CAPITAL MARKET TRENDS

2.00

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
To continue with the issuance of state and municipal bonds for the financing of infrastructural and other large communal projects, including green corporate bonds, while IPOs and issuance of corporate bonds in the private sector should be encouraged. Consider the possibility that the state starts issuing bonds whose coupon is linked to the inflation rate and with a variable coupon rate, as well as short-term treasury bills.	2015	√		
Consider with the regulatory authorities the possibility of organizing more frequent primary auctions of government bonds with different maturities compared to the existing ones and/or increasing the number of NBS repo auctions with different maturities	2023		√	
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.	2015		√	
It is necessary to amend the Law on Financial Collateral in order to make available to commercial entities protection in derivatives transactions in the way that is provided to other entities to which its provisions apply.	2021			√
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.	2017		√	

CURRENT SITUATION

The existing legal regulation (Capital Market Law) is almost completely harmonized with the regulations of the European Union, but the domestic capital market is insufficiently developed, which is why in practice the legal regulation is not sufficiently tested, and it is still not possible to talk about all the potential shortcomings of the reform implemented back in 2011 with significant changes that followed in the period 2015-2025.

Although noticeable, the legal reforms were not enough to stimulate the growth of the capital market in Serbia. There is still a downward trend in the number of issuers of financial instruments and the number of public joint-stock companies listed on the Belgrade Stock Exchange. On the other hand, the amount of government bonds issued for financing environmental, infrastructure and development projects have recorded further growth, which started in 2023 and continued in 2024 and 2025. It is particularly encouraging that in the first half of 2025, there is a significant interest of domestic companies in issuing bonds.

In 2023, with a donation from the International Bank for Reconstruction and Development, capital market reform began through the implementation of the project "Catalyzing Long Term Finance trough Capital Markets Project." The project aims to develop the legal, regulatory and economic environment, deepening the corporate bond market, including green bonds and other thematic bond issues. In addition, an important part of the activities will be related to deepening demand as well as attracting more investors while simplifying the tax regime for the capital market.

During 2024 and in the first half of 2025, the issuance of corporate bonds from this program began, and it is expected that a larger number of legal entities will continue to raise capital through the issuance of bonds. It is also expected that some of these bonds will be listed on the Belgrade Stock Exchange. In anticipation of a wider implementation of these new initiatives, it is necessary to reiterate that the capital market in Serbia is in its infancy, and that there is still insufficient quality and illiquid market material.

The National Bank of Serbia (NBS) has adopted a new Law on Banks, which enters into force in October 2025. This Law introduces the Bank Restructuring Fund, new prudential control mechanisms such as the leverage ratio, and improved supervisory powers for the NBS, with the aim of increasing the degree of compliance with the EU regulatory framework and increasing systemic resilience.

POSITIVE DEVELOPMENTS

Last year's recommendations on which concrete progress was made:

- Stimulate the issuance of government and municipal bonds to finance infrastructure and other projects of public importance, as well as stimulate initial public offerings and the issuance of corporate bonds in the private sector. Also, in June 2025, the government published a two-year development plan for the Belgrade Stock Exchange, so we can expect more high-quality "market material" and deepening liquidity in this fundamental segment of the capital market.

During 2024 and the first half of 2025, the Public Debt Administration issued significant amounts of funds for financing budget needs and capital investments through several primary auctions, and RSD issues of long-term government bonds were significantly purchased by foreign portfolio investors. The funds raised from the issued bonds will be used for the most part to finance railway and road infrastructure and the EXPO 2027 project. This has made a very significant contribution to the process of dinarization of public debt, and it is important to note that the achieved rate of return is very favorable given the maturity and currency of the bond.

In 2024, the country's initiative for Serbia's broader inclusion in the global agenda to stimulate sustainable development through the issuance of $1.5 billion worth of ESG bonds was also continued. The funds raised by this show will be used to increase energy efficiency, transition to renewable energy sources, greater inclusion of minority and vulnerable social groups, assistance to citizens to buy their first apartment and settle rural households, etc.

As previously stated, with the support of the World Bank through a donation of $20 million, the state has begun to improve the process of issuing corporate bonds by legal entities in 2023. This initiative enables legal entities to gain access to important expertise in the field of the process of issuing debt securities without the costs of drafting prospectuses and paying commissions from the stock exchange, issuing and regulatory institutions. The process of selecting qualified emission agents and consultants is underway, and the first issues are expected in the third quarter of 2024.

- It is necessary to further improve the legal framework for conducting business with financial derivatives and more complex financial instruments, through amendments and/or amendments to the Law on Financial Security in such a way that it also applies to business entities in addition to financial institutions. We believe that this would represent a significant step forward in the direction of further regulation of legislation and enabling greater legal certainty in transactions with financial derivatives.

- Recognizing the significant progress in strengthening the supervisory function achieved by the introduction of new regulatory measures, we propose to further enhance the partnership dialogue between the National Bank of Serbia and commercial banks. The aim of this dialogue would be to find the most effective models for the implementation of future regulatory solutions (predominantly from the EU), with full respect for the specifics of the domestic banking market. We believe that such a proactive and collabourative approach would ensure faster and more efficient implementation, minimize operational challenges for banks and, consequently, further strengthen the stability and resilience of the financial system as a whole.

