

While around the world, and especially in the countries that are shaping the global economy, with every change in economic trends, the gaze is fixed on the stock market, this is still not the case in Serbia. The capital market in our country is not developed to such an extent that it would have a greater impact on economic trends in the country. However, such a situation should, at least to some extent, change with the adoption of new regulations aimed at enabling the development of stock exchange trading.

On the other hand, **economists and financial analysts are not convinced that the new regulations will make a significant contribution to the development of the domestic capital market, pointing out that local legislators and economic policy makers should take more seriously the accumulated problems in this segment of the financial system.**

According to them, the problem in Serbia due to the lack of a securities market does not lie in the absence of any strategy, action plan, law or bylaw. The problem does not lie in the absence of someone's will on the part of the state, issuers or investors. The problem is systemic and can be eliminated only by developing the social system of our country in the direction of strengthening the rule of law, the strength of institutions (their competence and independence) and strengthening professional knowledge and professional ethics. Only then is it possible to create the trust of both issuers and investors and only then is it possible to develop this segment of the financial market.

It is no secret that the capital market in Serbia is not developed, at least not to the extent that it would be able to fulfill its main function - efficient allocation of financial resources of available savings (households) and investors to companies to finance their development. Turnover is extremely low, despite economic developments in previous years when world stock markets were in a very good position. Among others, it could be said that this is one of the reasons why traditional financing through banking products (deposits and loans) prevails in our country today.

### **Strategy to a functional capital market**

The need to develop the stock exchange in Serbia is often mentioned, and a little over a month ago, for that very reason, as could be heard from the local authorities, the Strategy for the Development of the Capital Market for the period from 2021 to 2026 was adopted. For the first time, the Government is adopting the Strategy, as it was pointed out, with the aim of providing support to sustainable economic growth, as well as increasing national competitiveness through a well-functioning capital market.

The Government of Serbia believes that the implementation of the Strategy will contribute to the further development of the capital market in our country and will create the foundations for the use of a wider range of financial instruments for the benefit of the economy and population of the Republic of Serbia. growth through new financial opportunities, increasing the number of jobs, as well as additional support for innovation

(more investment in the innovative industry).

At the beginning of December, the Government of Serbia adopted the Draft Law on Capital Market, which, as stated, should achieve greater transparency and responsibility in business, creation and development of financial institutions offered on the capital market, and thus creating a more attractive market, both for domestic and foreign investors.

On the day of the adoption of the Draft Law, it was pointed out that diversification and increasing the transparency and quality of financial instruments will restore investor confidence, and consequently contribute to a positive impact on increasing the number of participants in the domestic market and sustainable economic growth. The adoption of the new law on the capital market, as stated by the representatives of the authorities, will harmonize the domestic legal and institutional framework with the *acquis communautaire* and provide a greater degree of investor protection and legal security.

The main novelties in the Draft Law, as previously explained in the Ministry of Finance, refer to the introduction of new participants in the capital market, such as tied agents, data delivery service providers and systematic internalizers. In addition, as they explained at the time, the new bill regulates the possibility of organizing new trading platforms and the possibility of using algorithmic (automatic) trading and high-frequency algorithmic trading.

### **Greater powers of the Securities Commission**

In addition to the mentioned changes brought by the Draft Law on Capital Market, and in order to ensure and strengthen the transparency and security of the financial market, as the authorities point out, the reporting obligations of the Securities Commission have been increased. As pointed out by the Ministry of Finance, its supervisory powers have been expanded and stricter measures and sanctions that can be taken against legal and natural persons who are participants in the capital market have been prescribed.

### **Laws are good, but the problem is not in the regulations**

Economists and financial analysts with whom *Biznis.rs* spoke agree that the legal framework is well regulated, and that it is in step with European Union regulations, but also that, on the other hand, it will not significantly change the situation on the capital market in Serbia and primarily because the problem, as they point out, is not in the regulations.

**Broker Nenad Gujaničić says for *Biznis.rs* that the new Draft Law on Capital Market represents the adjustment of the local regulatory framework to EU directives and that most of the changes should be viewed in that context. However, he believes that “it is difficult to say that this change will make a significant contribution to the development of the domestic capital market, given that local legislators and economic policy makers have not yet taken a serious approach to solving accumulated problems in this segment of the financial system.”**

- As can be seen from the Capital Market Development Strategy recently adopted by the Government, awareness of the need for an efficient capital market and a developed stock

exchange has not yet matured in this area, which could greatly accelerate economic growth. This dire situation is primarily a consequence of the fact that the local political, but also economic, elites can hardly come to terms with the principles of transparency and accountability that the stock market assumes. Thus, the first step in the development of the domestic capital market is to identify the accumulated problems that are largely the result of weak and inefficient institutions without which the implementation of the best laws does not make much sense. When we see the changes in this field, we can say that the local creators of economic policy have seriously approached the work of building the capital market - stated Gujanicic.

