of corporate bonds can have a profound effect on augmenting corporate governance within firms (Hyun Jin Lee & Insook Cho, 2016; Shu, H.-C, 2023). This holds particularly true when these bonds are listed on a stock exchange like the Albanian Stock Exchange (ALSE), where companies are required to satisfy specific listing prerequisites and adhere to continuous reporting duties. The impact can be anticipated as follows:
- Heightened Transparency: Firms that issue bonds are compelled to divulge detailed information to investors regarding their financial health, business operations, and utilization of the funds raised. This intensified disclosure propels greater transparency, a key component of sound corporate governance.
- Refined Financial Reporting: Issuers of corporate bonds are mandated to generate periodic financial reports to comply with regulatory stipulations and to keep bondholders informed about their financial status. The imperative to produce precise, timely financial reports can induce improvements in a company's financial management and reporting frameworks.
- Enhanced Accountability: Companies issuing bonds bear responsibility to their bondholders. This accountability can foster better decision-making within the company to ensure they meet their commitments to bondholders, encompassing the payment of interest and the repayment of the principal amount upon maturity.
- Elevated Risk Management: To lure investors, companies need to exhibit that they have efficacious risk management systems operational. This can lead to the conceptualization and implementation of superior risk management strategies within the company.
In conclusion, the issuance of corporate bonds can operate as a stimulant for improving corporate governance within firms. Sound corporate governance, in turn, can aid in fostering investor confidence and contribute to the overarching stability and resilience of the financial market.
Nonetheless, the influence of corporate bonds on corporate governance does not materialize automatically. It calls for a supportive regulatory milieu and a culture of corporate transparency and accountability. Therefore, endeavors should be undertaken to propagate good corporate governance practices among companies in the ALSE.

6. Other considerations

The debut of a corporate bond in a stock market can trigger a variety of potential impacts, both for the issuer and the wider market. Here are some anticipated outcomes:
- Boosted Liquidity for the Issuing Entity: As alluded to previously, through the issuance of a corporate bond, a company can secure funds without causing dilution of ownership, which would be the consequence of issuing additional stock. This can furnish the company with the liquidity it requires for various purposes, such as underwriting expansion plans, refinancing existing debt, or venturing into new projects.
- Market Response: The market's response to the introduction of a corporate bond can be varied. If the bond is perceived as a sound investment opportunity, it could spark increased trading activity. On the contrary, if investors interpret the bond issuance as a signal that the company is grappling to raise capital, it could exert a negative influence on the company's stock price.
- Influence on Interest Rates: Corporate bonds can also exert an impact on interest rates. High demand for the bond could lower the yield (interest rate), making it less costly for the company to borrow. Conversely, if demand is low, the company might have to offer a higher yield to entice investors, which could inflate borrowing costs.
- Credit Rating Implications: The issuance of a corporate bond could potentially influence the issuing company's credit rating, depending on the

quantum of debt the company undertakes and its ability to service that debt.

- Regulatory and Reporting Obligations: Issuing a corporate bond often comes with amplified regulatory and reporting responsibilities, which can escalate the company's administrative costs.

The introduction of corporate bonds can also instigate competition among diverse financial instruments, culminating in more efficient pricing and capital allocation. This can augment the overall performance of the financial sector and contribute to economic growth.

However, the successful launch of corporate bonds in the ALSE will necessitate meticulous planning and implementation. It will be vital to ensure that the regulatory framework is amenable to the issuance and trading of corporate bonds. This encompasses regulations related to the disclosure of information, investor protection, and market transparency. Additionally, strides should be made to enlighten potential investors about the risks and rewards concomitant with investing in corporate bonds.

7. Conclusions and Recommendations

• The launch of the inaugural corporate bond in the ALSE holds the potential to substantially influence market liquidity, financial market diversification, and corporate governance. However, tapping into these potential advantages necessitates collective efforts from all stakeholders, encompassing regulators, companies, and investors.

• Regulators bear the responsibility of ensuring that the regulatory framework is amenable to the issuance and trading of corporate bonds. This includes formulating regulations associated with the disclosure of information, protecting investor interests, and promoting market transparency. They should also undertake initiatives to propagate good corporate governance practices among companies listed on the ALSE.

• Companies, in turn, should uphold the principles of transparency and accountability. They ought to deliver precise and timely information to investors and make judicious financial decisions. Furthermore, they should commit to upholding the rights of all stakeholders, inclusive of bondholders.

• Investors, meanwhile, should make efforts to educate themselves about the risks and benefits associated with investing in corporate bonds. They should also keep companies accountable for their performance and adherence to governance practices.

• In conclusion, the introduction of the first corporate bond in the ALSE denotes a significant step forward for the evolution of the Albanian financial market. If handled aptly, it can contribute to the creation of a more diversified, liquid, and transparent market, which can, in turn, aid economic growth and development. However, this move also presents challenges that need to be cautiously navigated. Consequently, it is advised that future research should focus on the actual impact of the first corporate bond issuance on the ALSE and the lessons that can be gleaned from this experience.

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