DEVELOPMENT OF THE EUROPEAN FINANCIAL SYSTEM: CHALLENGES FOR THE BALKAN COUNTRIES INTEGRATION PROCESS[1]

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Abstract:

The goal of this chapter is to point out the core changes in the development of the European financial system in the past several years. A number of factors have influenced these processes, such as: the aspiration of the European Union for increase in competitiveness of its own economy, negative effects of the first wave of the global economic crisis, its mutation and outbreak of the second wave coupled with problems of public debt of some EU member states, the crisis of common currency euro, etc. All changes in the EU have significant implications and create new challenges for the countries of the Western Balkans, which are undergoing different stages of the process of the European Union integrations. We shall observe occurrences in the European financial system in the three directions – through adopting new regulations, creating new institutions and rising ethical standards. Common characteristics for countries of the Western Balkans region are that they are at a lower level of economic development and overall competitiveness of economy, as well as less developed financial systems. The surveys we conducted have shown that they were more affected by the impact of the global crisis than many of the EU nations. Countries of the region have reacted differently to negative impacts from the global environment, mainly within the field of regulative adaptations. In that manner, they have followed up flows of regulatory reforms of the European financial system. However, in the

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fields of creating new institutions, rising of ethical standards and regional cooperation, the changes were taking place at much slower paste.

***Key words**: European financial system, European integration, financial markets, MiFID, ESMA, EBA, EIOPA*

INTRODUCTION

Financial systems as constituent part of economic system of each country are dynamical, open and complex by their nature (*D. Erić, 2003*). Such characteristics enable them to react quickly and adapt to changes in external environment. However, it makes them more fragile to impacts from international markets. A typical examples are the problems with mortgage backed securities that started during 2007 on financial markets of USA, upon which the „infection“ has very quickly „spread over“ to other countries. That has brought to the outbreak of the first wave of financial crisis, which assumed global scales, particularly upon September 15, 2008 and the bankruptcy of the well-known investment bank called *Lehman Brothers*. The effects of the crisis transferred from financial to real sector as well, which caused slowing down of economic growth in a large number of countries in the world, including the European Union member countries (EU), too, as well as the countries that seek to become a part of the EU.

During the course of the year 2010, there was a slight recovery of the leading stock exchange indices on the global financial market, therefore many people thought that more persistent recovery of the world economy would follow. It seed as if the „virus“of the crisis has mutated and transformed into crisis of debts and public finances. It started with the problem in Island and very soon Greece followed, as well. The five EU countries were affected by this wave of crisis. Some of them have been trying to find solutions for more than two years. The problems in this group of countries, known under acronym PIIGS (Portugal, Italy, Ireland, Greece, Spain) have also had the impact on weakening of the common European currency – the Euro. Many dilemmas and debated have emerged, including also those related to the future of the very EU.

The development of contemporary European financial system has been under influence of at least two groups of factors in the past several years. On the one hand, these are strategic documents related to the EU development. Above all, it is the Lisbon Agreement and the vision of the leading economic forces of the world until 2020, which would be achieved through the increase in competitiveness of the EU economy and strengthening of the uniform European market. The second group of factors is related to the impacts and implications of two waves of the global financial crisis that have created certain problems in functioning of the European Monetary Union (EMU). We can freely say that the European financial system is at its turning point and still in the stage of completing. It begins to assume elements of the uniform system, especially in the countries that belong to the EMU and use Euro. On the other hand, there are elements of decentralization, especially in the segment of functioning of fiscal systems, as well as financial markets. Many analysts have perceived just in these characteristics of the European monetary system possible causes of problems, which the EU has faced since 2010, i.e. from the outbreak of the so-called second wave of the economic crisis.

In this chapter, we shall try to indicate the core directions of the development of the European financial system, in the first place through the changes on financial markets. There is an aspiration towards further harmonization of national regulation, easier access to financial assets and capital and creating of unique European financial market. In that manner, the European financial space would unite even more and realizing of the Lisbon declaration goals would be made possible. Unfortunately, these processes took place under the impact of the two waves of the global crisis. The first one, in the period 2008-2009, was caused outside the EU; consequences were transferred from the global market, where some European banks suffered losses in portfolios invested on the US mortgage market. That had implications on the stability of some financial institutions in the EU, in the first place of some banks. The scales of losses and problems were such in some countries that they required the state intervention. It was shown that although painful, these consequences were not even close to drastic ones such as those brought by the outbreak and the strengthening of the second wave of the crisis.

Global impacts on the European financial space caused many dilemmas and debates, which has brought into question even the future of the united European financial system and common currency. The question arose whether changes should have a trend of „more or less of Europe“, i.e. whether to go to even bigger centralization or decentralization of financial systems. Greek debt, as well as the issue of debt in Italy, Spain, Portugal and Ireland brought into question even the survival of the Euro currency. It was claimed that German Mark would be returned as the national currency. Debates were held even in the aspect of what economic policy the EU needs – the one that points out the foreground measures of rigorous saving or the one that should encourage consumption and economic growth. Sometimes all dilemmas that the Europeans are faced with resemble a chaos, in which there are many open issues and challenges.

Without any pretension to find answers to numerous questions, this chapter focuses on a few changes in the European financial system, which in the first place refer to what happened on the financial markets. We have indicated in the analysis the three types of changes – legislation, creating new institutions and rising ethical standards and business conduct. Adopting of MiFID legislation and implications that it had on regulatory reforms of the Western Balkans region will be in the focus of the analysis. This group includes the following countries - Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Albania and the Former Yugoslav Republic of Macedonia. For the needs of the analysis and comparison, we also used a few neighbouring countries in the region, which are the EU member states. These are Slovenia, Bulgaria, Hungary and Romania. With the exception of Croatia, which will become the member of the EU by July 1, 2013, other countries are in different stages of the EU accession process. Their common characteristics are a low level of economic growth and relatively undeveloped financial systems. They are all oriented towards the EU integration processes declaratively, but they face different challenges.

Besides introduction and closing considerations, this chapter consists of three parts. The most significant regulatory reforms within the EU financial system will be considered in the first one. We shall indicate the three core areas of development – legislation, regulatory authorities, bodies and institutions and rising ethical and professional standards. The second part is dedicated to the analysis of impact of the global crisis on the Western Balkans countries and some EU countries. In this part we try to point out what was done in the region on following up trends of development of the European financial system. Generally speaking, the third part will be dedicated to the analysis of the efforts these countries make in the processes of the European integrations in financial sphere. A number of challenges exist in the development of financial systems of these countries. The majority is firmly on the way of the European integrations; therefore big efforts are made in terms of compliance and harmonization with the EU standards. In this part, we shall try to identify the most significant achievements, but also some open issues and problems.

