From the Editor

The South East European Journal of Economics and Business has come to its 13th Volume, Issue 1, which brings us seven empirical contributions covering the different fields of economics and business. Four papers come from the area of financial economics, investigating stock exchange dynamics, as well as banking and financial sectors in diverse samples. The economic papers analyse transition samples and focus on industry and firm development, including a country specific paper focused on the effects of the decentralization of municipalities. A more detailed presentation of these manuscripts follows.

The first paper, by Petar Kurecic and Filip Kokotovic, investigates an ongoing, dynamic and very attractive topic, the effect of Brexit - the United Kingdom's (UK) exit from the European Union (EU) - on the behaviour of stock exchange indices. This study identified that the outcome of the referendum on Brexit caused a structural break, which was empirically identified in the examined stock exchange indicators. Interestingly, the paper does not find evidence that further Brexit developments related to the elections in the UK – including both the call for elections and its outcome - did not cause further structural breaks. It seems that investors have accepted Brexit and the new Brexit-related changes were not unpredicted by stock markets. The paper suggests that UK and EU policymakers address the existing political divide and find a way to collaborate more in the period of negotiation and after Brexit takes place to avoid further financial and economic turbulence.

The next contribution, written by Sovia Dewi et al., investigates the dynamics of financial development, economic growth and poverty alleviation in Indonesia. The authors report that the poverty rate in this country has been declining in recent years, but the decline is slowing down, which indicates a need for more effective policies. One is tested by the authors; it is the link between financial sector development and poverty reduction. After applying cointegration empirical methodology on 35 years of data (1980-2015), the authors find a long-run relationship between financial development, economic growth and poverty reduction in this country, with a unidirectional causality running from the financial sector to poverty reduction. Thus, the authors propose further financial sector development as a way to promote economic growth and poverty reduction in Indonesia.

Vanja Vitezic, Stjepan Srhoj and Marko Peric analyse patterns of industry development in Croatia, a former transition economy (and an EU country since 2013) that was in a recession from 2009-2013, the period covered by this study. The authors rely on firm level data and static analysis of their distribution. They find that the revenues of the firms were affected by the recession, with a standard pattern that more years in the recession is associated with a greater decline in the firms' revenues. This pattern is not unified for all types of companies and their sectoral affiliations. The authors identify that the recession has opened new opportunities for a portion of small firms, but the opposite effect was identified for medium and large companies. In addition, if the companies are examined by their technological intensity, high-tech companies recorded an upward trend in growth. Simply put, the effect of the recession was not even for different firms and business environments.

The next paper is focused on the impact of banking sector competition on risk-taking in Central and South East Europe. Arben Mustafa and Valentin Toci in their empirical investigation rely on panel data coming from 15 banks registered in the examined sample over the period 1999-2009. They report that competition in the banking sectors had a negative effect on banks' risk-taking, which consequently led to the improvement of the quality in their portfolio of loans. The authors also report that these results are not consistent for different subsamples - the EU countries recorded a consistently negative relationship between examined indicators, while non-EU countries had an opposite positive relationship. This result is interpreted as an indication that an increase of competition in non-EU countries may be disadvantageous for the banking sector.

Zoran Aralica, Tonci Svilokos and Katarina Bacic in their contribution investigate the effect of different institutional dimensions on the labour market productivity of around 130,000 manufacturing companies. The paper is focused on firms operating in selected countries of Central Eastern and South Eastern Europe (CESEE), while the observed period is 2003-2015. The authors report that better institutional indicators measuring corruption, provision of inter-industrial externalities and professional infrastructure have beneficial effects on firms' productivity. At the same time, a stricter political and legal framework and the provision of research and development infrastructure have an adverse effect. This result is interpreted as typical for producers of standardised products in countries with low levels of legal framework development for which research and development and legal adjustments incur cost disadvantages.

Aida Soko empirically investigates the effect of decentralization of municipalities in Bosnia and Herzegovina (BiH) on their efficiency. In particular, the paper focuses on the analysis of efficiency of 33 new municipalities established under the Dayton Peace Agreement in BiH. The findings suggest that the average municipal efficiency in BiH is rather low, as only 16% of municipalities are identified to be efficient. The average efficiency in the sample is around 0.7, which means that with the same level of inputs (budget revenue) the outputs may be increased by almost 30%. The newly created municipalities have lower average efficiency (0.6) in comparison to previously existing municipalities (0.7). Finally, only six percent of newly created municipalities are identified as efficient, 12% exhibiting some level of efficiency, while the remaining 82% are inefficient. The main policy implication is that the decentralization of municipalities in BiH, which does not respect economic arguments, seems to have a negative effect on their efficiency.

In the last paper published, Dimitrio Angelidis, Athanasios Koulakiotis and Apostolos Kiohos examine whether or not feedback trading strategies are present in the Athens and Cyprus Stock Exchanges. The analysis employs two econometric models: the feedback trading strategy model and the exponential autoregressive model. The both models assume two different groups of traders – the "rational" investors that build their portfolio by following the firms' fundamentals and the "noise" speculators that ignore stock fundamentals and focus on a positive (negative) feedback trading strategy. The empirical results revealed that negative feedback trading strategies exist in the two underlying stock markets.

On behalf of Editorial Board
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