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THE BELGRADE STOCK EXCHANGE - AN EMBRYO OF THE FINANCIAL MARKETS IN YUGOSLAVIA

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Abstract. *Although the idea of a stock exchange appeared in Serbia as early as 1830, The Belgrade Stock Exchange founded in 1894. At this general and mixed Stock Exchange were traded shares, bonds, commodities and foreign currency. Its work was interrupted in 1941, and in 1953 the Stock Exchange was officially closed. The Stock Exchange was reestablished in December 1989, under the name of The Yugoslav Capital Market - Belgrade, and from 1992 works under name The Belgrade Stock Exchange. At this trades, above all, with short-term securities.*

1. INTRODUCTION

In modern conditions the financial markets takes basic place in the economy all country. That we can see from fact that the turnover realized at the financial markets were 5-6 times higher than the overall turnover of international trading of goods and services. As we can see it is very important fact because by us in Yugoslavia the Exchange again founded after almost 50 years at the end of 1989 under name Yugoslav capital market - Belgrade, when Yugoslav money market founded, too. From 1992 this institution (Yugoslav capital market) trading under name Belgrade Stock Exchange. It is mixed exchange and it has twenty members (1, p.5). At them usually trades with short-term securities (commercial papers of companies, commercial papers of banks, bonds of the National bank of Yugoslavia, commercial papers issued by the Serbia Agency for Commodities Reserves, deposit certificates and so on), because for trading with long-term securities didn't yet make conditions.

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2. BEGINNING AND DEVELOPMENT THE BELGRADE STOCK EXCHANGE

In the beginning of nineteenth century in young Serbia came to introduction capitalism, so the idea of stock exchange appeared in thirtieth. However, not earlier than put in order, the dinar was introduced as official currency and the Act of Stock Exchange was passed, Serbian merchants founded the Belgrade Stock Exchange on November the 21st 1894 (2, p.7). It was at the same time the first stock exchange on the Balkan. It was mixed Stock Exchange at them were traded shares, bonds, commodities and foreign currency. The Belgrade Stock Exchange was one of the most developed stock exchanges in Europe. The securities that were traded at them were also listed at the Exchanges in Paris, London and Frankfurt (3, p.2).

During the Big World recession the Belgrade Stock Exchange was keeping certain degree of stability, i.e. it didn't happened its crash, so the capital was looking for protection of making worthless in public securities in recession years (4, p.34). However, the turnover never to catch degree before crises. World War II interrupted its work in April 1941 and in 1953 the Belgrade Stock Exchange was officially closed.

Economic and political changes which were happened by the end of eightieth, made it possible after almost 50 years in Belgrade again to reestablished the Stock Exchange, under name Yugoslav Capital Market, which founders were 32 the biggest banks from ex Yugoslavia. Today's name the Belgrade Stock Exchange obtained in May 1992. A long period of absent this institution of our financial system was made lost our rich experience and knowledge from this district, so today we haven't enough experts.

From 1989 to 1993 trading on the Exchange was happened in conditions of high political and economic instability, the rapid decline of economic activity and the escalation of inflation tendencies. Additional aggravating conditions for work and further development of the financial market were the economic sanctions against Yugoslavia, the war in environment, enormous number of fugitives and seriously state interference in economic flows of the country. In this period against all this aggravating circumstances the Belgrade Stock Exchange had increased the turnover, except 1993, when we had the lower turnover. Due to high inflation rates, the turnover realized in 1992 and 1993 had to be expressed in German Mark instead of in dinars.

Qualitative changes in work of the Belgrade Stock Exchange were beginning with enforced of the Program of Reconstruction's of Monetary System, which stopped unseen inflation and began the economic recovery. Compared to 1993, the turnover in 1994 was more than tripled and was the highest turnover in five years of the Stock Exchange operation. In this period the number of participants in trading increased and the technical and information basis of the Belgrade Stock Exchange operations was upgraded (5, p.6).

The crucial year for trading on the Belgrade Stock Exchange was 1995, because the Exchange was pursuant to the new Act on Exchanges and Broker and Dealer Organizations transformed into a share-holding company. As we can see the Belgrade Stock Exchange has become a significant segment of the organized financial market in Yugoslavia with the main objective of further developing the Exchange. During 1995 we had further increase the turnover on the Exchange. The turnover in this year amounted to 718 million dinars - the turnover doubled with respect to 1994 (6, p.6).