THE MOST IMPORTANT REGULATIVE REFORMS WITHIN EUROPEAN FINANCIAL SYSTEM

The period between 2007 and 2012 will be recorded in business aspect as one of the most dynamical periods in the latest history. In only five years, two waves of the global financial and economic crises broke out. The first one burst out in the US with problems on mortgage market and very fast affected many financial institutions, which had invested mortgage backed securities, collateralized debt obligation (CDO), credit default swaps (CDS) and other innovations that were created by the process of securitization. Many authors claimed that in the way in which the American financial system was functioning in the past twenty years, a lot of causes of global crisis may be found (*W. Fleckenstein, 2008, P. Krugman, 2008, C. Morris, 2008*). This wave of crisis had deep consequences that reflected in losses of numerous European banks. The governments of some countries reacted slightly atypical for market method of functioning of economy – by state interventions, which resulted in numerous controversies. The crisis has very quickly indicated entire heterogeneity of the European Union (EU) and non-homogeneity of the European financial system. In certain cases, even a sort of „economic nationalism" (*D. Erić, 2010*) could be noticed, which was reflected in the fact that it was more important for each country to protect its own interests of national market than take care of „higher" interests of „European" market. Instead of Europeisation, we were witnesses in some cases of a sort of not only fragmentation, but also localization, especially with regard to functioning of financial markets.

And while it has been looking with one eye in Europe towards the US, and with other eye towards global flows, the European financial system was affected by the second wave of the global crisis, which has shaken the foundations of the very Europe. Even before the outbreak of the second wave, there was a series of open issues, which required to be solved on global level, and some of them are as follows: trade of derivates (especially structured products), regulating of hedge funds operation, over the counter trade, short sale, Basel III and IV, etc. Nevertheless, apart from them,"pressing" debt problems of some countries appeared, in the first place from the PIIGS group. Non-compliance of some elements of financial systems has brought in danger even the future of the common currency.

Upon negative consequences of the first wave of global crisis, the European Parliament required additional amendments in the European financial system. The trend was towards higher integration of the EU financial space, reducing risk, strengthening of unity and increasing of transparency. Within this chapter, we direct the focus of our analysis to three directions of action within development of the European financial system:

- I – Adopting new legislation,
- II – Creating new regulatory authorities, bodies and institutions,
- III – Rising ethical standards.

I – New legislation – In the abundance of changes within European financial system, the special attention will be paid to those changes that refer to regulating European financial markets. Contrary to the US, in which comprehensive capital market and financial system exist, that is more market-oriented, bank-centric financial systems that dominate in the EU and differences among countries are bigger. Changes in functioning of financial market had trend of creating the so-called "single rule book", unique rule codex on the EU level. Instead of former system of directing local regulators by directives, a new approach has been suggested through single rules and greater compulsoriness in their implementation and respect.

In any case, the most significant regulating change in functioning of the European financial system related to functioning of capital is represented by Markets in Financial Instruments Directive (MiFID). MiFID was officially adopted by the European Parliament and Council in April 2004, with the obligation for rules to begin to be implemented from November 1, 2007. It has been emphasized in official documents that basic goal of MiFID is "*to foster a fair, competitive, transparent, efficient, and integrated European financial market by providing a regulatory environment that (i) offers high-quality investor protection and (ii) allows for the creation of new markets and services*". MiFID has replaced the Investment Services Directive (ISD) which was adopted in 1993. The issue is about a new type of legislation, which should create a fair, level playing field for the different types of trading platforms. Besides, the bases for establishing quality relations between financial intermediaries and their clients are created. MiFID represented the basis for harmonisation of similar rules in the entire EU territory. This is especially significant for the countries that are candidates for the EU membership, more of which will be considered in the continuation of the chapter.

MiFID followed up the so-called Lamfalussy process, which was developed in March 2001, by Alexandre Lamfalussy, the presiding of the EU advisory committee at that time. The entire process consists of four "levels," each focusing on a specific stage of the implementation of legislation. Those four levels are:

- Level 1 – refers to MiFID, which should provide legislative framework. At this level the European Parliament and Council of the European Union adopted a piece of legislation, establishing the core values of a law and building guidelines on its enforcement.
- Level 2 – related to the implementation measures and details how the MiFID will work in practice. With the aim of realisation of this role, special specific institutions were created, which should provide assistance - committees and regulators. One of particularly significant institutions, which had the central role in processes of regulating financial markets, was the Committee of European Securities Regulators (CESR). Already with the outbreak of the first wave of the global financial crisis, it has been shown that competencies of CERS were not enough in practice, especially not on the international level.

- Level 3 – refers to the level of national regulatory authorities. It is expected from them to coordinate, with assistance of other European institutions, new legislation with other countries. For example, CESR assists at Level 3 by translating the first two levels into national law and keeping an eye on harmonization.
- Level 4 – involves compliance and enforcement of the new rules and laws. It includes supervising the consistent application and enforcement of these laws by the European Commission.

The Lamfalussy process has been intended to provide several benefits over traditional law making, including more-consistent interpretation, convergence in national supervisory practices, and a general boost in the quality of legislation on financial services. MiFID as a direct result of that process should have led to breaking off the "concentration rule" which existed under the ISD system, which means that trading with securities was prevailing on the leading national stock exchanges. There are surveys which show that the development of financial markets in France, Spain, and Italy was heavily influenced by the concentration rule *(R. Davies, A. Dufour & B. Scott-Quinn, 2005, R. Davies, 2008*). In case that there was not the concentration rule, trading with financial instruments could be done on any trading platform allowed by MiFID. In some other countries, in the first place in Germany, the so-called "default rule", is valid "*which requires financial intermediaries to execute orders on an exchange unless an investor opts out*" (*Gomber & Gsell, 2006*).

Some of the challenges in legislation of contemporary European financial systems, especially in the domain of development of financial markets are related to following issues:
- Less directives, more legislation and united rules – above all with the aim of further uniting the uniform European capital market,
- Increase of transparency – as a priority goal for all institutions and stakeholders,
- Reduction of risk in market structures,
- Improvement of institutional frameworks – creating safer legal environment,
- Better coordination of work of regulatory authorities and simultaneous implementation of single rules in all countries.

II – Creating of new regulatory authorities and institutions - The Lamfalussy Process has not envisaged only creating of new legislation, but also new regulatory authorities. It even caused certain controversies in relations between the highest European institutions, before all the Council of the EU and the European Parliament. The effects of the first wave of global financial crisis resulted in making resolutions during 2010 on forming the three important

European institutions, which should have contributed to further uniting of the European financial system. These are as follows: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pension Authority (EIOPA).

