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**BELGRADE STOCK EXCHANGE:
Post-Crisis Economy- lessons and possibilities**

***Abstract:** The first ideas about establishing an organization the purpose of which would be to control the money minimum appeared during the 30es of the 19th century in Serbia. Since then many laws have been made, many meetings have been held and as many reforms have been carried out. The last decade is considered to be the turning point in the development of the Belgrade stock exchange. Namely, there has been an improvement of the development of the trading systems; the cooperation with other developed stock exchange markets in the neighbouring countries has been intensified, the first index of the BelexFm has been made and the improvement of the cooperation with the improvement of the relationship with the entities who issue securities and bonds, which lead to the first listing of shares.*

***Key words:** stock exchange, prime market, turnover, indexes*

JEL Classification: G20

INTRODUCTION

Stock market is a place where authorized persons trade in standardized goods according to established rules. In all its complexity and diversity the stock market did not emerge as a product of pre-planned actions. It was created primarily as a result of a series of spontaneous and accidental circumstances, at a time when business scale of the traders grows over their individual abilities and directs them toward each other to jointly promote business in all aspects of mediation. As the original mediative circle formed the basic forms of future organizations, thus spontaneity constricted in further act, and to the extent necessary to develop the organization of stock exchange activity in order to meet the challenges of the changing environment.

The first stock markets occurred in the late fourteenth century. However, more significant activity on the stock market start in the late eighteenth century. In that period, primacy of the stock exchange business belongs to the Dutch and the

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stock market in Amsterdam. At the beginning of the nineteenth century, the primacy of the stock exchange business from Amsterdam was assumed by London stock exchange. It remained a leading stock market in the world until World War I, when New York assumes the leading role, experiencing strong development in the second half of the nineteenth century.

The first ideas of founding a stock exchange in Serbia occurred during the thirties of the nineteenth century, however, this idea was transformed into act at the end of the century, when the National Assembly passed *the Law on public stock exchanges*, which was declared and published, by the king of that time Serbia, Milan M. Obrenović. The opening ceremony was performed on January 1, and its regular work began on January 3 1895. The aim of founding the exchange is embodied in improvement and facilitation of the trade turnover: a variety of goods (especially agricultural products), all securities whose listing was allowed, checks and coupons, coins and paper money.

Exchange trading was becoming more successful, and accordingly, there was a separation of duties: on the bank of the Sava the department for the goods, and at the hotel "Srpska Kruna", in Knez Mihailova Street the department for currency and effects was transferred to which operated until year 1914.

After World War I business at the Belgrade stock exchange recorded a rise, which was dominant in the period from 1923 to 1930, when Belgrade stock exchange was ranked among the best European stock exchanges. Before World War II its operations weaken and it slowly stops working until 1953, when it renews its business but on a whole precarious level. Its real development occurs not until 1989 when a number of laws governing its operations were passed. From that time until today, stock exchange records steady rise concerning organization and providing of services, but on the other hand due to continual political troubles its business is folminimuming the downward trend.

1. The role and significance of stock exchange

The very fact that the stock market does not have primary, but only a secondary trade, indicates that the original owner of the financial savings does not participate in the exchange business. Direct participants are not even the final users of the financial savings. Instead of them, the stock material is bought by financial mediators through authoeized participants (brokers and dealers).

Thanks to the concentration of the supply and demand, in one place and at the same time, security prices are determined on the basis of objective market criteria. The stock exchange is a continuous liquid market where the conversion is performed into the most liquid form of securities, in cash. It enables a successful

promotion of public companies and increase of the inflow and outflow of capital across national borders, thus internationalizing the capital markets.¹

The stock exchange also diversifies ownership, performs more efficient risk allocation and creates a better financial structure of the company. Through the stock pricing mechanism greater efficiency in the allocation of investment can be achieved. It provides investor with the possibility to diversify his own portfolio according to the desired return and risk. Expanding the circle of security owners it allows risk dispersion, which results in decrease of the premium for the risk taken.²

A dilemma is often present of whether the securities should be traded in only on the stock exchange or whether their OTC transactions should be allowed too. Basically, it should be noted that the autonomous corporate right of the company to decide whether it will be open or closed, that is whether the securities of such companies will be in the secondary traffic or not. Companies that are open (public type), autonomously decide whether their shares will be traded in the otc traffic, or whether an application for listing of securities will be submitted on a stock exchange.³

Pursuant to the above, the primary functions of the stock exchange are expressed in a simplified manner through the concentration of supply and demand offer of securities in one place and at the same time. Prices of securities, through the principle of supply and demand, are effectively determined, according to objective market criteria. The growth in stock values reflects the growth of the company value, which basically directly facilitates the sale of the next series of securities in order to acquire the share capital for further growth and development of the company.

