

CAPITAL MARKET TRENDS

CURRENT SITUATION

The existing regulatory framework is partly harmonized with European Union legislation and IOSCO principles, but the Serbian capital market is still underdeveloped and the regulatory framework has yet to be tested in practice, so all the potential flaws of the reforms implemented back in 2011, and of the additional reforms from 2016 and 2018, cannot be duly assessed.

Although noticeable, regulatory reforms alone were not enough to stimulate growth of the capital market.

Despite the emergence of interesting new products on the debt instruments market, we need to note once again that the capital market in Serbia is still developing and that there are still issues associated with quality and liquidity of capital market products.

Just before entering the White Book to the press, amendments to the Law on Capital Market were published and will be analyzed in the next edition of the White Book.

COVID-19

COVID-19 pandemic outbreak caused global crisis of capital markets, and had negative impact on Serbian capital market as well. Magnitude of the consequences of the pandemic outbreak, and the manner in which the market will respond thereto, are still unforeseeable having in mind that the crisis is still in full swing. According to publicly available data of the Belgrade Stock Exchange, year low trading levels on monthly basis were hit in June.

As most important reaction of the State in this segment, we highlight enactment of the Regulation on the Procedure for Issuance of Debt Securities, whereby the procedure for issuing corporate bonds, as an additional financing option, was eased – for the period of emergency state and within 6 months thereafter.

POSITIVE DEVELOPMENTS

Last year recommendations in relation to which certain developments were made:

- The issuance of state and municipal bonds for the financing of infrastructural and other large communal projects should be stimulated, while IPOs and issuance of corpo-

rate bonds in the private sector should be encouraged.

Enactment of the Regulation on the Procedure for Issuance of Debt Securities, although in relation to COVID-19 pandemic, could generally make positive effects on stimulation of the issue of corporate bonds as way of financing, and on the potential development of this segment of the capital market even after cessation of the effects of COVID-19 pandemic and said Regulation.

Also, in relation to education and support of initial public offerings, we commend activities on the “IPO Go!” programme – a project of the Belgrade Stock Exchange supported by, inter alia, EBRD (through EBRD SSF), which was launched in 2018.

Although this is not new, significant event was the issuing of RSD 2.5 billion worth of dinar bonds by the European Bank for Reconstruction and Development (EBRD) in December 2016, which boosted investors’ confidence in Serbia’s capital market.

We also commend efforts of the Ministry of Finance so to create better market environment for more effective emission of state bonds through arrangements with EUROCLEAR.

- The general legal framework for performing operations with financial derivatives and more complex financial instruments should be improved.

As the most important novelty and development in this segment, we emphasise enactment of the Regulation on Financial Derivatives Transactions for the Purpose of Managing the Republic of Serbia’s Public Debt, which came into force in the begging of 2020, and which lays down the general conditions for the performance of financial derivatives transactions by the Serbia for the purpose of hedging i.e. adequate management of the currency risks, interest rate risks, and other risks associated with public debt management. We believe that by the enactment of the subject Regulation certain step forward was made in relation to regulatory framework for the financial derivatives transactions on the OTC market when the Serbia is a counterparty, which could have a positive effect on entering into ISDA master agreements on financial derivative transactions.

Additional developments:

We commend the enactment of the Law on Alternative

Investment Funds and amendments to the Law on Investment Funds, as well as relevant bylaws.

Moreover, we welcome the announcement of the National Strategy for the Development of the Capital Market, which may have an important impact on growth of the capital market in Serbia.

We note the readiness of competent authorities, especially the Securities Commission and the Central Securities Depository and Clearing House (CRHoV), to enable the further growth of the capital market in Serbia by adopting the required by-laws and issuing relevant opinions. In this context, we commend the Securities Commission for carrying through the open discussion on the regulation of crypto property rights in Serbia, which was initiated in March 2019.

REMAINING ISSUES

We have to note that identifying all of the remaining legislative issues related to the capital market is difficult as the capital market in Serbia is rather underdeveloped, i.e. shallow and insufficiently liquid.

Municipal bonds are still rare, and these bonds were not

traded on the secondary market. The same applies for corporate bonds. Certain types of bonds are still not present on the market, such as so-called green bonds.

Regulatory should be improved to enable transactions with more complex financial instruments, including the regulatory framework by which more liberal approach and better legal certainty in relation to Employee Share Plans, as well as regulatory framework in relation to securitization. In that sense, there seems to be need for additional liberalization / definition of possibility of Serbian residents to invest in exotic market products abroad in line with EU laws and ESMA guidelines.

Despite some positive regulatory developments in relation to entering into financial derivative transactions according to ISDA master agreement by Serbia, there is still couple of open issues (for instance, in relation to the extent of applicability of public procurement regulations).

We note that it is necessary to establish a straightforward regulatory regime so to support more complex investment methods through crowd funding, as potential way of financing of small and micro enterprises.

FIC RECOMMENDATIONS

- The issuance of state and municipal bonds for the financing of infrastructural and other large communal projects, including green bonds, should be stimulated, while IPOs and issuance of corporate bonds in the private sector should be encouraged. (3)
- The legal framework for performing operations with financial derivatives and more complex financial instruments should be improved, including in relation to establishment of regulatory framework in connection with Employee Share Plans, and crowd financing and its manifestations. (2)
- Further stimulation of the possibility of Serbian residents to invest in more complex securities on foreign markets, including structural products, structural deposits, ETFs and investment funds, all in accordance with European standards and ESMA guidelines. (1)
- Establish a close and timely dialogue with business associations and other relevant financial actors on prioritizing measures for capital market development in Serbia. (2)