### **Legal security of investors in the first place**

Dejan Soskic, a professor at the Faculty of Economics at the University of Belgrade, agrees that the capital market in Serbia is underdeveloped, while at the same time he believes that the adopted Strategy does not see the real problems and reasons for underdeveloped stock markets in Serbia.

- The capital market as a secondary market of long-term securities is very underdeveloped and without significant effects on financial intermediation and efficient allocation of capital in the national financial and economic system of Serbia. **A short time ten or more years ago, the stock market was somewhat more active, but after the establishment of capital concentration, ie after taking control of privatized companies by new owners, the market lost its activity and liquidity, and thus its importance** - Soskic said in an interview for Biznis.rs.

Asked what the Strategy and Action Plan for Capital Market Development should mean, and bring concrete changes, Soskic said that the basic problem lies in "weak legal protection of market participants, ie in the absence of the rule of law in Serbia", in this regard, investors should first be provided with security.

- An equally important problem lies in the lack of competence and independence in the work of regulatory bodies in the country's financial system, such as the Securities Commission and the National Bank of Serbia. In addition, the lack of a system for raising and maintaining competence and professional ethics in important professions for the development of the capital market additionally represents an obstacle to the development of this market. In such conditions, it is not possible to create investor confidence in securities, and without investor confidence, this market cannot develop. In short, in the conditions of weak rule of law, weak (mostly politically dominated) institutions and insufficient competence and professional ethics on the part of the main professions involved in the functioning of this market, the securities market does not have a healthy basis for its own development - said Soskic.

### **Alignment with the European Union**

The proposed regulation, as pointed out, is in line with the *acquis communautaire*, to the

extent permitted by the domestic legal framework. Namely, within the process of Serbia's accession to the European Union, our state, among other things, undertook to fully harmonize the Capital Market Law with eight European regulations governing: - markets for financial instruments, ie market participants such as investment companies, authorized banks, data providers, market intermediaries, the Securities and Exchange Commission, market organizers, regulated markets such as regulated markets, multilateral trading platforms and organized trading platforms; - conditions for public offering of securities and inclusion of securities in trading on a regulated market; - transparency requirements related to information on issuers whose securities are included in trading on a regulated market; - prohibition of manipulative and other illegal actions and deeds related to the purchase or sale of financial instruments.

In order to have greater legal protection for investors, the obligations of capital market participants are regulated more precisely, in the part related to market abuses, and the prohibitions of fraudulent, manipulative and other illegal actions and acts related to the purchase or by selling financial instruments, as well as exercising the right to vote in connection with securities issued by public companies.

Due to all that, as he explains, the so-called information asymmetry on the capital market is being created. Therefore, he points out that without removing all the basic elements that affect the creation of such an asymmetry, "it is not realistic to expect any real progress."

**- If, under the influence of the state and state regulations, there is a strengthening of supply or demand in this market, in the sense that there are issuers of securities and investors in securities, due to such regulations or other state influence some revival of the market may occur, but it will last until the first financial crisis, when this market will disappear again because there are no above-mentioned**

**preconditions for its emergence and development.** In Serbia, the problem of not having a securities market does not lie in the absence of any Strategy, action plan, law or bylaw. The problem does not lie in the absence of someone's will on the part of the state, issuers or investors. The problem is systemic and can be eliminated only by developing the social system of our country in the direction of strengthening the rule of law, the strength of institutions (their competence and independence) and strengthening professional knowledge and professional ethics. Only then it is possible to create trust of both issuers and investors, and only then it is possible to develop this segment of the financial market - our interlocutor pointed out.

Asked whether the Securities Commission will be able to contribute to the development of the capital market in our country in a special way, he said that it is obvious that the institution does not have the critical mass of competence and independence needed to establish and develop the securities market of values.

- For the development of this market, it is necessary to have knowledge, vision and ability,

and without that it is impossible to make real positive progress in this domain - added Šoškić.

### **The pandemic did not affect the Belgrade Stock Exchange**

Branislav Jorgić, a financial analyst and long-term participant in the capital market, shares similar views on the potential development of the stock market in Serbia. That it is not because "the situation on the stock exchange in Serbia was bad even without the pandemic."