2. Products and services of the Belgrade stock exchange

The main products of Belgrade stock exchange are:

- *BELEXFIX* based on the *Fix* protocol, represents the official trading system on the Belgrade stock exchange, and was put into operation on 14.04.2008. Following the example of other countries Belgrade stock exchange decided to develop a trading system that integrates a unique protocol for the exchange of information in the financial markets for safer and easier exchange of information.

¹ Malkiel, B.G., (1995). *"The Structure of Stock Market Volatility"*, Princeton University, December, p. 7.

² Demirguc-Kunt, A. and Maksimović, V., (1996). *"Stock Market Development and Corporate Finance Decisions"*, Finance & Development, June, p. 1041.

³ For example, many companies that have met the requirements for listing on the Stock Exchange Nasya, are still quoted on the NASDAQ electronic counter market.

On the Belgrade stock exchange the following information services are distinguished:

1. *Belex.info* - enables the distribution of information about trading for all users on the Internet in real time.
2. *SMS start-stop* - can be used by users who wish to be informed about the daily price movement of specific securities
3. *Data feed* - designed for the professional distributors of information,
4. *Ticker* - if users are interested to be informed at any time of the current prices and price changes of securities traded during the day they can download the Belgrade Stock Exchange ticker on the Internet.
5. *RSS* - involves downloading and displaying data in a separate program for mail reading on the basis of which the formation of "personal newspaper" is done.

Also depending on the interest and knowledge level of participants, Belgrade stock exchange organizes various courses each year, from the general through courses that include performance of different analysis, to those most important dealing with education of the media, judiciary, judges and lawyers.

3. Market organization of the Belgrade stock exchange

On the Belgrade stock exchange two types of markets where trading is done in equity and debt securities are distinguished, which are:

1. Stock market - consisting of *prime* and *standard market*, that is of stocks and bonds that meet certain criteria for admission to one of the markets.
2. The OTC market - where trading is performed with all those shares and bonds that have not met the criteria for admission to *prime* or *standard market*.

On the *prime market* trading in shares and bonds of the best rated issuers is performed, that is of those issuers who base their operations on set criteria prescribed by Belgrade stock exchange. On this market trading is performed in bonds of the Republic of Serbia, among whose the best quoted bond is marked A2016

On the *standard market* trade in stocks and bonds that meet pre-set criteria for listing is done. On the stock market, there are three stocks of the issuer that are traded in on the *standard market*, while the bond trading is not being done yet. The reason is not meeting the set criteria.

4. Comparative analysis of the stock business in the period of 2007 - 2009.

Conditions present during this period in the economy and politics of Serbia and the region to which it belongs, represented a given framework in which the business of Belgrade stock exchange was conducted. This period was marked by significant events within the EU as well as the dynamic international activity of the Republic of Serbia, which reflected the most in diplomatic activities regarding the status of the southern Serbian province.

In comparison to year 2008. and 2009, in 2007. the Belgrade stock exchange was extremely successful both in terms of the turnover, number of transactions, number of issuers involved in the regulated market and the number of members of the Exchange, and by improving the overall business environment, educational activities and financial results.

To make a comparative analysis of business operations at the Belgrade stock exchange we have to make a comparative analysis of both political and general economic trends in Serbia during this period.

The main political-economic factors that marked the year 2007 are:

1. Economic trends were characterized by high rates: economic activity, the GDP which amounted to 7.3%, exports, imports and salaries. Regardless of the inflation that has reached 10.1%, core inflation has been successfully held in the framework of the planned 4% to 8%, indicating favorable macroeconomic developments. What spoils it is the high foreign commercial

2. Deficit, which is caused by higher growth in demand due to fiscal expansion in the late 2006.

3. There was an administrative elimination of price disparities, increase in the petroleum prices and prices of agricultural and food industry products caused by drought in year 2007.

4. Creating the first foreign index on the Serbian stocks *SRX* and the sale of the first licence to index *BELEX15*, based on which products that are traded on stock exchanges in Stuttgart, and Frankfurt are built.

The main political-economic factors that marked the year 2008 are:

1. The crisis of the world financial system which evolved into an economic recession and affected all areas of life, starting with: reduction of GDP by more than 1%; reducing unemployment, reducing investment

activities, as well as the fear of experts that the crisis will last up to 2010, which eventually occurred,

2. The fall of giants in the financial field,
3. The decline in economic activity,
4. The tightening of regulations which govern the course of business in the financial sector,
5. Deterioration of the investment rating of the country,
6. Frequent fluctuations of the exchange rates.