During 1996 was coming to further expansion in trading at the Belgrade Stock Exchange. The turnover realized at them during this year amounted to 2,2 billion dinars

and its value tripled in comparison to the value of the turnover realized in 1995 (1, p.7). New trading instruments such as the bonds of the National Bank of Yugoslavia and the commercial papers issued by the Serbian Agency for Commodities Reserves were introduced to trading at the Exchange. The trading is performed on the new Trading Floor, which was officially opened on July 2, 1996. The Floor had been designed in compliance with the world standards applying to trading floors of the developed markets. 1997 and first half year 1998 characterized further advancement trading and increased the turnover.

One of the most important job which the Exchange accomplished is registration the securities. So, if some enterprise, bank or other financial organization want to sale its securities trough the Belgrade Stock Exchange, it have to ask to the listing department, where begin the procedure of admission its securities to listing.

3. MEMBERS OF THE BELGRADE STOCK EXCHANGE

Organization structure of the Belgrade Stock Exchange is based on the principle of member firms. Trading at the Exchange is performed by legal entities that have been registered for the business of interference in the purchase and sale of the instruments traded on the Exchange in accordance with provisions of the Act of Exchanges and Broker and Dealer Organizations (1, p.7). The registered intermediary firms must also meet the requirements set by the Articles of Association of the Exchange and the Board of Directors must approve them as members. As Exchange members they may act as brokers or as dealers. Banks, Postal Savings Association and insurance companies may also become members of the Exchange if they have been approved by the National Bank of Yugoslavia for the business of interference in the purchase and sale of the instruments that are traded on the Exchange.

The Belgrade Stock Exchange has twenty members, including five banks and fifteen broker and dealers (8, p.3 and 4). All members of the Exchange are entitled to equal rights and obligations.

The Stock Exchange members are entitled to:

1. Participate through their brokers in trading sessions organized by the Stock Exchange;
2. Perform transactions using facilities and equipment provided by the Stock Exchange in compliance with provisions prescribed by the Stock Exchange rules and regulations;
3. Use the Stock Exchange information system;
4. Have equal access to all information relevant for trading at the Stock Exchange;
5. Other rights determined by provisions of the Belgrade Stock Exchange rules and regulations.

The Stock Exchange members have following obligations:

1. To subscribe an annual fee, transaction commission fee and other fees as determined by the Stock Exchange Board;
2. To conduct their business at the Stock Exchange in good faith and to the best of their abilities;
3. To adhere to the rules of discipline and comply with the Exchange rules and

- provisions stipulated by the Exchange governance;
4. To restrain from malpractice regarding unpublished information which is not generally available to the investing community;
 5. Other obligations determined by the Stock Exchange rules and regulations and determinations of the Board.

All the Stock Exchange members transact their business through their registered representatives who are qualified pursuant to the relevant Yugoslav laws and the Stock Exchange rules and regulations and approved by the authorized body for the business of interference in the purchase and sale of financial instruments that are traded at the Exchange and for providing information and advise to the investing community. On April 30, 1998 the Belgrade Stock Exchange had 20 registered members.

The Stock Exchange members trading through their legal brokers, who if want to trade on the Exchange must have permission for trading of the Board of Directors.

On the Belgrade Stock Exchange exists:

- **The brokers of the Exchange** - they interfere between the brokers of the members in concluding sales contracts and evidence that changes,
- **The brokers of the Members** - they conclude contracts of purchase and sale securities for account members of the Exchange over the exchange brokers on the floor and outside of floor mutually or with independent brokers,
- **The independent brokers** - which are entities have permit for OTC trading from the exchange agent,
- **The exchange controllers** - they control work and conduct the members of the Exchange, they care about regular use the Exchange rules, making and announcement security prices, discipline on Exchange appointment and application all obligation and authorities members of the Exchange and
- **The exchange visitors** - which are entities had the permission for presence on the Exchange from the Board of Directors.

4. TRADING ON THE BELGRADE STOCK EXCHANGE

The Belgrade Stock Exchange as organized financial market, by using modern exchange trading methods and computers technology provides essential prerequisites for investing in securities which standing on its listing. On the Belgrade Stock Exchange there are eight departments: trading department, listing department, clearing and settlement department, information department, marketing department, finance department, legal department and general affairs department.