European Banking Authority (EBA) was established by Regulation No. 1093/2010 of the European Parliament and Council of November 24, 2010, and it began with work on January 1, 2011 with the seat in London. It replaced former institution in the field of banking under the name of the Committee of European Banking Supervisors (CEBS). Basic fields for action of EBA are directed towards realising the stability of financial system, transparency of markets and financial products and protection of depositors and investors (*www.eba.europa.eu*).

Creating of EBA represented a huge step forward towards uniting of the European banking system. The activities of EBA also envisaged strengthening of international supervision, consulting services in the field of banking, payments, e-money, as well as fields of corporate governance, auditing and financial reporting. Some of latest issues on which EBA worked in the past several months included preventing regulatory arbitrage, implementation standards on supervisory reporting, regulation on technical standards, etc. Since the institution which existed only a year is considered, the term is too short for giving general assessment about its work.

The European Securities and Markets Authority (ESMA) – should have begun with work on January 1, 2011, but that has happened with several months delay. It was created instead of the aforementioned Committee of European Securities Regulators - CESR (*www.cesr-eu.org),* which existed since 1993 with the seat in Paris. It can be said for ESMA that it *"is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection" (www.esma.europa.eu).*

ESMA should take over some competencies of national regulators of capital markets. Apart from the role in harmonization and regulation of operating on capital markets, this institution would have the authority and responsibility to react to urgent and sudden situations. In that manner, it would contribute to enhancement of the level of homogeneity within overall European financial system. One of particularly important issues which were discussed was related to the field of the financial reporting. ESMA discussed the involvement of investors in the IASB's process of standards setting. To enhance the usefulness of financial information for decision making, it is important for ESMA that investors' needs are duly considered during that process.

The European Insurance and Occupational Pension Authority (EIOPA) – represents the third European supervisory authority. It was formed at the same time as ESMA and EBA, is located in Frankfurt, and represents integral part of the supervision reform of the European financial system. As the other two institutions, it is in charge of stability of financial system, and transparency of markets and financial products. Its specialty is related to performing basic functions of the protection of insurance policyholders, pension scheme members and beneficiaries. As the most important goals of EIOPA are (*www.eiopa.europe.eu*):"*better protecting consumers, rebuilding trust in the financial system, ensuring a high effective and consistent level of regulation and supervision, greater harmonization and coherent application of rules for financial institutions and markets across EU, strengthening oversight of the cross boarder groups, and promote coordinated EU supervisory respond.*"

By creating ESME, EBA and EIOPA in the beginning of 2011, a new architecture of the European financial system was formed, which is sometimes called the European System of Financial Supervisors or abbreviated the EU Authorities. The basic idea was to get a greater role and more power in the field of control and supervision of the unique European financial space.

MiFID represents a huge step towards uniting of the European financial markets. By their adoption, bases for abandonment of "the concentration rule" were created, i.e. they allow other trading platforms to compete with regulated markets for capital flows. Besides regulatory authorities, MiFID has created basis to form new institutions. We may freely say that stock exchanges are getting competition in contemporary conditions. Former relating of the conception of stock exchange to exactly specified place, time and space has been replaced by big electronic systems nowadays. On the basis of MiFID provisions, the basic types of organization of trade have been anticipated, as follows:
- Regulated markets (RM) such as former stock markets - managed by market operator,
- Multilateral Trading Facility (MTF), and
- Systematic Internaliser (SI).

The first two, "Regulated Markets" and "Multilateral Trading Facilities (MTFs)," are "*multilateral systems operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments*" (*Official Journal of the European Union L245/10*). A regulated market, moreover, has clear and transparent rules regarding the trading of financial instruments. The third system is a “systematic internaliser (SI).” This is an “*investment firm, which on an organized, frequent and systematic basis deals on own account by executing client orders outside a regulated market or multilateral trading facility*.”

National regulators grant permission for work of any market type, such as, for example, the Securities Commissions. Since MTF provide similar services like stock exchanges, they are also called by the conception of “exchange lite". Market operator has to ensure that only securities having specified quality may show up on this market. There is a listing process which resembles to procedures that exist on official stock exchanges. As well as for stock markets, the transparency is important for MFT both before, and after trading. Prices must be published in public every day. Several obligations have been anticipated with regard to MFT in order for them to operate:

- *It must be pre-trade transparent, the price of existing orders must be made available on market data feeds.*
- *It must be post-trade transparent, any trades carried out on the platform must be published in real-time.*
- *Prices and charges must be public and applied consistently across all members.*
- *There must be a rulebook advising how the system works and a means for applying for membership* (*www.effas.ne*t).

New regulations and new regulatory authorities have quickly brought to an increase in competition on the European capital markets. Namely, upon only several months, the first very successful MFTs have appeared, such as the Instinet Chi-X, Project Turquoise and BATS. All aforementioned had as a result higher market liquidity, lower scopes and greater competitiveness in collecting finance assets (*H. Degryse, 2009, pp. 93*).

III – Rising of ethical standards – The greed surely represents the word which is found in the basis of the most financial crises. It would be hard to say that it also did not influence the outbreak of the first wave of the global crisis in 2007-2008. In searching a way to build up efficient and transparent financial system, only legislation and regulatory authorities are not sufficient. It is also necessary to raise the level of business ethics on financial markets. Special attention is particularly paid to that issue, too, within development of contemporary European financial system. At the same time, it should be taken into account that there are at least three levels of ethical action – on the level of comprehensive market, institutions and individuals. Relevant effects can only be achieved through synchronised action on all three levels.

As one of especially significant examples in this field, we point out to the activity of the European Federation of Financial Analysts Societies (EFFAS), which adopted on its Annual General Meeting in 2011 *EFFAS Principles of Ethical Conduct* (PoEC). Upon ratification, many national associations of financial analysts throughout Europe began to implement them or to develop their own code of conduct, which is in compliance with general principles.

IMPACT OF GLOBAL CRISIS TO THE DEVELOPMENT OF FINANCIAL SYSTEMS OF COUNTRIES OF THE WESTERN BALKANS REGION

We have already pointed out that the development of the European financial system has been under the influence of at least two groups of factors – strategic documents of EU and impact of two waves of the global crisis. These factors have also had significant influence on development flows of financial markets of Balkans countries, with some differences. Namely, the European integrations represent one of political and economic priorities for the entire region. Therefore these countries followed recommendations and requirements that were on that way. In the domain of financial systems, they referred in the first place to relevant legislative adaptations. Consequently, instead of the EU strategic documents, factors of the European integrations had primary influence on them. These countries were closely watching all changes within the European financial system, especially in the domain of legislation amendment.