The main political-economic factors which marked the year 2009 are:

1. Continuation of the crisis of the world financial system and economic recession which caused a decline in GDP of 4%, the increase of the budget deficit, rising unemployment by 2 percentage points compared to last year, increasing debit reduction of investing activities and certainly negative expectations for a longer period of time.
2. The sale of 51% of the capital of NIS to the Russian Gasprom, by direct negotiation and further delay of the privatization of public companies with the initial public offer.
3. The introduction of visa-free regime for Serbian citizens in the EU
4. Significant fluctuations of the local currency in the last quarter

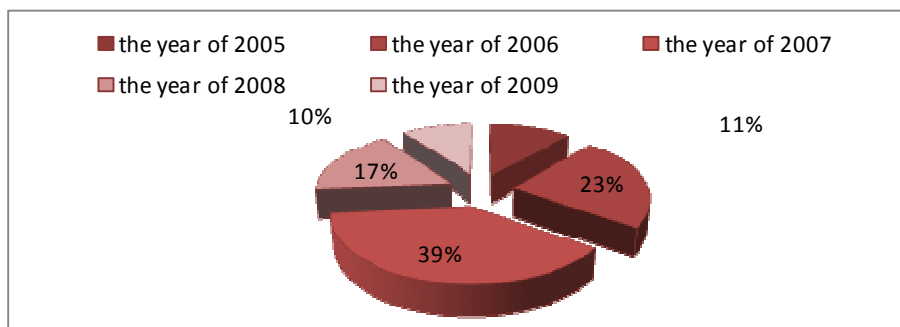
4.1 Business operations

Turnover: In year 2007., the total turnover was worth 165 billion dinars, which is an increase of 64% compared to year 2006.. There was also an increase in the number of transactions per year and by 113% in relation to the previously mentioned year. In 2008. the total turnover amounted to 71.8 billion dinars, which represents its decrease by as much as 56.4% compared to year 2007. Also, the number of transactions decreased by 182 000, which is 60% less than in year 2007. In 2009. turnover was valued at 41.8 billion, representing a decrease of 41.9% compared to year 2008.

Decline in the trading liquidity is represented by the number of generated transactions of 77.215, representing a decline of 35% compared to year 2008. ⁴

⁴ Belgrade Stock Exchange, Annual Report for 2009, Belgrade Stock Exchange page 10

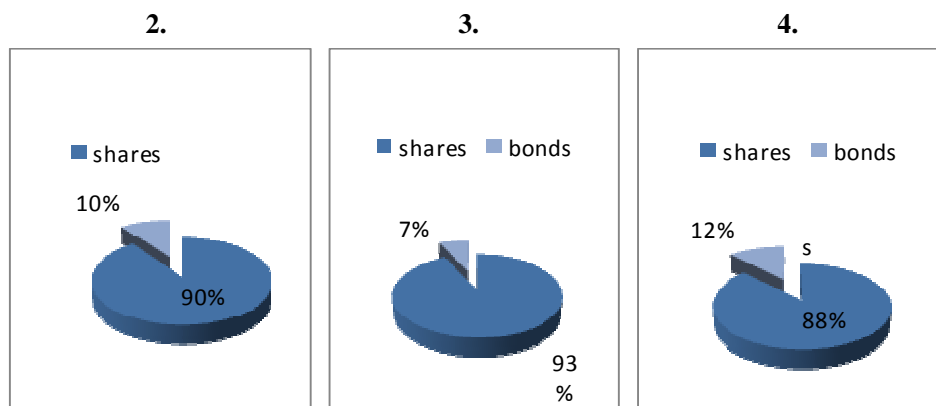
1. The structure of turnover



Stocks: As in the previous years, in 2007, stocks had a dominant share of the total turnover on the Belgrade stock exchange, and for a 90% which is 3% more than in year 2006. Although in 2008, there was a significant reduction in investment activities, the stocks had a dominant share of the total turnover on the Belgrade stock exchange as in previous years, amounting to 92.6%, which is 3% more in relation to the previous year. As for the value of the share commerce it is reduced by 55%, as well as the number of transactions, which decreased by 61%. Participation of share commerce in year 2009 amounted to 87.83% which is almost 4.7% points minimumer compared to 2008, and this value was 36.7 billion dinars. Reduction of the number of transactions is 4.38% compared to year 2008.

Bonds: From the total turnover on the Belgrade stock exchange in 2007, a segment of the traded bonds had a share of only 10%, but the absolute turnover of bonds increased by 30% compared to 2006. During 2008 the *bonds* trading folminimmed the trend of decrease in activity so a decline both of absolute value by 68%, and the relative share in total turnover by 7.4% was recorded. Total turnover in this market in 2009 recorded a decrease of 17.4% compared to the previous year, but the number of transactions increased by 6.1%. Bond which was the most traded in, as in previous years, is A2016, whose trading generated a third of total turnover in this segment.

