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THE EFFECTS OF FINANCIAL INSTRUMENTS IN CONDITIONS OF CRISIS IN SERBIA

Jasna MARKOVIC, Jelena TOSKOVIC
Educons University, Faculty of Business Economy, Serbia
toskovicjelena@yahoo.com

ABSTRACT

This paper discusses the influence of the application of financial instruments in the Republic of Serbia. The global economic crisis, the effects of which will last for a long time, has left a significant impression on our country and its development. Our government has taken as its objective, and is developing guidelines for, a more efficient development process. Thus our interest is in this subject. The work is oriented more like an essay, but includes much data from scientific research. The aim of this project is to create strategic plans to raise confidence in financial instruments. This should begin to move the country out of the current state of crisis. A financial instrument is a contractual relationship that creates a right to the funds of counterparty and a financial liability for the other party or where there is an increase in capital of the other. Instruments that appear in our paper: shares (shares, stock), bonds (bonds and notes), and warrants (warrants). This paper consists of four chapters and concluding remarks. The first part presents the genesis of financial instruments, while the second chapter explains their types and functions. The third part covers strategic planning, while the fourth part is devoted to the current state of the economy in the Republic of Serbia. The concluding discussion summarizes the proposed strategic development goals and outlines possibilities for overcoming the crisis.
Keywords: economic crisis, financial instruments, monetary reform

INTRODUCTION

The global economic crisis has caused a global recession that threatens the economy of all countries, both in the EU and worldwide, so it is inevitable that leave visible traces in our country. It is largely forced the country reacts to in order to ensure the stability of the entire financial system. In the centre of all events are the financial markets, which in many ways trying to follow the new changes and to prevent further deterioration. Therefore, the European Union is committed to specific economic recovery plans to reduce the impacts of the crisis. Cornerstone on which the EU is in their plans is based European Investment Bank (EIB) as one of the major financial institutions, which is expected to approve loans to developing countries for further development and helps quicker economic recovery.

Financial markets are definitely in the centre of all happenings and various alternatives are struggling to cope with changes caused by increasing turbulence, and to avoid further declines. The instability of financial markets is actually the root of all problems in the economy. To an economy and unfolds need is a reliable and efficient financial sector. The first step is preventing further deterioration of the stability of the banking system. Serbia has to work for stability of the financial sector, but also to create conditions for rapid recovery from the crisis. It is essential that banks take over their role in providing liquidity and the necessary investment. Financial crisis affects mostly the research, development and innovation of small and medium enterprises are the key areas of each country. It is necessary to mitigate the consequences of the recession and lay solid foundation for quality economic recovery in order to create a stable economic system.

The aim of this paper is a critical analysis of public administration that its inability to inhibit the development of the crisis in particular it greatly affects the politicization of the public sector.

CHARACTERISTICS OF FINANCIAL INSTRUMENTS

The bases of any financial system are financial markets, which are determined by financial instruments and financial institutions. Financial instruments represent material financial transactions. The creation of different forms of payment and credit instruments affect the development of credit systems and the development of modern commodity production. These instruments reflect the different relationships they enable the transfer of risk from one to the other economic subject.

The importance of certain financial instruments is a reflection of greater or less development of the financial markets. Developed countries have a wide range of different types of securities. On the other hand, in countries with underdeveloped market infrastructure, the role of currency is the dominant, the fluidity of the financial market is smaller, which certainly undermines the liquidity of the national economy.

The basic characteristics of financial instruments are as follows:

- *Do not have the money form* - financial instruments used as a medium of exchange or executions of transactions are called money. Other financial instruments may be at low transaction costs to transform into liquid assets.
- *Reversibility* - the cost of investing in financial instruments and his return to liquid form. Maturity - the time period in which the planned payment instruments or period when the owner has the right to liquidate it.
- *Divisibility and denomination* - the minimum size for which the financial instrument may be liquid and exchangeable for cash.
- *Currency* - some issuers to reduce the risk of exchange rate movements broadcast dual currency bonds. Thus, the interest income received in one currency and equity securities at maturity in another currency.
- *Convertibility* - a very important feature of the securities and can be performed within one and the same securities or from one type to another paper.
- Liquidity - the cost and time they are exposed to the owners of the securities if they want to be in a shorter period of time selling and turn into liquid assets
- *Complexity* - refers to the complexity of financial instruments which contain two or more simple instruments.
- *Cash flow* - is a fundamental characteristic of the securities and it clearly determines its value.
- *Tax treatment* - tax status of any securities. Tax rates may vary depending on where the instrument is working.