The Belgrade Stock Exchange is established for organized trading with:

1. deposits money, bills of exchange, cheques, short-term securities, gold and other precious metals,
2. foreign currencies,
3. capitals, shares and long-term securities,
4. Financial derivatives and commodities.

The trading is performed on the new Trading Floor, which was officially opened on July 2, 1996. The Floor had been designed in compliance with the world standards applying to trading floors of the developed markets. Each instrument is traded at the

exact location on the Floor, at one of the three trading posts. The brokers of the Exchange, acting as intermediaries in the purchase and sale performed between the brokers of the Members, record all bids and offer and provide conditions for orderly trading. Thirty boxes that are located around the walls of the Trading Floor are at the disposal of the Members. The quotation is done by auction, with the last sale price from the preceding trading session as the opening price level for quotation at the next trading session. The information on all bids and offers is shown on the screens located on the Floor. The state of the art technology and the appropriate software provide conditions for the efficient execution of orders and they have been designed to meet both the present and the future needs of all participants in trading at the Exchange. The linking of the electronic trading system with the system of clearing and settlement which will enable the computerized transfer of information required for the processing and maintenance of records, is planned to be realized in the next development phase.

By its role in financial system the Belgrade Stock Exchange is primary present the secondary market. However, for want of long-term financial instruments and investor interest for long-term investing, on the Belgrade Stock Exchange is successfully organized trading of short-term financial instruments in last five years primary for maintenance of the present liquidity.

As we can see for 1993 is characterized that in the structure of the turnover, the commercial papers of companies participated with 55%, the commercial papers of banks with 40,4% and the government bonds with only 4,6%. Due to the market conditions their maturity ranged from 3 to 30 days (3, p.8).

The trading in 1994 was performed mainly with short-term securities and commercial papers of tanks and companies prevailed. In the structure of the turnover, the commercial papers of companies participated with 71%, the commercial papers of tanks with 27% and the government bonds with only 2% (5, p.8).

In 1995 the most frequently traded instruments were commercial papers of companies and banks. Due to the market conditions their maturity ranged from 7 to 60 days. By the end of year on the Belgrade Stock Exchange began trading with the bonds of the National Bank of Yugoslavia. In this period began, too, trading with commodities through trading with commercial papers issued by the Serbian Agency for Commodities Reserves (6, p.10).

During 1996 dominantly place in the overall turnover realized on the Belgrade Stock Exchange were entitled the bonds of the National Bank of Yugoslavia with 44%. After those were the commercial papers of companies with 35%, commercial papers issued by

The Serbian Agency for Commodities Reserves with 15%, commercial papers of banks with 5% and deposit certificates with 1% (1, p.7 and 8).

In 1997 we had wealthy supply of securities on the Belgrade Stock Exchange. If we observe the turnover structure we can see that the bonds of the National Bank of Yugoslavia participated with 38%, commercial papers of companies with 31%, the bonds of the Federal Republic of Yugoslavia with 15%, shares with 7%, the bonds issued by the Serbian Agency for Commodities Reserves with 5%, the commercial papers issued by the Serbian Agency for Commodities Reserves with 2% and commercial papers of banks with 2%, too (8, p.4).

The Securities Quotations Committee is in charge of granting approvals for listing of long-term securities and the Short-Term Securities Committee approves short-term

securities for trading at the Exchange. The Board of Directors of the Exchange appoints both Committees. Each issuer applying for admission of his securities to listing must comply with the provisions prescribed by the Federal Securities and Exchange Commission and by the rules and regulations of the Exchange. Along with the request for admission to listing, each issuer must also submit an approval to issue the securities for which the listing is requested and other documents prescribed by the Rules of the Exchange, in order to prove the compliance with the strict criteria established by the Exchange. Upon being approved for listing, each issuer must regularly submit to the Exchange the annual and periodical reports and the report of the authorized auditor, as well as other relevant information and documents pertaining to the issuer's business and the securities listed at the Exchange. The Listing Department, operating within the Exchange, is in charge of monitoring the day to day liquidity of most of the banks and especially of those participating in everyday trading performed at the Exchange.

During this years the operations of clearing and settlement were further developed and as the integral parts of the trading performed at the Exchange, they included the uniform handling of securities, their safekeeping and servicing of all transaction contracts concluded at the Exchange. The basic operations covered the settlement of financial obligations of all participants in trading at the Exchange, closing of open positions at the participants in trading deposit accounts, the safekeeping and servicing of securities deposited as collateral and the issuing of receipts for the securities deposited as collateral. They also included the day to day monitoring of the execution of all transaction contracts signed at the Exchange and the processing of the data required for the record keeping and various reports to all participants in trading and the public in general. If we want to illustrated the work this department, we can take facts from 1996, when nearly 8.000 transaction contracts were settled through this department and nineteen contracts on custody of securities were signed at the Exchange (1, p.9).