The structure of turnover in year 2. 2007. 3. 2008 4. 2009. in relation to the type of securities:



Indexes: Index *BELEX15* continued the upward trend at the beginning of 2007., recording a daily historical values. Extraordinary growth of 70% in the first quarter contributed to the Balkans to be recognized as the fastest growing region in the global capital markets.⁵ The first drop in the index value occurred in May when it a record drop of 6.53% was registered. Decline later folminimumed during the summer also, as well as in the fourth quarter, but all this could not reduce the index growth, which recorded the annual increase of 38.4%. In 2007 a new index of the Belgrade stock exchange was presented - *BELEXline* which inherited the role of the first stock market index, *BELEXfm*. The movement of this index was correlated with the index *BELEX15*, with marked growth in the first quarter, as well as the record values in May. It managed to record an annual growth of 44%.

The trend of the index value declining was already established during the third quarter of year 2007, but the first scale of adverse effects were noted in year 2008. What marked the first quarter of this year is the increase of the political risk caused by high uncertainty first of the presidential elections, then the Kosovo crisis and the fall of the Government as well as with the early presidential elections. All this affected the weakening of the index by 25.86% during this quarter, while the second quarter brought some stabilization and a positive result of 3.75% which was mostly conditioned by the post-election expectations.

While the first quarter of year 2008. was determined by local circumstances, the third and fourth were determined by developments in the world financial market and the effects of the financial crisis, which were the strongest in

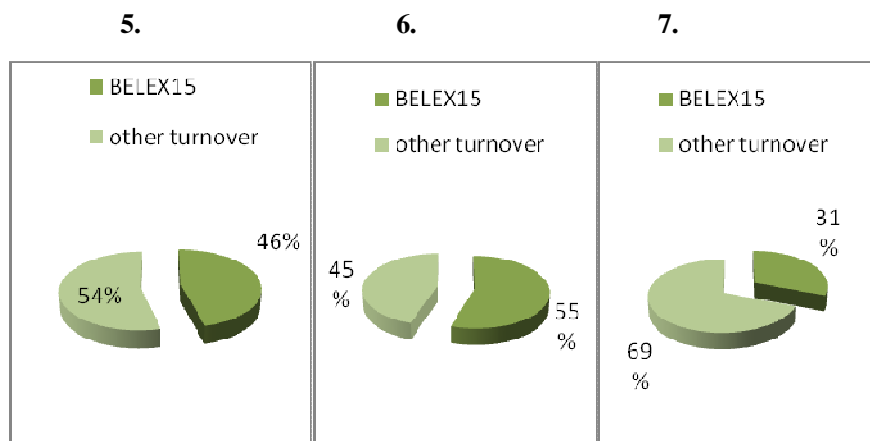
⁵ Belgrade Stock Exchange, Annual Report for 2007, Belgrade Stock Exchange page 20.

September and October. Index *BELEX15* decreased in that period by 43%. The last quarter recorded a historic minimum of this index, which amounted to only 474.3 points. *BELEXline* index correlated with the index *BELEX15*, with a slightly weaker oscillations, recording an annual decline of 69.08%.⁶

In the first quarter of year 2009. a heavy decline of *BELEX15* index was recorded, which is also indicated by reached historic minimum of this index, as well as the index *BELEXline*. The second quarter recorded powerful growth, so a yield of 48% was recorded and measured by *BELEX15* even 60% compared to a historic minimum. In the third quarter this index continued to grow, reaching its annual maximum of 870.2 index points. In the last quarter there was a reversal and the trend went into a zone of constant negative yields.

Year 2010. was entered with a slight growth of the index, which lasted until April, when *BELEX15* amounted to 761 index points. From April to November, index *BELEX15*, and thus *BELEXline*, are showing a continuing decline in value.

Belex15 share index in 5. 2007 6. 2008. 7. 2009. the total turnover of shares:



Other indicators:

BELEXsentiment, which represents the expectations of market participants on the movement of share prices in the coming period, was for the most part of the 2007 in the zone of positive expectations. In year 2008. *BELEXsentiment* stayed in the zone of negative expectations, whereby the participants, unaccustomed to long-term negative trend, expected the recovery of the domestic market in mid-year, which never occurred. In 2009. *BELEXsentiment* showed its sensitivity to the

⁶ Belgrade Stock Exchange, *Annual Report for 2008*, Belgrade Stock Exchange page 6.

developments on the world economic scene by entering the red zone since September 2008, where it stayed during the first seven months of year 2009.