The second group of factors under which the development of financial systems of countries of the Balkans region has been taking place, was related to the impact of negative effects of the global financial crisis. For the needs of this chapter, we have conducted a small survey, the results of which we present in the appendix at the end. We have observed the impact of crisis based on trends of stock exchange indices on stock exchanges of the most developed countries, the EU selected countries and countries of the region. Based on the obtained results, we may conclude that the global crisis affected more the Balkans countries in comparison to the most developed countries. The countries that we have taken into consideration are Serbia, Croatia, Bosnia and Herzegovina, Montenegro and Macedonia. If we take as a basis the day when one of the biggest investment banks became bankrupt – *Lehman Brothers* – September 15th, 2008, we can notice the following:

- Within 9 months, i.e. since September 2008 until June 30, 2009 indices on stock exchanges of the most developed countries fell on average by around 22% (precisely – 21.97%). At the same time, indices on stock exchanges of perceived

Balkans countries fell on average by 34.45%, therefore by around 12.5% more. In addition, we have to point out that the fall was not even. The index of Belgrade Stock Exchange had the biggest fall – Belex15 and it was 55.79%. Somewhat lesser was the fall of Macedonian Stock exchange in Skopje and it was 46.68%. Among other stock exchanges in the region, a similar one, the index of Sofia Stock Exchange had also big fall which was 61.68%. We note that Bulgaria is the EU member and that it was taken together with Slovenia and Romania only for comparison with the region.

- The year 2009 was exceptionally difficult for entire region. Until the end of that year, the leading world stock exchanges have recovered a little. Compared to the date of collapse of *Lehman Brothers*, i.e. September 2008, total fall of index of this group of countries was only 6.23% as of December 31st, 2009. The leading European stock exchanges had more or less similar trend of index, therefore the fall was less than 10% until the end of 2009. During that period, the observed countries of the Western Balkans did not show any significant recovery. Average fall for all was 30.44%. The fall among the countries had different trend from -13% in the case of Montenegro up to -48% (Serbia). Inglorious record by fall was still kept by Sofia Stock Exchange with the fall of around 54%.

- Judging by trends of stock exchange indices, 2010 was the year of slight recovery. On the leading world stock exchanges, there was a slight growth. If started from base date of our analysis – September 15th, 2008 in the end of 2010 (December 31st), the average of trends of stock exchange indices was positive and amounted to +2.32%. We especially emphasize that two leading European stock exchanges - *Deutsche Borse* and *Euronext* had higher growth than average in developed countries and it was 10.30% and 8.74%. Nevertheless, that recovery did not occur in the countries of the Western Balkans region. In comparison to September 2008, stock exchange indices were on average lower by 32.87%. The greatest fall was experienced by stock exchanges in Belgrade (49.38%) and Sarajevo (45.20%). None the better situation was in two relatively close countries which are in EU – Bulgaria (the fall on Sofia Stock Exchange was 61.08%) and Slovenia (the fall on Ljubljana stock exchange was – 44.39%).

- The results of analysis haves shown that based on trends stock exchange indices for entire region were not any better even in 2011. Average fall in relation to September 2008 has increased compared to 2010 and was -44.26% in total, where falls on three stock exchanges precede – Belgrade Stock Exchange (fall 65.19%), Skopje Stock Exchange (58.42%) and Sarajevo Stock Exchange (54.07%). Aforementioned Sofia Stock Exchange (with the fall of 65.40%) and Ljubljana Stock Exchange (61.44%) do not lag much behind Belgrade Stock Exchange. During those periods, the leading world stock exchanges fell for only 3.23%. A higher fall was noticeable only in the case of *Euronext* stock exchange for 24.76%.

- Trends from 2011 continued in this year as well. Until the completion of preparing this chapter, as of May 31, 2012, an average fall compared to September 2008 was 45.97% for the region. Stock exchanges in 3 countries retained the highest fall – Serbia (the fall of 65.19%), Bosnia & Herzegovina (58.10%) and FYR Macedonia (58.56%). The situation is none the better in Montenegro (the fall of 46.39%), nor in Croatia (48.75). Slovenia and Bulgaria were on the level of average with fall of around 65%.

Based on data on trends of stock exchange indices in countries of the region (detailed information and tables can be found in appendix to this chapter) indicate to unambiguous conclusion – the global crisis has affected significantly more countries of the Western Balkans compared to the world and the European average. There are several possible explanations, some of which indicating lower level of development of financial systems of these countries (*D. Erić, 2010*). In the majority of countries of the region, the process of development of financial systems has not been completed yet. On many stock exchanges (Serbia, Montenegro, Bosnia & Herzegovina) developed bonds market almost does not exist. The majority of countries have only developed equity market, which was formed through processes of the mass privatisation of state and socially-owned enterprises. In the case of fall of prices on equity market, there is no possibility to transfer capital into more secure debt instruments on debt market. That has brought to significant downfall on the leading national markets. Croatia represents the only exception to some extent in which the downfall was slightly lower in almost all observed periods. The existence of relatively developed bonds market represents one of the most important reasons.

CHALLENGES IN DEVELOPMENT OF FINANCIAL SYSTEMS OF COUNTRIES OF THE WESTERN BALKANS REGION

The majority of the countries of the Western Balkans are still in different stages of transition. In these processes, their financial systems are very fragile and sensitive. Political elite of all countries points out declaratively that their strategic orientation is to become a part of the EU within some period of time. Therefore, single financial systems would slowly be included into the united European financial system. However, their development in the last four years was made in conditions of effects of negative impacts from the global environment. The results of our analysis have unambiguously shown that all countries of the Western Balkans were affected by impact of both waves of global crisis. Contrary to some developed EU countries, which had slight recovery during 2010, almost entire region seemed to not recover yet.

Strong influence of the two waves of global crisis, as well as present tendency of development of bank-centric financial systems in countries of the region so far, somehow influences loss of interest for national capital markets. Besides high fall of share prices, the fall of turnover scope and overall liquidity on some national markets occurred as well. In addition, stock exchanges were not observed as media for collecting capital, but prevailingly for concentration of ownership over privatised enterprises. It sounds as a paradox, but in three countries of the region – Serbia, Montenegro and Bosnia & Herzegovina (B&H), in the period of 10 years, only one initial public offering (IPO) being of a smaller scale was realized in B&H. Domestic companies in these countries did not use national stock exchanges as a source to raise capital.

