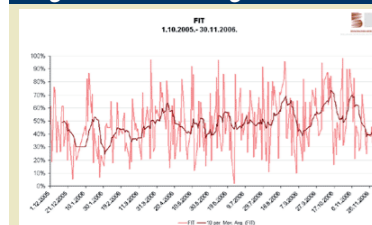


It is hard to predict the future trends in the world of financial markets. But if you take a look back at the history of Serbia's financial markets you will see constant growth and development, and this has been accelerating in recent years. No one can ask more if they are an investor looking for high yield opportunities.

Accelerated development of Serbia's financial markets is offering a new chance to portfolio investors from all around the world who have been waiting 'behind the door.' A large proportion of investors were especially concerned because of the lack of transparency by issuers and fairness of market and stability. The new package of laws, regulating financial markets, introduced at the end of 2006 helped to increase this. Above all, corporate governance culture and transparency by issuers brought more stability and fairness to the markets. These laws are set in compliance with EU directives and regulations so there is a pressure on companies listed at the Belgrade Stock Exchange to publish important business events, annual and quarterly financial reports, and business plans. All of this led to the increase of foreign investor trading at the Belgrade Stock Exchange. Foreign investors already took a large part of trading at the Belgrade Stock Exchange, which can be seen in table one below.

Many of them are investors from the Balkan region and former Yugoslav Republics. So there is an invitation to institutional investors from the EU and all the other regions of the world to come, because there is more to be discovered in Serbia's financial markets. The Serbian economy continued to recover in 2006. Foreign direct investments surged to 15 percent of GDP, helped mainly by the sale of state-owned banks and Mobtel, the

Table 1. Foreign investors trading at Belgrade Stock Exchange in 2006



Month	FIT
December 2005	40.26 percent
January 2006	39.75 percent
February 2006	40.81 percent
March 2006	46.38 percent
April 2006	53.57 percent
May 2006	42.84 percent
June 2006	50.36 percent
July 2006	49.34 percent
August 2006	57.60 percent
September 2006	48.70 percent
October 2006	61.88 percent
November 2006	46.94 percent

A market with new opportunities

Aleksandar Ivanovic and Djordje Canak ask if this is the year of Serbia's capital markets?

mobile operator. The inflation rate was between 6.5 percent and seven percent and the predictions for this year are also optimistic. Foreign exchange reserves have risen to \$5.9bn. External debt to GDP remains at approximately 61 percent and S&P credit country rating is BB-. Reference interest rate is 14.5 percent. Yet there is much more to be done in economic reforms. Financial markets and their further development might take the leading role.

This year is going to see the foundation of the first domestic pension and investment funds (both open-end and closed-end funds), all highly regulated, which would bring about the increase of market capitalisation at the Belgrade

Stock Exchange and the improvement of financial instruments. Because they are specialised financial institutions, highly sensitive to market stability and corporate governance culture of the listed companies, many of the securities traded at the Belgrade Stock Exchange would be constantly overviewed and valued by the increased number of market participants.

The Serbian financial market has been through several phases in the past five years, from introducing all the requirements needed for the development of the financial market, through establishment and continuous improvement of Central Registry of Securities. Also achieved has been the strengthening of the role of Securities

Exchange Commission and the Belgrade Stock Exchange, setting more sophisticated legal regulations, and at the end introducing investment and pension funds. The Belgrade Stock Exchange is now 'mature' enough to promote in the next few years as the regional leader in the finance industry. It also has a great potential, in terms of high market yields, and another world market 'spot' to be used by investors for diversifying their portfolios. Further development is based on new market instruments such as assets-backed securities, mortgage-

In 2007 all the companies from the index basket expect a good valuation of their business results.

backed securities, highly ranked corporate bonds and finally introducing IPOs (there were no Initial Public Offerings at the Belgrade Stock Exchange, shares traded at the stock market are from privatisation of listed companies) as the way of raising the capital through the stock market by listed companies. Also, Serbian capital markets need shares of public monopolist companies like Serbian Oil Company NIS, Airport Belgrade, Electric Power Industry of Serbia EPS and Serbian telecommunication company TELEKOM which could be partly privatised through the stock market. Such attractive market instruments, with high yield opportunities, are an invitation to foreign investors who are familiar with the fact of significance of these industry sectors in the global economy. After all, the presence of City Bank in Belgrade is a clear sign of the health of the Serbian economy, and this presence might be the prediction of where the free funds would come in the next few years. That is why it is very important for foreign investors to research and get ready for this market. Competition would be increased with the presence of domestic investment and pension funds. In spite of the fact that the market was closed for many years, local traders and fund managers are experienced and well educated to get into a 'battle' for yields.