The turning point occurred in August 2009. when this indicator moved to the green zone and remained there until the end of the year.⁷ In 2010, this indicator mainly stayed in the zone of negative expectations, if we set aside the first months of the year.

The participation of foreign investors in total trading, which we measure with FIT indicator, reflected in trading in bonds of foreign currency savings of the citizens, while in the trading in shares this indicator was reduced. In year 2008. FIT increased compared to 2007. for slightly more than 8 percentage points, indicating a lack of domestic demand, not the growth of domestic market activities. As for the participation of foreign investors in the shares trade, in the sale there was a decrease of about 2%, which is nevertheless a signal that our market is not abandoned, while in the sales there was a major increase of this indicator, for about 20%, which at the same time represents the main cause of share prices decline in the domestic market. In 2009 there was a decrease of foreign investors participation compared to 2008. year, both in share and bonds trading. FIT was reduced by 10.5% compared to last year.

Listing: Committee for the listing and quotation held five sessions, in which among other things, the decision on admission of shares to the *Prime Market* was passed for the following issuers: Sojaprotein Joint Stock Company, Bečej and Energoprojekt Holding Joint Stock Company, Belgrade.

A resolution to receive shares of another issuer was passed, which is Tigar Joint Stock Company, Pirot, whereby it had to meet several other criteria relating to liquidity. Committee for the listing and quotation of Belgrade stock exchange reached a decision in 2008. on admission of shares on the stock market of the issuer: Metals banka ad, Novi Sad, on Listing A and Alfa Plam ad Vranje on Listing B, which is kept there to this day.

Metals Banka did not last long on the stock market, as it quickly received the decision on expulsion and returning to the OTC market, due to not fulfilling its obligations on time, particularly the obligations related to reporting. At the end of 2009. *The Prime market*, as the most liquid segment of the stock exchange was consisted of the shares of the same issuers as in 2008., while there was a change on *the Standard market*. In May, year 2009., stocks of the company Metalac ad, Gornji Milanovac and stocks of the bank with the largest capitalization on the stock exchange – Komercijalna banka a.d., Beograd were included on Standard Market.

⁷ Belgrade Stock Exchange, *Annual Report for 2009*. Belgrade Stock Exchange page 26.

Over-the-counter market: on the OTC market in year 2007. 775 stocks of the issuer were included, which together with the shares included in the previous years makes a total of 1944 issues of stocks issued by 1886 issuers.

In 2008. the number of participating shares of issuers on the OTC market was significantly reduced compared to 2007. year. On this reduction, in addition to these factors, the decision of the Committee that it is not possible to include stocks on the OTC market without a prospectus also had an influence, because this way it wanted to protect itself from malfeasance on the market and thereby increase the liquidity of the entire market.

4. CONCLUSION

Based on a comprehensive analysis we can focus on giving answers to the question related to poor course of business of Belgrade stock exchange in the last decade, especially in the analyzed period, with the exception of Belgrade stock exchange course of business in year 2006 and 2007.

Answers are certainly to be found in more detailed analysis of our history as well as the analysis of incorrectly selected systems which influenced the stagnation of the stock exchange. Somehow, as a rule, whenever a sufficient stability was reached which would guarantee any kind of economic progress, some kind of a system breakdown would occur or a change of the social order.

Although it is very important to isolate and analyze individual factors which led to the stagnation of the Belgrade stock exchange what is far more complex and more necessary is to find solutions which would by implementing initiate the development both of Belgrade stock exchange business and our whole country.

First of all it is necessary to establish political stability, which is in direct interdependence with the overcoming of certain "differences" between the Balkan countries, which is from this point of view very difficult. We can relate to this problem by citing only seemingly terse, but certainly a correct formulation of one, unpopular in Serbia, Brussels, high-ranking official. When asked to explain the overall problem of the Balkan countries in the past decade he answered shortly - *Too much history*. On another occasion in a somewhat more peaceful post war years, after meeting with Serbian and Croatian Prime Minister, he cynically apologizes for not participating in a joint press conference with a phrase – 'I'm sorry gentlemen, but I got history to create'. In a vacuum all too often imposed by another party, where there is little space for independently made decisions on one's own fate, being a slave to one's own habits and misconceptions, an overall social and sociological vortex from which all spheres of human needs branched should be sought, including the area of financial markets.

Pessimistic view of the present day can be changed in future by professional work and selecting routes imposed by economic, not political, or rather cheap political logic. It was a wrong assessment that the market will regulate everything, fire is usually not extinguished by the one who started it, it takes work.

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