

ISEEE MEETING

Vienna, 15-18 Sept. 2013

FACTORS INFLUENCING CAPITAL MARKETS' DEVELOPMENTS IN EMERGING ECONOMIES

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10 THE MOST IMPORTANT FACTORS

- **1. OWNERSHIP**
- **2. INFLATION**
- **3. MONETARY POLICY**
- **4. PUBLIC DEBT**
- **5. MUNICIPAL DEBT**
- **6. FISCAL POLICY**
- **7. BANKING SYSTEM**
- **8. AUDITING**
- **9. DEREGULATION IN ORDER TO BOOST BUSINESS**
- **10. POLITICAL STABILITY, PROPER REGULATION AND (TECHNICAL) INFRASTRUCTURE OF THE MARKET**

1. GOVERNMENT OWNERSHIP

- **NOT APPROPRIATE FOR CAPITAL MARKET DEVELOPMENT**
- **THE QUESTION IS HOW TO PRIVATIZE:**

PRIVATIZATION

- **1. Selling the whole by public share issue**
- **2. Selling a proportion of the whole operation**
- **3. Selling parts to private buyers**
- **4. Selling to workforce and/or management**
- **5. Giving to the workforce**
- **6. Contracting out the service to private business**
- **7. Diluting the public sector**

PRIVATIZATION

- **8. Buying out existing interest groups**
- **9. Charging for the service**
- **10. Setting up counter-groups**
- **11. Deregulation via private associations**
- **12. Encouraging alternative institutions**
- **13. Making small-scale trials**
- **14. Repealing monopolies to let competition grow**

PRIVATIZATION

- **15. Encouraging exit from state provision**
- **16. Using vouchers for consumption**
- **17. Admitting demand pressures**
- **18. Curbing state powers**
- **19. Applying closure proceedings**
- **20. Withdrawal from the activity**
- **21. The right to private substitution**

2. INFLATION

- **IF THE CAPITAL MARKETS ARE JUST STARTING OF INFLATION IS NOT IN FAVOUR OF ITS DEVELOPMENT BECAUSE OF MISTRUST**
- **ALTHOUGH ACCORDING TO THEORY EQUITIES ARE THE RIGHT INVESTMENTS IN INFLATION TIMES**
- **THIS IS UNDOUBTFULLY A VERY COMPLEX ISSUE**

3. MONETARY POLICY

- **EXPANSIVE VS RESTRICTIVE**
- **WE ALL KNOW WHAT EACH MEANS FOR DEVELOPED AND WHAT FOR DEVELOPING MARKETS AND ALSO DEPENDING IN WHAT CONDITION THE ECONOMY IS**
- **EXPANSIVE, RESTRICTIVE; DEVELOPED, DEVELOPING countries/markets; RECESSION, CONJUNCTURE**
- **AGAIN, A VERY COMPLEX ISSUE**

4. PUBLIC DEBT

THERE HAS TO BE CERTAIN REASONABLE VOLUME OF PUBLIC DEBT EXISTING IN FREELY TRADED GOVERNMENTAL BONDS IN ORDER TO PROPERLY DEVELOP THAT PART OF A CAPITAL MARKET WHICH IS COMPLEMENTARY TO THE EQUITIES

5. MUNICIPALS

LOWER POLITICAL LEVELS (COMMUNES, CITIES = MUNICIPALITIES) SHOULD ISSUE STANDARDIZED DEBT INSTRUMENTS TO FINANCE THEMSELVES IN ORDER TO DEVELOP THAT SPECIFIC PART OF THE CAPITAL MARKET

6. FISCAL POLICY

- **GENERAL FISCAL POLICY IS IMPORTANT**
- **BUT ALSO THE ONE COVERING SECURITIES INVESTMENTS, AS WELL**
- **AT THE BEGINNING A FISCAL POLICY SHOULD BE FOR SURE VERY STIMULATING IN ORDER TO START DEVELOPING A MARKET (can be neutral later on)**
- **THERE ARE MANY (OBVIUOS) WAYS HOW TO FISCALLY PROMOTE CAPITAL MARKETS (capital gain, transactions, dividends)**