- **The Belgrade Stock Exchange was, and still is, a place where shares are traded in the process of redistribution of existing ownership over privatized companies, which led to the concentration of that ownership in the hands of a small number of large investors.** After that first redistribution of the existing capital, those joint stock companies were closed and the stock exchange went down. As a consequence of this procedure, the number of listed joint stock companies has decreased from year to year, as well as the reduction of investment opportunities for small investors. The volume of trading was symbolic, except in rare moments when large packages of shares were traded in order to concentrate ownership. With the appearance of the coronary virus pandemic and the economic crisis, nothing significant has changed on the Belgrade Stock Exchange - Jorgić explains in an interview with Biznis.rs.

Speaking about the Capital Market Development Strategy, our interlocutor pointed out that it would be good to do an analysis of the implementation of the strategy established in 2015, for the period from that to 2020.

- In my opinion, in this period - from 2015 to 2020, there was no significant progress in the capital market. When we talk about the strategy and action plan for the next period, we get the impression that the main problems of the underdeveloped capital market are the lack of regulations, imperfections of institutions and poor information systems. On the other hand, the Strategy envisages the development of the capital market in medium and small enterprises. Personally, I believe that the existing regulations and existing institutions, as well as their information systems, are not a limiting factor in the development of the capital market, nor can the capital market be developed in small and medium enterprises - said Branislav Jorgić.

### **Capital markets key to economic growth and stability**

Developed and efficient capital markets play a key role in financing economic growth and ensuring the financial stability of countries. Although the market development initiative usually belongs to the private sector and regulators, central banks as well as ministries in charge of finance also play a significant role in capital market development due to synergies in ensuring long-term financial market liquidity.

He stated that the Strategy and Action Plan did not cover the main problem, which is how to reach the IPO (initial public offering) of large state and private corporations and how to

ensure that the existing legislation is applied without exceptions.

- So, it is wrong to think that the problems of non-application of existing laws will be solved by passing new ones. The state will show that it is serious the moment it decides to list the shares of Telekom Srbija on the Belgrade Stock Exchange, when it decides to reorganize EPS and to list the shares of such reorganized EPS on the Belgrade Stock Exchange, and when it secures its financing predominantly on the domestic capital market. not borrowing abroad and similar endeavors - Jorgić explained and added that the legislator should offer a solution on how to exclude party influence and the influence of certain business groups on the work of the Securities Commission, because, as he pointed out, he did not find that something like that is planned ”.

### **Stock market operations can be bad for “shallow economies”**

In an interview with Biznis.rs, Development and Investment Advisor Mahmud Busatlija warns that doing business on the stock exchange, in a shallow economy such as developing countries, which includes Serbia, can be practical and dangerous because it can create the illusion of value of a company. it is not close to what it has or can have in reality. Such a situation can be bad for a “shallow” and less developed economy.

- When you look at the composition of our stock exchange, but not only ours, but also those in the countries of the region, you will see that there is primarily a small number of companies present, ie not companies but their securities - shares and bonds. Why is it dangerous? When you look at it from the side of businessmen, therefore, if a company wants to raise investment money, to start a business, it issues an IPO (initial public offering). That is the only moment, if they sell shares on the stock exchange, when the company that issued those shares can get money from them. After that, those shares remain on the secondary market of the stock exchange. This practically means crossing a relationship between two private individuals. We can look at this through an example, for example, if a company on the Belgrade Stock Exchange is on the A list, has good performance, works well, has good income and profit, and can calculate its value. Since it has its shares on the stock exchange, then two brokerage houses can bring down or increase the value of that company, regardless of its participation - Busatlija explains and adds that this means that the company can have some fundamentals (business data). to create the illusion of the value of that company on the stock exchange.

- It can be very dangerous in a situation like the one in Serbia, because then the price can be manipulated, ie the total value of that company. For example, if one owner of shares of a certain company would reduce his share price, because there are no people interested in buying them, then it affects the company so that the stock market capitalization shows much less value than the company can show and achieve - says our interlocutor.

As he assessed, such a practically unfavorable situation for development and business on the stock exchange is difficult to fix.

**- First of all, it is necessary to develop the economy, because there should be a large number of offers on the stock exchange. Also, there should be a relatively regulated situation in which relatively little risk will be played and in which savings will only be supplemented through operations on the stock exchange, precisely by owning shares or bonds** - Busatlija points out.

Referring to the part of the Strategy (on the development of capital markets in Serbia) which states that a regulated stock exchange would contribute to reducing the dependence of small and medium enterprises on bank financing, Mahmud Busatlija explains that it is very difficult for small companies to go public. their shares are traded, and he states again that only the first sale of shares can be used for themselves, Biznis reports.