Bank-centric development of financial systems has influenced that banks and bank loans presented dominant sources for business entities. Operations of investment banking have not been too developed, so that bank loans almost had not real competition in finance sources of business organizations. In such conditions, where very bad attitude towards development of capital market and scarcity of finance sources existed, we had poor economic performances as a logical consequence. They have been manifested through low rates of economic growth. In the table below, it is possible to see the trend of growth rates of GDP in period 2007-2011, as well as anticipations for 2012. We see that there was almost no growth or it was very modest. If we add to that a number of structural problems that economies of the countries of this region face, so it is clear to us that the reform of financial system represents one of central issues with the aim of providing more dynamical sustainable economic development in the forthcoming period.

Modest results of economic growth and development show once again unbreakable bond between overall economic development and development of financial system (*R. Kitchen, 1995*). Countries with less developed financial system are economically less developed and vice versa. Less developed countries are more fragile to influences from international environment and do not easily solve bigger macroeconomic problems. Since entire region is undeveloped, as one of the central issues of economic growth and development, therefore even faster accession to the EU, the issue of faster construction and modernisation of financial systems has come up.

Table 1: GDP Growth in Selected Countries – 2007-2012

Country	2007	2008	2009	2010	2011	2012 estimation
Serbia	5.4	3.8	-3.5	1.0	1.8	0.5
Croatia	5.1	2.2	2.2	-6.0	0.0	-0.5
Bosnia & Herzegovina	6.2	5.7	-2.9	0.7	1.7	0.0
Montenegro	10.7	6.9	-5.7	2.5	2.4	0.2
FRY Macedonia	6.1	5.0	-0.9	1.8	3.0	2.0
Albania	5.9	7.5	3.3	3.5	2.0	0.5
Slovenia	6.9	3.6	-8.0	1.4	-0.2	-1.0
Bulgaria	6.4	6.2	-5.5	0.4	1.7	0.8
Romania	6.3	7.3	-6.6	-1.6	2.5	1.5
Hungary	0.1	0.9	-6.8	1.3	1.7	0.0

Source: IMF World economic and financial survey, April 2012

A number of challenges are ahead of the entire region. One of the first in a series is the acceptance of directives within MiFID and Basel II. It is the issue of strategic documents, which almost all countries incorporated into their national legislations. A lot has been done in formal aspect, but problems occur in implementation and particularly in the field of enforcement of law.

Within announced regulatory changes in the countries of the Western Balkans, it is particularly necessary to take into account the existence of problems in relations between legislation and complexity. We have already pointed out that one of characteristics of financial systems is their complexity. The level of complexity grows even more with their development. On the other hand, the more complex they are, financial systems need to be more and more regulated. The higher the level of legislation is, financial systems become even more complex, so that a sort of a magic circle of legislation and complexity is created. Many problems may occur in that point. In the first place, too regulated financial systems begin to be less and less efficient and disable carrying out basic function of flow of financial assets and providing much needed capital to finance economic activity. For its part, too big legislation of financial systems creates the need for flows and trends of deregulation occasionally. Also, it should be kept on mind that too big regulation in one segment of financial market leads to moving of participants to other segments, which are less regulated. Current and still actual global crisis has shown exactly that, which required of many participants and actors to return to some basic principles and issues.

Aforementioned observations on the need to regulate financial systems and their complexity have particularly become important in the region of the Western Balkans. As a typical example, we point out the existence of big differences with regards to legislations and regulators. It is quite clear that relevant differences must exist among countries, as well as that different segments of financial system in some countries have been very differently regulated. Nevertheless, there is a real diversity in regulatory approaches in the observed period. For example, in the Republic of Serbia, the supervision of banking sector, insurance and pension system is carried out by the Central Bank – the National Bank of Serbia. In Bosnia and Herzegovina, there are even 6 regulatory authorities – the Central Bank, the Agency for Insurance Supervision and the Commission for Securities – 2 of each for each of entities. On the other hand, in Croatia, the supervision of insurance, pension funds, investment companies and brokerage houses is carried out by specialised institution, the Croatian Agency for Supervision of Financial Services (HANFA). The overview of different approaches in regulating some segments of financial system and regulatory authorities may be found in the following table.

Table 2: Regulatory authorities on some segments of financial system in the region of Western Balkans

Country	Serbia	Montenegro	B&H	Croatia	Slovenia	FYR Macedonia	Albania	Romania	Bulgaria	Hungary
Regulation and Supervision of Banking Sector	National Bank of Serbia	Central Bank of Montenegro	Banking Agency and Central Bank of B&H	Croatian National Bank	Bank of Slovenia	National Bank of the Republic of Macedonia	Bank of Albania	National Bank of Romania	Bulgarian National Bank	National Bank of Hungary
Regulation and Supervision of Insurance	National Bank of Serbia	Insurance Supervision Agency	Insurance Supervision Agency of B&H / Insurance Supervision Agency of Republic of Srpska	Croatian Agency for Supervision of Financial Services	Insurance Supervision Agency	Insurance Supervision Agency	Albanian Financial Supervisory Authority	Insurance Supervisory Commission	Financial Supervision Commission	Hungarian Financial Supervisory Authority
Regulation and Supervision of Pension Funds	National Bank of Serbia	Securities Commission	Securities Commission of B&H / Securities Commission of Republic of Srpska	Croatian Agency for Supervision of Financial Services	Securities Market Agency	Agency for Supervision of Fully Funded Pension Insurance	Albanian Financial Supervisory Authority	The Private Pension System Supervisory Commission	Financial Supervision Commission	Hungarian Financial Supervisory Authority
Regulation and Supervision of Investment Companies	Securities Commission	Securities Commission	Securities Commission of B&H / Securities Commission of Republic of Srpska	Croatian Agency for Supervision of Financial Services	Securities Market Agency	Securities and Exchange Commission	Albanian Financial Supervisory Authority	National Securities Commission	Financial Supervision Commission	Hungarian Financial Supervisory Authority
Regulation and Supervision of Brokerage Houses	Securities Commission	Securities Commission	Securities Commission of B&H / Securities Commission of Republic of Srpska	Croatian Agency for Supervision of Financial Services	Securities Market Agency	Securities and Exchange Commission	Albanian Financial Supervisory Authority	National Securities Commission	Financial Supervision Commission	Hungarian Financial Supervisory Authority

New legislation within EU financial system, in the first place MiFID, had multiple positive impacts on countries of the Western Balkans region. It reflected in incorporation of certain legal norms into national legislation, which caused rising of standards. We assess the following impacts as especially significant:

- Impact on Investor protection – one of the most sensitive issues for all EU countries, and especially those less developed with higher level of country risk. MiFID has introduced a novelty because it anticipated high level of protection on all markets, both concentrated, so and fragmented markets as well. As a very positive issue, we assess that the institution of central register for securities was established in all countries of the region, which guarantied safety of delivery and payment. MiFID imposes best-execution obligations on investment firms. For professional clients, an investment firm is free to define in its executive policy what factors it will take into account. For retail clients, investment firms are required to deliver the best possible.