7. BANKING SYSTEM

- **USUALLY TRADITIONAL FINANCIAL INTERMEDIARY WHICH CAN HELP OR KILL A DEVELOPMENT OF A CAPITAL MARKET**
- **ATTRACTIVE DEPOSIT INTEREST RATES**
- **IF IN TROUBLE, THE GOVERNMENT FOCUSES MORE IN THE BANKS DIRECTION IN ORDER TO PRESERVE TRUST IN FINANCIAL SYSTEM (REHABILITATING BANKS AND KILLING SECURITIES)**

8. AUDITING

- **IN MANY COUNTRIES AUDITING AND EVEN AUDITING STANDARDS ARE NOT DEVELOPED**
- **BUT IF IN PLACE NOT IMPLEMENTED ENOUGH (,COOKED BOOKS')**

9. DEREGULATION

- **DEREGULATING SOME AREAS WHICH ARE KILLING PRIVATE INCENTIVE, INVESTMENTS, START-UPS, PUBLIC OFFERINGS AND SIMILAR**
- **HOWEVER, DEREGULATION SHOULD NOT PROMOTE WRONG-DOINGS**

10. POLITICS, REGULATION, INFRASTRUCTURE

- **POLITICAL STABILITY; PROPER MARKET REGULATION TO BUILD TRUST IN MARKET, PROPER CORPORATE GOVERNANCE WHICH IS TO ME ONE OF THE MOST IMPORTANT ISSUES, TO PREVENT WRONG-DOINGS, ETC.**
- **HOWEVER, NOT TO KILL MARKET OVERREGULATING EVERYTHING (AGAIN IT DEPENDS FROM MARKET TO MARKET, FROM COUNTRY TO COUNTRY)**
- **PROPER INFRASTRUCTURE (PROPER SOFTWARE FOR TRADING, CLEARING, SETTLEMENT, REGISTRY, ETC.)**

DEVELOPMENT PHASES

- **3 OR IN SOME CASES MORE PHASES OF CAPITAL MARKET's DEVELOPMENT (at least):**
- **PIONEERING STAGE (EDUCATION, FIRST TRADING, FIRST IPOs, ...)**
- **FAST DEVELOPMENT STAGE INCL. PRIVATIZATION AND OTHER IPOs, FOREIGN INVESTORS, MARKET SEGMENTATION AND (HOPEFULLY PROPER) REGULATION**
- **INTERNATIONALIZATION OR RATHER INTEGRATION IN GLOBAL MARKETS**

OTHER IMPORTANT ISSUES

WE TEND TO LOOK MORE PRECISELY TO TECHNICAL QUESTIONS BUT THEY DEPEND ON PREVIOUS MACROECONOMIC AND EVEN POLITICAL ONES (SOFTWARES, MARKET MAKING OR DIRECT TRADING, RULES AND REGULATION, STRUCTURE OF THE MARKET (retail, institutions..))

DERIVATIVES DEVELOPMENT IF SPOT MARKET DEVELOPED ENOUGH (again: SEPARATE MARKET, ONE ORGANIZER, INT. ONE?)

BACK TO THE ROOTS ?!

NEW INT. EXCHANGE COVERING MANY COUNTRIES COMING UP:

- **TRADING AND PHYSICAL GATHERING (!) ONLY ONCE PER WEEK**
- **NOT DOMINATING OWNERSHIP**
- **EXCLUSIVELY SMEs**
- **INCOME FROM IPOs DIVIDED BETWEEN EXCHANGE (who does roadshows) AND INVESTMENT BANKS (!)**
- **PROJECT ALREADY GOING ON FOR 2 YEARS**
- **DOES IT HOLD WATER???**

13 STOCK MARKET APHORISMS by DRASKO V.

THANK YOU FOR YOUR KIND ATTENTION