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PUBLIC POLICY DOCUMENTS

BRIEF OVERVIEW OF PARTICULAR ELEMENTS OF THE CAPITAL MARKET DEVELOPMENT STRATEGY (2021): ADJUSTMENT OF INSURANCE INDUSTRY TO EUROPEAN UNION STANDARDS

In the last quarter of 2021, the Capital Market Development Strategy for the period 2021–2026 was adopted, as well as the accompanying Action Plan, which concerns the period from 2021 to 2023.[2] In this text, particular elements of that strategic document will be briefly presented, with a focus on the area of insurance business.

The capital market is of great importance for the economic progress of a country and is one of the priorities of European integrated projects. For many years, and especially during the last decade, the European Union has been trying to create a single capital market based on the unhindered mobility of capital, both savings and investments. It is believed that the removal of the remaining barriers to this extent would contribute significantly not only to the cohesion of the market, but also to the realisation of the potential for accelerated development in certain segments.

As stated in the first section of the abovementioned strategic document, one of the most prevalent metrics for the gradual development of the capital market is the percentage of market capitalization in GDP. According to the mentioned data, the European Union's share of market capitalisation in GDP is 51.6%, with considerable disparities between the two Member States. While this share is 10.3% in Romania, it is as high as 84.9% in France. Serbia's market capitalisation is slightly lower than that of neighbouring Romania (9.6%), and therefore much below the

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[2] Ministry of Finance of the Republic of Serbia, Public Policy Documents, 2021, *https://mfin.gov.rs/sr/dokumenti2-1/strategija-za-razvoj-trita-kapitala-za-period-2021-do-2026-godine-1*, accessed on: 20. 1. 2023.

European average. Although this is not unique to Serbia, the potential for capital market development remains significant.

As for the links with existing norms and policies, there are a lot of legal acts that regulate areas within the scope of the strategy. In addition to the Law on Voluntary Pension Funds and Pension Plans (*Official Gazette of the RS* No. 85/05 and 31/11) and the Insurance Law (*Official Gazette of the RS* No. 139/14 and 44/21), which directly regulate the insurance industry, there are also a large number of regulations: the Law on Capital Market, the Law on Privatisation, the Company Law, the Law on the Protection of Financial Service Consumers in Distance Contracts, the Law on Financial Collateral, the Law on Commodity Exchange, the Law on Accounting , the Law on Audit, the Law on Open-Ended Investment Funds Subject to Public Offering, the Law on the Prevention of Money Laundering and the Financing of Terrorism, the Law on Takeovers of Joint Stock Companies, the Law on Alternative Investment Funds, the Law on Digital Assets, the Law on Banks, the Law on Payment Services, the Law on Bankruptcy, the Law on Foreign Currency Transactions and the Law on Public Debt.

As further stated, the capital market development strategy is connected to the fiscal strategy of the Republic of Serbia (for 2022, with projections for 2023 and 2024), as well as the industrial policy strategy of the Republic of Serbia for the period up to 2030. While the fiscal strategy calls for a number of activities to improve the securities market and the functioning of financial bodies, the banking sector, and deposit insurance, the industrial policy strategy focuses on the use of financial incentives to promote digitalization and innovation in the industrial sector. The aforementioned regulations are guided by the acquis of the European Union, specifically the following: Directive 2002/47/EC on financial collateral arrangements, Directive 2014/65/EU on markets in financial instruments, Directive 98/26/EC on settlement finality in payment and securities settlement systems, Regulation (EU) No. 909/2014 on improving securities settlement in the European Union and on central securities depositories, Regulation (EU) No. 600/2014 on markets in financial instruments, Regulation 648/2012 on OTC derivatives, central counterparties and trade depositories, the investor compensation scheme Directive 97/9/EU, Directive 2010/73/EU on the prospectus to be published when securities are offered to the public or admitted to trading, Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, Directive 2014/57/EU on criminal sanctions for market abuse and Directive 596/2014/EU on market abuse. Monitoring European practice in the segment of capital market development reflects Serbia's ambition to meet the criteria for accession to the European Union in the foreseeable future.

Moreover, referring to the analysis of the European Bank for Reconstruction and Development, it is noted that developed capital markets make more appropriate use of savings in the capital market, while at the end of the last decade only 2.3%

of total Serbian savings were channelled to the capital market (e. g. through pension or mutual funds). The intention is to more than double this share and reach 5% of total savings by 2023. However, given the extremely turbulent multi-year period marked by the negative economic consequences of the Covid-19 pandemic and the war in Ukraine, it is not entirely certain, a little more than a year after the adoption of the strategy, to what extent these expectations will be fulfilled.

In terms of financial sector structure, the dominant concentration of capital in banks in Serbia is obvious. In 2019 (and 2020), the banking sector's assets were around 80%, the stock market's market capitalization was 11%, and the insurance sector's assets were less than 6%.

Taking into account European practise, financial policymakers believe that voluntary pension funds can play a much more prominent role in the capital market. Although this sector is stable, it has the potential to grow more dynamically, and the goal is to encourage these funds to invest in a broader range of securities while also adjusting investment restrictions. The same holds true for insurance companies. While insurance companies' portfolios increased from around 300 billion dinars in 2019 to around 314 billion dinars in 2020, they are not inclined to invest in shares (only about 1% of the portfolio is represented in that segment), and diversification in terms of investment could contribute to higher profits and a better market structure in that domain.

The primary goal of the strategy is to promote economic development, improve quality of life, and create jobs. The participation of market capitalization in Serbia's GDP (in relation to the values of the action plans) will be monitored as a key indicator in this regard. A specific goal is to create a more efficient institutional and legal environment for attracting investments, as well as a better and more sustainable functioning of the capital market, which will be followed by an increase in the number of capital market participants (according to the projections presented in the action plans).

Sources

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