Radovan Jelašić: Future of the capital market in the Balkans

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, to participants of the Economist Media Group conference "Future of the Capital Market in the Balkans", Belgrade, 24 June 2008.

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Ladies and gentlemen

Eight years into the transition of the Serbian economy, we may safely say that our financial sector has become and, judging from how things stand now, shall remain bankcentric. Such observation is based on the following two facts:

1. The share of the banking sector in total assets of the financial sector (banks, insurance companies, leasing providers and voluntary pension funds) remained more or less constant at around 90% throughout the period from 2003 to 2007!
2. Legislative activities on faster development of the capital market have been stuck in the doldrums for almost two years now! To illustrate, Securities Act, Law on Compulsory Motor Vehicle Insurance, Law on the Market of Securities and Other Financial Instruments, Law on Personal Income Tax and Law on Corporate Profit Tax are all either in the final phases of completion or were completed and sent off to the Assembly of the Republic of Serbia for adoption only to be placed on the long waiting list of issues to be discussed!

There is no denying that voluntary pension funds and insurance companies are still hoping for a chance to invest in high-quality listed securities. They, however, remain in very short supply. Let us remember that there are only four listed securities in Serbia at the moment: besides bonds issued against frozen foreign currency savings deposits, we only have Tigar, Energoprojekt and Soya Protein securities. What is happening with the remaining 1800 shares quoted on the stock market? Why aren't they listed? Could it be that somebody has turned them down – which I doubt, does not want to list them – which is also highly unlikely as they represent a good investment, or is unable to list them – which is most likely! One thing is for sure, it does not only take a law to create a capital market. And Serbia is a very good illustration of the fact. Enactment of adequate legislation is a necessary, but not a sufficient prerequisite for setting up the capital market.

One of the key links in the chain of development of the capital market should be the pension system reform. Last week we were visited by Mr. Klaus Schmidt Hebbel from the Central Bank of Chile. He will be working as Chief Economist of the OECD in Paris from September this year. He visited Belgrade on route to Macedonia where he has been working for several years on the pension system reform, that is, on setting up the second and the third pension pillars. Currently, 35% of all contributions for pension insurance are paid into the second pension pillar and such payment is made compulsory for all first time employed in Macedonia since 1 January 2003. Hence the decrease in the volume of current payments into the state pension fund and the increase in the volume of contributions from the budget to the state pension fund. However, this new pension scheme will cut future budgetary expenditures. Saying "let us first develop capital market and then consider the pension system reform" reminds me of people saying "I will work harder once you pay me better".

To conclude, the pension system reform would provide a substantial contribution to the development of the capital market. The reverse scenario would simply take too long, the luxury of which Serbia can no longer afford!

In a fable "The butcher and the dog" Dositej Obradovic makes a reference to an old Serbian saying: "Do me a favour – cheat me early in the game". I think that the latest incidence of "cooling off" of the Belex 15 and Belex line indices has had a positive effect. If nothing else, it has been a sobering experience to many market players – I received letters from some of them – which made them rethink the meaning of the market, the amounts to be invested on the stock exchange, sources of funds, maturity of investment, etc.

Regardless of the fact that the NBS is in charge of supervision of the banking sector, it is well known that we are very much in favour of the development of the capital market as such development can, not only contribute to the strengthening of the overall financial sector but also to making the banking sector more profitable, i.e. more efficient! The KFV project designed at the request of the German Ministry of Finance is the best proof that there is hope for us. This project came up as a result of discussions at the meeting of G8 Ministers of Finance in May 2007 where a decision was taken to provide assistance to the development of capital markets in two countries, Serbia and Ukraine. This assistance will take the form of technical support with a special emphasis on "the development of the securities market in local currency to support the development and stability of the financial sector".

At the moment efforts are being made to set up the action plan which includes issues related to securities, such as a) cutting costs of the securities issue, b) tax treatment, c) development of the regulatory framework, etc.

I sincerely hope that this project will be completed soon after the summer break since, in addition to foreign assistance, we shall also have a new government in place by then. The new government will, hopefully, place faster development of the capital market high on its list of priorities.

Thank you for your attention!