TYPES OF FINANCIAL INSTRUMENTS

On the financial market there are a large number of financial instruments. The most important criteria for their division are:

- According to the time structure of the financial instruments are classified as short, medium and long term.
- According to the place of broadcasting distinguish domestic and foreign securities.
- According to the method of forming the instruments share them on the primary and derivative securities known as financial derivatives.

LONG-TERM FINANCIAL INSTRUMENTS

Capital market for the constitution of a long-term financial assets, or, if analyzed as a market for financial instruments - emissions trading and long-term financial instruments (long-term securities). It is the financial assets resulting from the accumulation of meeting the needs of production, and long-term consumption of non-manufacturing sector.

After meeting these needs contributes to the formation of social capital, long-term financial instruments can be considered and the market instruments of value. There are three basic types of long-term securities:

Action (engl. Shares, Stock), which appear in the form of ordinary (engl. Ordinary Shares) and preferred (engl. Preferred Shares), presented a certificate of investment in capital (understood as an expression of property rights of investors funds).

Bonds (engl. Bonds, Notes) or debentures, which are evidence of the credit than investors (owners) and users of funds, and Hybrid instruments - Warrants, which include features of stocks and bonds. Actions reflect the ownership of the property and are the financial instrument for raising the capital to finance business of the issuer.

Action is the securities that the owner (investor) the right to part of the profit (profit) companies - dividend, the right to run a business and dispose of property companies in the event of its liquidation. Issued in order to form or increase in capital stock company. Shares have a nominal value (engl. Nominal Value, Par Value, Face Value) that is freely determined by the foundation of society and is inscribed on each share. The nominal value is usually low because there is no other economic function except to serve as an accounting category, or to express the owner's proportionate share - shareholders' equity. In some economies action cannot be aired for less than par. The law allows, also, that the actions are not explicitly defined nominal value which, in this case, to calculate the division of capital in the total number of issued shares. On the secondary market, the share price is determined according to supply and demand.

Action in principle last indefinitely and is linked to the fate of the company as an active business entity ("going concern"). It allows the investor to participate in the arrangement of company profits, but also to bear the risk of the operations of the amount of invested capital and the nominal value of shares owned.

Actions occur in the form of ordinary or preference shares. Ordinary shares (Ordinary Shares engl.) give investors the right to operate the enterprise or participation in entrepreneurial democracy - the right to vote, election management, filing resolutions, and other rights. There are ordinary shares without voting rights.

Preference (priority) action (engl. Preferred or Preference Shares) only allow the owner the right to dividend and to the pre-determined format - as a percentage amount of the nominal value of shares, or fixed amount per share. If the company does not declare (announce to pay) a dividend at the end of the year, entitled to priority dividends can be transferred to the following year. In this case, it is a cumulative - preferred share (engl. Cumulative Preference Share).

Priority actions may include the right to a fixed return and the right to run a business and in this case is called participatory preferred stock (engl. Participating Preference Shares).

Convertible preferred shares (engl. Convertible Preference Share) allows an investor to replace it for a predetermined number of shares at the time designated by him. Company is allowed to determine the minimum market price of common shares that must be realized, that could use this right of conversion.

A bond is a security that the issuer agrees to pay the bearer a certain amount of days specified in the bond with interest or otherwise, if so provided. * Represents 3) a very important form of collection of money resources in the contemporary economic relations, in order to finance the expanded reproduction. Since the issuance of bonds requires a high level of expertise and well-organized technology programs, banking organizations often issue bonds for others and for their account.

There are three ways to bond: a bond or enter subscription, steady sales of bonds and free sale of bonds.

The bonds may be fixed or variable interest rate. In practice, it is considered that the interest payments if they are safe for industrial enterprises covered by triple-profit and for electric power companies is enough to cover twice.

Bonds

Bonds, by duration of the credit relationship, are short, medium and long term. According to the entity that issued them bonds are divided on the bonds issued by the public sector, and bonds issued by the private sector.