As the most important novelty and improvement in this segment, we would like to point out the adoption of the Decree on Conducting Operations with Financial Derivatives for the Purpose of Public Debt Management of the Republic of Serbia, which regulates the general conditions for conducting operations with financial derivatives by Serbia for the purpose of hedging against financial risk. Although this regulation was adopted in 2019, it entered into force in 2020, and where the practice related to its implementation is already established to a certain extent. According to publicly available information published by the Public Debt Administration of the Republic of Serbia, several transactions with financial derivatives were concluded by the Republic of Serbia in the period 2020-2024, in order to protect against certain financial risks. And after the issuance of an ESG bond in 2024 in dollars, the state contracted a currency-interest hedging transaction that transferred dollar public debt into euro, which also reduced foreign exchange risk and loan repayment costs (interest). With this, the state has continued to provide an example of the best practice of hedging, which would be useful to propagate as much as possible among legal entities.

Along with the improvement of the legal framework, it is important to continue, together with the NBS, the campaign of educating business participants on the benefits of introducing financial derivatives into business and providing support (accounting, information, technical, etc.) in order to improve the demand for these instruments. Special emphasis should be placed on the promotion of interest rate swaps (IRS) as a financial derivative that protects legal entities from the risk of interest rate changes. Although the volume of demand for hedging instruments was very limited in the previous period of intensive growth of the Euribor, it is important to continue with the active campaign to spread the culture of market risk management.

Further improvements:

We point to the adoption of the Law on Digital Assets, which for the first time provides a legal framework for, among other things, the issuance of digital assets (including virtual currencies) on the primary market as well as their secondary trading. Although the law in question and the relevant bylaws are yet to be tested in practice, we welcome the regulation of this area and the efforts of, among others, the Securities and Exchange Commission in this regard.

REMAINING ISSUES

It is still difficult to identify all the remaining regulatory problems in the area of capital markets, because the capital market in Serbia is still underdeveloped, i.e. shallow and insufficiently liquid.

Although government bonds are successfully issued in practice, municipal bonds are still rare, and so far there has been no trading on these bonds on the secondary market. Certain types of bonds are not even present on the market, such as government bonds that are tied to the inflation rate and government bonds whose coupon rate is linked to a variable interest rate (BELIBOR, EURIBOR), as well as short-term government bills. The eventual introduction of these types of government bonds and bonds would enable banks and other investors to better manage excess liquidity, market risks (the risk of interest rate changes or revaluation of assets due to inflation) in their balance sheets.

Consider the possibility of taking some more concrete steps in the construction of the dinar yield curve in cooperation with regulatory institutions, since the volume and liquidity of transactions between market participants in the secondary market does not allow obtaining reliable values for this curve. An example would be the organization of several primary auctions of the Public Debt Administration for the sale of government bonds with several different maturities compared to the existing ones. Another example could be auctions with multiple possible maturities of NBS repo operations (in addition to the existing weekly auctions with a maturity of 7 days).

There is a need to further improve regulation to create conditions for transactions in more complex financial instruments, including a more liberal legal framework and a higher degree of legal certainty with regard to the Employee Share Plan, as well as the legal framework related to securitisation.

The Law on Financial Security, with the beginning of its implementation in January 2019, was adopted in order to regulate the hedging procedure in transactions with financial derivatives. Although the draft of this Law envisaged that it would apply to both financial institutions and legal entities, in the process of adoption the relevant provisions relating to the economy were exempted, thus depriving it of the opportunity to be in an equal position with other participants in the affairs in question; to use the benefits and perform the netting of receivables in accordance with the provisions of this Law; to use the protection provided by the financial security contract defined by it, as well as protection in the event of bankruptcy proceedings of the other party.

Therefore, we believe that it is necessary to engage the Ministry of Economy in the first place, as well as other relevant authorities in order to amend this Law in order to provide legal entities with this level of protection.

We also emphasize the need to establish a clear regulatory framework that would support specific investment methods through crowd financing platforms, as a potential source of financing for micro and small enterprises.

FIC RECOMMENDATIONS

- Continue to stimulate the issuance of government and municipal bonds to finance infrastructure and other projects of public importance, as well as green corporate bonds, and stimulate initial public offerings and issuance of corporate bonds in the private sector. Consider the possibility for the government to start issuing bonds whose coupon is linked to the inflation rate and with a variable coupon rate, as well as short-term treasury bills.
- Consider with regulatory authorities the possibility of organizing more frequent primary auctions of government bonds with different maturities compared to the existing and/or increasing the number of NBS repo auctions with different maturities.
- There is a need to improve the legal framework for dealing with financial derivatives and more complex financial instruments, including the establishment of a legal framework regarding employee participation schemes in investments, as well as crowd financing and its manifestations.
- It is necessary to amend the Law on Financial Security in order to make protection in derivatives transactions available to the economy in the manner that is provided to entities to which its provisions apply.
- It is necessary to continue to stimulate various investment opportunities for residents in specific securities in foreign markets, including structural products, structural deposits, ETFs and investment funds, all in line with European standards and ESMA directives.