- On transparency – this represents one of particularly painful issues in the countries of the Western Balkans. During privatisation and initial stages of development of capital market, there were a lot of problems associated with transparency and which were bringing considerable asymmetric information and moral hazard. Direct results of low level of transparency of financial markets were considerable different forms of manipulative practice and a loss of integrity and confidence. Within MiFID, a lot of attention is dedicated to issues of distinction between pre-trade and post-trade transparency. Generally speaking, pre-trade transparency refers to the availability of information on outstanding order flow accumulated in the order book or dealer quotes before orders are submitted. This information concerns quotes and trading interest, and can contain information on different trading platforms. Post-trade transparency deals with the availability of information about executed trade transactions. The level of both transparency types is dedicated in entire region to adopting MiFID and incorporating of norms into national legislations.

- On functioning of stock exchanges – MiFID influenced on appearance of new modalities for trading with financial instruments, such as MTF and SI. National stock exchanges got in that way a sort of competition, by which the base was established for creating more channels on the way which can collect capital and perform trading with securities. On European level, the MiFID establishes an EU passport for investment firms. Member States are required to ensure that investment firms from other Member States have the right to access the regulated markets in their country, and the clearing and settlement systems. This is part of a process known as *fragmentation*, where liquidity for one security is no-longer concentrated on one exchange but across multiple venues. In the countries of the region, law legislation created the basis for development of MFT and SI, but changes towards their introducing are still in initial stages.

- Impact on fees – The appearance of MTF and SI have generally had significant impact on reducing fees and rising the level of the competitiveness among financial institutions within the EU. These systems of electronic trading with financial instruments offer high trading speeds, using technology to make their platforms attractive to high frequency traders. Developed countries in which the high liquidity level exists have higher benefit from it. Since the liquidity level on stock exchanges in the region of the Western Balkans is extremely low, therefore this impact has not come to full extent for observed region yet. Nevertheless, by incorporation of MiFID directives into national legislations, bases for increasing competitiveness and reducing fees have been permanently created.

- Impact on Investment banking business – generally based on MiFID, the majority of EU investment banks were enabled to run an internal crossing system. These systems cross clients' orders against one another, or fill the orders directly off the bank's book. The exact regulatory status of broker crossing systems is a matter of debate and controversy. It is expected to be an area of future regulatory intervention. Regrettably, operations of investment banking in the countries of the region are still underdeveloped. Many banks are focused to traditional operations of commercial banking. On the other hand, other financial institutions are also little motivated for bigger participation in these operations. However, adopting of legislation gives the basis for further development of the very investment banks and their operating.

The big problem with the second wave of crisis, public debts of some member countries, as well as crisis of Euro have somehow put issues of expanding the EU in the background. It is not very encouraging news for the countries of Western Balkans. With the exception of Croatia, all others have a long way ahead of them and the need of harmonization of their financial systems into unique European system. In addition, there are a great number of open issues and weaknesses, which these countries face. In our opinion, we may point out to the biggest:

- Poor communication – as between some regulatory bodies, so with all participants on the market. We have already pointed out that there are 2 regulatory bodies in Serbia, and even 6 of them in Bosnia and Herzegovina. In such conditions, there are problems of incompliance of some regulations and competencies of some supervisory bodies, which creates a sort of legal gap. This group of problems especially comes to the fore in the case of enforcement of law.

- Poor regional cooperation – which is at an extremely low level. There are communications among regulatory authorities, but there is no regional initiative, which would bring to further integrations within the very region. There were several initiatives; there is mutual trading platform among stock exchanges of the region, but all that is still in initial stages. As a positive issue, we can assess creating of uniform information database of the countries of the region, but it has not been gone further from that. It seems that more attention in majority of countries of the region is paid to relations with EU than to neighbours.

- Relatively low ethical standards – As an example, formerly mentioned EFFAS PoEC standards have not been adopted by any country of the region. National associations of financial analysts exist only in Croatia, and Serbia, while it is in the stage of establishing in Bosnia and Herzegovina. Even sadder is the fact that these issues have almost not been discussed in the region in the last 3-4 years.

- Poor attention is also paid to issues of education of some participants – The majority of courses by which the certification of authorised participants is carried out, such as brokers, portfolio managers and investment advisors is organised within competency of securities commissions. In some cases, the education is even monopolised; therefore international certified diplomas such as CEFA or CIIA are not recognized. There are no developed systems of life-long learning and continued education.

CLOSING CONSIDERATIONS

Within the scope of this chapter, we have tried to indicate the basic changes in the development of the European financial system in the last ten years. In abundance of a number of factors which influenced its development, we have especially emphasized the two big groups – strategic documents related to development of the EU and negative effects of the two waves of the global economic crisis. We observed a great number of changes in the European financial system through – regulatory reforms, creating of new institutions and rising ethical standards. Special attention was focused on occurrences on financial markets and consequences which brought to adopting of MiFID.

All changes in the EU had significant implications and created a series of new challenges for some countries of the Western Balkans. With the exception of Croatia, other countries of the region – Serbia, Montenegro, FYR Macedonia, Bosnia and Herzegovina and Albania are in different stages of the process of European integrations. All single countries are firmly determined to become full members of the EU. That strategic determination represents one group of factors that influenced the development of their financial systems. On the other hand, the entire region has been very affected by the effects of negative impacts of global economic crisis. The results of conducted survey have shown that based on the fall of the leading stock exchange indices, countries of the region were even more affected than many countries in the EU. The single countries reacted differently to such negative impacts, mainly in the field of regulatory adaptations, by which followed flows in the European financial system. Unfortunately, changes were taking place significantly slower in the aspect of creating of new institutions, rising ethical standards and regional cooperation. Financial systems of these countries still lag behind in development, which results in lower rates of economic growth and greater number of macro-economic problems.

New legislation within the EU financial system, in the first place MiFID, had multiple positive impacts on the region, which reflected in the following:
- Impact on Investor protection
- Impact on transparency
- Impact on functioning of stock exchanges, access to market through their consolidation and
- appearance of MTF
- Impact on fees
- Impact on operating of investment banks.

The region also faces a number of problems and open issues, especially the sensitive ones among which there are the following: weak coordination and law implementation, very low level of regional cooperation, relatively low ethical standards and inexistence of continued education and life-long learning of all participants on financial markets.