Serbian market blue chip index

BELEX15 index is an indicator for the movement of the share prices of the 15 largest and frequently traded 'blue chip' companies at the Belgrade Stock Exchange. Its calculation started from October 2005 when it was assigned the start up value of 1,000,00 and is reached its historical maximum value of 1,665,16 at the end of 2006. Chart analyses of BELEX 15 index brings us to the conclusion that the market is rapidly growing but there are

Table 3. Index basket

Issuer	Symbol	Quantity	FFC	Percentage
AIK banka a.d. Nis	AIKB	5,703,618	0,72	20.00 percent
Univerzal banka a.d. Beograd	UNBN	371,612	0,85	13.57 percent
Agrobanka a.d. Beograd	AGBN	270,303	0,83	12.05 percent
Energoprojekt holding a.d. Beograd	ENHL	5,626,549	0,98	9.87 percent
Alfa plam a.d. Vranje	ALFA	131,083	0,74	5.72 percent
Tigar a.d. Pirot	TIGR	1,718,460	0,96	5.59 percent
Metalac a.d. Gornji Milanovac	MTLC	1,020,000	0,85	5.54 percent
Cacanska banka a.d. Cacak	CCNB	100,093	0,48	5.28 percent
Jubmes banka a.d. Beograd	JMBN	98,833	0,52	4.29 percent
Progres a.d. Beograd	PRGS	5,392,750	1,00	4.08 percent
Dijamant a.d. Zrenjanin	DJMN	328,802	0,31	3.96 percent
Soja protein a.d. Becej	SIPT	770,000	0,27	3.91 percent
Imlek a.d. Beograd	IMLK	8,112,574	0,18	3.45 percent
Tehnogas a.d. Beograd	TGAS	1,036,658	0,18	2.67 percent

Table 2. Shows market capitalisation of the Belgrade Stock Exchange in 2005 and 2006

Market capitalisation in (thousands e)		
	2005	2006
Shares	398,090	1,034,000
Bonds	153,910	166,000
Total	552,000	1,200,000

frequent fluctuations of prices of these shares and a lack of liquidity. Despite that, market capitalisation at the Belgrade Stock Exchange is significantly rising and the volume of shares and bonds traded has been increased; which is shown in table two above. BELEX15 is free-float market capitalisation weighted index, which is not adjusted for paid dividends and consists of shares traded using methods of continuous trading. Weight of the components in the index is limited to a maximum of 20 percent of the total market capitalisation of the index. For more about the BELEX15 index and other market information, please see the website: www.belex.co.yu

Looking at the index basket it is obvious that the banking sector is represented by five banks and that their influence on the index is 55.2 percent. The most intensive price increase in 2006 was for the shares of Agrobank Belgrade, AIK bank Nis, but it is not a surprise. Recovered Serbian banking sector gained a capital increase of 37.2 percent in the previous year and yet there is room for further growth and investors are looking forward to hearing such information. In 2007 all the companies from the index basket expect a good valuation of their business results by investors and an increase of their share market price and BELEX15. Therefore it is a clear sign to professionals that they should compare the performance of their portfolios of securities bought on Serbian capital market with this index.

A good decision or not?

The decision makers, fund managers from world finance industry, should consider Serbia's capital market, although not highly developed and with the country credit risk still high. Despite this, yields are very attractive compared to other markets in the region and further development may provide the fact that investing in Serbia is a wise choice. So this is not just an invitation, this is also a warning, the market is 'on the heat' there is no space for waiting, yields are waiting for you. ■

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