From the standpoint of insurance claims, bonds are classified into secured and unsecured bonds. According to the method of participation in profit enterprises are divided into bonds with a financial interest, income bonds and Participating bonds. According to the time of purchase are divided on the bonds after the deadline and bonds before maturity. According to the method of their amortization classified at the one-time bond maturity and bond with multiple (serial) maturity.

In our law it is stressed that the issuance of bonds to be successful, and that means that the deadline for payment of bonds paid at least 90% of the total amount that is indicated in the declaration for registration of bonds.

The company may issue a special long-term financial instrument, which give the holder the right to turn them into action. These long-term securities are known as the warranty. Warranty is a long term option that enables the investor to buy a certain number of ordinary shares at a specified price at any time before the stipulated period (*JC Ritchie*, 1987, 461. p.). Warrant is usually part of the preference shares or bonds, and is broadcast to the financial instruments in order to reduce costs and stimulate sales programs. But may also have an independent existence of the market (number of warrants listed on the stock exchange). Their market price is lower than the prices of stocks in which they can be converted, and that price is the difference between the price at which shares can be bought in the market and the price at which it may acquire with using warrants. If the share price does not rise, before the expiry of the warrant, the warrant price can be reduced to 0.

STRATEGIC PLANNING

European Investment Bank is the oldest European bank established in 1958. The Treaty of Rome and a limited company member of the European Union. EIB should respond to the attack that has set the financial crisis by increasing loans to those countries and sectors that need help the most.

One such loan agreement was signed between the Ministry of Finance of the Republic of Serbia and the EIB in 2009. Value per contract is 50 million and the funds are earmarked for projects that were slated National Investment Plan. The contract concerned the following areas: infrastructure, education, public administration and preservation of cultural and historical heritage.

However, it is not enough to rely only on loans, especially insolvency of our country, it is necessary to make radical changes within the monetary system.

The state has always played an important role in implementing structural changes and to assist the private sector. But in developing countries, governments often adopt the wrong decision Serbia is not effective because the state is evident, a number of weaknesses in public companies.

It is necessary to reduce public spending and employment in the public sector, increase efficiency by reducing the number of key functions, increase the competence and independence of the civil administration. Must be implemented depoliticasion of public administration and public sector building and strengthening anti-corruption institutions and the introduction of external audits for all legal entities and entrepreneurs, which so far has been the practice.

Serbia needs to implement monetary reform should be accompanied by a restrictive monetary politics. This would lead to a stable currency, and achieving price stability. Are necessary and structural measures in the financial sector, such as restructuring and privatization of remaining public enterprises, the rapid development of capital market instruments and financial market liberalization and strengthening the independence of the NBS. Higher CB independence results in lower inflation and stable growth of GDP. The public needs to be regularly informed about the movement of monetary aggregates and monetary policy objectives, because with the right to expect that the elected government to stay long enough to be able to implement the plans.

Also, monetary reform follows unify the exchange rate and the elimination of the parallel exchange rate, introduction of internal and external convertibility and developing foreign markets. Just like that on the Serbian market may appear different financial instruments in which the foreign investors and local businessmen, have more confidence. This sequence of items may result starting point momentum weakened economy and greater investment in the development of SMEs.

CONCLUSIONS

One of the most important steps for the recovery of the economic system of Serbia is to agree on signing a contract with the EIB. Time that our country has managed to mitigate the consequences of the global financial crisis and to attract needed foreign investment. Investing in small and medium companies of capital is of paramount importance for the economic system and the only way to ensure the road to sustainable development of our country.

EIB to boost lending, especially to those sectors and regions most wounded to some extent, responded to the attack that has set global economics crisis. The crisis itself calls for a reaction to ensure stability of the financial system.

Through joint cooperation with the EIB Serbia and other countries would be through cooperation and joint projects have managed not only to mitigate the consequences of the global financial crisis but also to attract much needed investment, which is of great importance for the economic system and the road to sustainable development.

It is also necessary to implement the Serbian monetary reform which should be followed very restrictive monetary politics. It is necessary to create a stable currency and the achievement of price stability. Monetary reform follows unify the exchange rate and the elimination of the parallel exchange rate, the introduction of convertibility of internal and external development and foreign exchange markets. Just like that on the Serbian market may appear different financial instruments in which the foreign investors and local businessmen, have more confidence, which should result in greater investment and development of SMEs.

This path should move to other countries that have a similar situation as Serbian.

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