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APPENDIX

Table 3: Fluctuation of stock exchange indices for the period from September 15, 2008, until May 31, 2012

Country	Stock exchange	Index	15-Sep-08	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	31-May-12
Developed countries																
USA	NYSE	S&P 500	1192.70	919.32	1057.08	1115.1	1169.43	1030.71	1141.2	1257.64	1325.83	1320.64	1131.42	1257.6	1408.47	1310.33
USA	NYSE	DJIA	10917.51	8447	9712.28	10428.05	10856.63	9774.02	10788.05	11577.51	12319.73	12414.34	10913.38	12217.56	13212.04	12393.45
USA	NASDAQ	NASDAQ com.	2179.91	1477.25	1718.99	1860.31	1958.34	1739.14	1998.04	2217.86	2338.99	2325.07	2139.18	2277.83	2755.27	2524.87
United Kingdom	LSE	FTSE 100	5204.20	4249.21	5133.9	5412.88	5679.64	4916.87	5548.62	5899.94	5908.76	5945.71	5128.48	5572.28	5768.45	5320.86
Germany	Deutsche Borse	DAX	6064.16	4940.82	5464.61	5625.95	5598.46	5964.33	5925.22	6688.49	7272.32	7293.69	5784.85	6088.84	6856.08	6264.38
France	Euronext	CAC 40	4168.97	3131.8	3770.2	3936.3	3958.4	3437	3759.4	3804.8	4011.7	3969.8	2965.18	3136.91	3404.03	2991.74
Japan	Tokyo SE	NIKEI 225	11609.72	9958.44	10133.23	10546.44	11089.94	9382.64	9369.35	10228.92	9755.1	9816.09	8700.29	8455.35	10083.56	8542.73
Balkans countries																
Serbia	Belgrade SE	BELEX15	1287.54	569.27	825.97	663.77	685.23	634.45	620.74	651.78	758.85	747.96	552.7	499.05	531.93	448.17
Croatia	Zagreb SE	CROBEX	3255.45	1896.36	2197.36	2004.06	2142.82	1855.19	1915.58	2110.93	2290.45	2230.85	1854.41	1740.21	1833.54	1668.46
Croatia	Zagreb SE	CROBIS	96.33	86.37	89.06	95.83	97.02	96.15	96.31	95.61	96.89	98.1	93.78	91.2653	93.9659	95.5241
B&H	Sarajevo SE	SASX 10	1722.71	1040.45	1129.71	1053.1	1022.27	932.6	894.31	944.07	1104.48	1034.7	931.76	791.3	763.07	721.75
B&H	Banja Luka SE	BIRS	1468.49	995.51	1042.56	991.84	913.32	824.18	858.24	956.12	1119.11	1052.23	936.15	876.36	835.23	822.64

Country	Stock exchange	Index	15-Sep-08	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	31-May-12
Developed countries																
Montenegro	Montenegrin SE	MONEX20	16641.48	14178.91	18076.04	14596.88	14930.19	13063.41	13870.26	14522.53	12761.66	11706.67	11446.54	9324.9	9527.15	8921.4
Macedonia	Skopje SE	MBI 10	4749.43	2532.43	3101.88	2751.88	2709.84	2424.59	2084.04	2278.92	2571.6	2594.1	2164.01	1974.86	2025.33	1968
Slovenia	Ljubljana SE	SBITOP	1529.15	1033.9	1051.55	986.63	955.63	891.54	842.27	850.35	852.44	754.23	618.65	589.58	599.26	539.86
Bulgaria	Sofia SE	SOFIX	931.02	356.73	480.14	427.27	421.44	373.02	387.12	362.35	445.43	413.77	347.01	322.11	308.91	293.96
Romania	Bucharest SE	BET	4823.21	3434.43	4397.4	4690.57	5965.35	4743.86	5336.25	5268.61	5928.64	5508.7	4327.13	4336.95	5372.48	4567.44
MSCI Emerging markets		MXEF	825.35	761.3	914.05	989.47	1010.33	917.99	1075.53	1151.38	1170.87	1146.22	880.43	916.39	1041.45	906.3

Table 4: Changes in fluctuation of stock exchange indices (in %)

Country	Stock Exchange	Index	15.09.06-30.06.09	30.6.09-30.9.09	30.9.09-31.12.09	31.12.09-31.3.10	31.3.10-30.6.10	30.6.10-30.9.10	30.9.10-31.12.10	31.12.10-31.3.11	31.3.11-30.6.11	30.6.11-30.9.11	30.9.11-31.12.11	31.12.11-31.3.12	31.3.12-31.5.12
Developed countries		**Average***	-21.97	14.27	5.42	3.49	-9.78	8.20	8.30	3.85	0.04	-15.07	6.64	12.14	-9.33
USA	NYSE	S&P 500	-22.92	14.98	5.49	4.87	-11.86	10.72	10.20	5.42	-0.39	-14.33	11.15	12.00	-6.97
USA	NYSE	DJIA	-22.63	14.98	7.37	4.11	-9.97	10.37	7.32	6.41	0.77	-12.09	11.95	8.14	-6.20
USA	NASDAQ	NASDAQ com.	-32.23	16.36	8.22	5.27	-11.19	14.89	11.00	5.46	-0.60	-8.00	6.48	20.96	-8.36
United Kingdom	LSE	FTSE 100	-18.35	20.82	5.43	4.93	-13.43	12.85	6.33	0.15	0.63	-13.74	8.65	3.52	-7.76
Germany	Deutsche Borse	DAX	-18.52	10.60	2.95	-0.49	6.54	-0.66	12.88	8.73	0.29	-20.69	5.25	12.60	-8.63
France	Euronext	CAC 40	-24.88	20.38	4.41	0.56	-13.17	9.38	1.21	5.44	-1.04	-25.31	5.79	8.52	-12.11
Japan	Tokyo SE	NIKEI 225	-14.22	1.76	4.08	5.15	-15.40	-0.14	9.17	-4.63	0.63	-11.37	-2.82	19.26	-15.28
Balkans countries		**Average****	-34.45	18.19	-9.00	0.19	-9.04	-0.94	6.50	8.72	-3.21	-12.45	-9.61	1.62	-5.60
Serbia	Belgrade SE	BELEX15	-55.79	45.09	-19.64	3.23	-7.41	-2.16	5.00	16.43	-1.44	-26.11	-9.71	6.59	-15.75
Croatia	Zagreb SE	CROBEX	-41.75	15.87	-8.80	6.92	-13.42	3.26	10.20	8.50	-2.60	-16.87	-6.16	5.36	-9.00
Croatia	Zagreb SE	CROBIS	-10.34	3.11	7.60	1.24	-0.90	0.17	-0.73	1.34	1.25	-4.40	-2.68	2.96	1.66
B&H	Sarajevo SE	SASX 10	-39.60	8.58	-6.78	-2.93	-8.77	-4.11	5.56	16.99	-6.32	-9.95	-15.07	-3.57	-5.41
B&H	Banja Luka SE	BIRS	-32.21	4.73	-4.86	-7.92	-9.76	4.13	11.40	17.05	-5.98	-11.03	-6.39	-4.69	-1.51
Montenegro	Montenegro SE	MONEX20	-14.80	27.49	-19.25	2.28	-12.50	6.18	4.70	-12.13	-8.27	-2.22	-18.54	2.17	-6.36
Macedonia	Skopje SE	MBI 10	-46.68	22.49	-11.28	-1.53	-10.53	-14.05	9.35	12.84	0.87	-16.58	-8.74	2.56	-2.83