The information system of the Exchange has been created in the manner which provides the synchronized transfer of trading information from the Trading Floor to the Clearing and Settlement Department and further processing of the data required for the book keeping and maintenance of records and for the preparation of reports which are distributed to the media. The daily and weekly reports prepared feature the accumulated

Trading information on the volume, the value and the structure of all transaction contracts signed at the Exchange. The reports also include the trading information on the contracts signed outside the Exchange.

During 1995 the Exchange has recently established the short-term securities index. The index is based on the contracts signed in the short-term securities. The short-term securities still rank as the most actively traded instruments at the Exchange and they reflect in the best way the relationship between the commercial banks and companies performing on the local financial market. The movement on the interest rate, the dates of maturity and the value of contracts has been used as a basis for calculation of this index.

The Belgrade Stock Exchange initiated and actively participated in the establishment of the Association of the Exchanges and Dealers and Brokers, whose members focus their activities on promotion of the exchange trading and enhancing of principles of ethical conduct. As one of the major institutions of the Yugoslav financial market, the Exchange has played an important role in the renewal and broadening of contracts with the institutions from the securities industry abroad. By the exchange of all kinds of

information's, reports and other publications, the Belgrade Stock Exchange has provided the basis for future cooperation with foreign exchanges, brokerage houses and other institutions from the world financial markets for the purpose of creating the appropriate conditions for transfer of knowledge and technology which is required for development of exchange trading in our country. The Belgrade Exchange is a correspondent member of FIBV - the Federation of the Stock Exchanges from Paris and our representatives has been invited to participate in numerous activities of FIBV and its Working Committees. The Exchange has also established the cooperation with the individual members of the FIBV.

As we can see from previous analyses about trading with long-term debt and equity securities on the Belgrade Stock Exchange we couldn't talk, because at this segment of the financial market didn't yet crystallized participants, issuers and characteristic group of investors (9, p.345). But, how the ownership transformation process is ahead of us it's real prediction that it would be this market instruments very fast make, and than we'll have long time expecting instruments for primary and secondary capital market. However, if we talk about short-term instruments (deposit money and short-term securities - treasury bills, government bonds, commercial papers issued by the National Bank of Yugoslavia, commercial papers of companies, commercial papers of banks, bills, certificate of deposit and so on), that's mechanism lives in practice but in wrong way. Namely, the Act on Exchanges and Broker and Dealer Organizations make it possible existence not only OTC market (over the counter market) than so-caller free over the counter market, too, which has dominantly position in our reality. Here we should add that the division of the exchange trading and over the counter trading isn't connect with quality of trading instruments, i.e. with liquidity of certain securities. As consequence of this condition there is segmental and informally money market.

5. CONCLUSION

The development of the Belgrade Stock Exchange is closely connected with the development of the entire financial market. The primary objective set by the Exchange is to meet the growing needs of domestic enterprises, banks, the state and other market participants. The Exchange is making numerous efforts that are directed at the diversification of trading instruments and the increase in the number of market participants. Previous and necessary condition for further development the Belgrade Stock Exchange is the privatization process. At the same time with this process, we have to introduce our public with advantages, which financial market give us versus traditional financial structure, where we haven't financial market. So, we can conclude that our only way is way of changes, which lead us to better futures.

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BEOGRADSKA BERZA - EMBRION FINANSIJSKOG TRŽIŠTA U JUGOSLAVIJI

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Iako se ideja o osnivanju berze u Srbiji pojavila još 1830. godine, Beogradska berza osnovana je 1894. godine. Na ovoj opštoj mešovitoj berzi trgovalo se akcijama, obveznicama, produktima i stranim valutama. Njen rad prekinut je aprila 1941. godine, a formalno je prestala da postoji 1953. godine. U decembru 1989. godine u Beogradu je ponovo formirana berza pod nazivom Jugoslovensko tržište kapitala - Beograd, a od 1992. godine posluje pod nazivom Beogradska berza. Na njoj se trguje, pre svega, kratkoročnim hartijama od vrednosti.