Country	Stock Exchange	Index	15.09.06-30.06.09	30.6.09-30.9.09	30.9.09-31.12.09	31.12.09-31.3.10	31.3.10-30.6.10	30.6.10-30.9.10	30.9.10-31.12.10	31.12.10-31.3.11	31.3.11-30.6.11	30.6.11-30.9.11	30.9.11-31.12.11	31.12.11-31.3.12	31.3.12-31.5.12
Slovenia	Ljubljana SE	SBITOP	-32.39	1.71	-6.17	-3.14	-6.71	-5.53	0.96	0.25	-11.52	-17.98	-4.70	1.64	-9.91
Bulgaria	Sofia SE	SOFIX	-61.68	34.59	-11.01	-1.36	-11.49	3.78	-6.40	22.93	-7.11	-16.13	-7.18	-4.10	-4.84
Romania	Bucharest SE	BET	-28.79	28.04	6.67	27.18	-20.48	12.49	-1.27	12.53	-7.08	-21.45	0.23	23.88	-14.98
MSCI Emerging markets		MFEX	-7.76	20.06	8.25	2.11	-9.14	17.16	7.05	1.69	-2.11	-23.19	4.08	13.65	-12.98

Table 5: Changes in % - Basis 15.09.2008

Country	Stock exchange	Index	30-jun-09	30-sep-09	31-dec-09	31-mar-10	30-jun-10	30-sep-10	31-dec-10	31-mar-11	30-jun-11	30-sep-11	31-dec-11	31-mar-12	31-May-12
Developed countries		**Average**	-21.97	-11.01	-6.23	-2.96	-12.60	-5.52	2.32	6.43	6.48	-9.58	-3.23	8.27	-1.42
USA	NYSE	S&P 500	-22.92	-11.37	-6.51	-1.95	-13.58	-4.32	5.44	11.16	10.73	-5.14	5.44	18.09	9.86
USA	NYSE	DJIA	-22.63	-11.04	-4.48	-0.56	-10.47	-1.19	6.05	12.84	13.71	-0.04	11.91	21.02	13.52
USA	NASDAQ	NASDAQ com.	-32.23	-21.14	-14.66	-10.16	-20.22	-8.34	1.74	7.30	6.66	-1.87	4.49	26.39	15.82
United Kingdom	LSE	FTSE 100	-18.35	-1.35	4.01	9.14	-5.52	6.62	13.37	13.54	14.25	-1.45	7.07	10.84	2.24
Germany	Deutsche Borse	DAX	-18.52	-9.89	-7.23	-7.68	-1.65	-2.29	10.30	19.92	20.28	-4.61	0.41	13.06	3.30
France	Euronext	CAC 40	-24.88	-9.57	-5.58	-5.05	-17.56	-9.82	-8.74	-3.77	-4.78	-28.87	-24.76	-18.35	-28.24
Japan	Tokyo SE	NIKEI 225	-14.22	-12.72	-9.16	-4.48	-19.18	-19.30	-11.89	-15.97	-15.45	-25.06	-27.17	-13.15	-26.42
Balkans countries		**Average**	-34.45	-23.63	-30.44	-30.28	-36.30	-36.48	-32.87	-28.42	-30.69	-38.65	-44.26	-43.39	-45.97
Serbia	Belgrade SE	BELEX15	-55.79	-35.85	-48.45	-46.78	-50.72	-51.79	-49.38	-41.06	-41.91	-57.07	-61.24	-58.69	-65.19
Croatia	Zagreb SE	CROBEX	-41.75	-32.50	-38.44	-34.18	-43.01	-41.16	-35.16	-29.64	-31.47	-43.04	-46.54	-43.68	-48.75
Croatia	Zagreb SE	CROBIS	-10.34	-7.55	-0.52	0.72	-0.19	-0.02	-0.75	0.58	1.84	-2.65	-5.26	-2.45	-0.84
B&H	Sarajevo SE	SASX 10	-39.60	-34.42	-38.87	-40.66	-45.86	-48.09	-45.20	-35.89	-39.94	-45.91	-54.07	-55.71	-58.10
B&H	Banja Luka SE	BIRS	-32.21	-29.00	-32.46	-37.81	-43.88	-41.56	-34.89	-23.79	-28.35	-36.25	-40.32	-43.12	-43.98
Montenegro	Montenegrin SE	MONEX20	-14.80	8.62	-12.29	-10.28	-21.50	-16.65	-12.73	-23.31	-29.65	-31.22	-43.97	-42.75	-46.39

Country	Stock exchange	Index	30-jun-09	30-sep-09	31-dec-09	31-mar-10	30-jun-10	30-sep-10	31-dec-10	31-mar-11	30-jun-11	30-sep-11	31-dec-11	31-mar-12	31-May-12
Macedonia	Skopje SE	MBI 10	-46.68	-34.69	-42.06	-42.94	-48.95	-56.12	-52.02	-45.85	-45.38	-54.44	-58.42	-57.36	-58.56
Slovenia	Ljubljana SE	SBITOP	-32.39	-31.23	-35.48	-37.51	-41.70	-44.92	-44.39	-44.25	-50.68	-59.54	-61.44	-60.81	-64.70
Bulgaria	Sofia SE	SOFIX	-61.68	-48.43	-54.11	-54.73	-59.93	-58.42	-61.08	-52.16	-55.56	-62.73	-65.40	-66.82	-68.43
Romania	Bucharest SE	BET	-28.79	-8.83	-2.75	23.68	-1.65	10.64	9.23	22.92	14.21	-10.29	-10.08	11.39	-5.30
MSCI Emerging markets		MFEX	-7.76	10.75	19.88	22.41	11.22	30.31	39.50	41.86	38.88	6.67	11.03	26.18	9.81