European Research Study Group Quarterly Newsletter

E.R.S.G.-Contemporary Research for a United Europe

June-August 2013

September 2013, Volume 1, Issue 4

Special points of interest:

- 28 June 2013 – The ECB's Governing Council decides to temporarily suspend the eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus for use as collateral in Eurosystem monetary policy operations. The Governing Council will assess the potential eligibility of Cypriot collateral upon the conclusion of the transactions announced by the Cypriot Ministry of Finance on 27 June.

In this issue:

Third Review of the Financial Assistance Program for Spain

Spanish financial markets have further stabilised since the last review, with sovereign and corporate bond yields dropping amidst lower volatility. In parallel, the liquidity situation of the Spanish banking sector has further improved. This allowed Spanish banks to further regain access to funding markets and to reduce reliance on central bank financing. Also, the solvency position of Spanish banks has been bolstered after the recapitalisation of parts of the banking sector and the transfer of assets to SAREB (the Spanish asset management company), and solvency rates are above regulatory requirements.

The process of bank restructuring is well underway, guided by the restructuring plans, as adopted by the European Commission, for the banks having received State aid. The required burden-sharing exercises with banks´ shareholders and junior bond holders have made further progress. Further important steps have been taken since the last review in separating impaired assets from banks.

Progress has also continued with respect to horizontal financial-sector conditionality. Thereby, compliance with the requirements in the Memorandum of Understanding is nearly complete and achievements toward strengthening the governance, regulatory and supervisory framework of the Spanish banking sector have been made. Implementation efforts need to continue, including in the areas of the reform of the governance of the savings banks and changing supervisory procedures at Banco de España. Recent government initiatives aimed at strengthening non-bank financial intermediation are welcome, including capital market funding and venture capital non-bank financing.

ECB further reviews its risk control framework

The Governing Council of the European Central Bank (ECB) decided to further strengthen its risk control framework. To maintain adequate risk protection, the ECB regularly adjusts its collateral eligibility rules and haircuts applied when accepting collateral in Eurosystem monetary policy operations. In addition, some measures aim to improve the overall consistency of the framework. At the same time, the list of collateral accepted under the permanent Eurosystem collateral framework will be expanded. These measures taken together have an overall neutral effect on the amount of collateral available.

The Governing Council decided in particular to:

- Update the haircuts for marketable and non-marketable instruments;
- Adjust the risk control measures for retained covered bonds to take into account the additional risk which results from the use of such securities by the issuer itself and to ensure a level playing field between securities with comparable risks;
- Replace the current requirement of two 'triple A' ratings with the requirement of two 'single A' ratings for the six classes of asset-backed securities (ABS) subject to loan level reporting requirements, reflecting their improved transparency and standardisation;
- Reduce the haircuts applicable to ABS eligible under the permanent and temporary Eurosystem collateral framework.

In addition, the Governing Council has adjusted the eligibility criteria and haircuts applied by National Central Banks (NCBs) to pools of credit claims and certain types of the additional credit claims (ACC) eligible under the temporary Eurosystem collateral framework. (ECB Press Release)

Lifelong Learning

The Political Economy of the E.M.U.
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News & Recent Key Developments

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Special Points of Interest

- The annual growth rate of household gross disposable income was broadly unchanged, at 0.2% in the second quarter of 2013 (first quarter: 0.1%). This resulted mainly from increases in compensation of employees, gross operating surplus and mixed income, which were only partly offset by the negative effect of increasing taxes.
- The annual growth rate of household consumption expenditure increased to 0.5% in the second quarter, from -0.3% in the first quarter, while that of household gross saving decreased to -1.4% from 3.6%.
- The household gross saving rate was 13.0% in the second quarter of 2013, compared to 13.1% in the second quarter of 2012.
- The annual growth rate of gross fixed capital formation of households was -2.8% in the second quarter (first quarter 2013: -5.0%).
- The annual growth rate of household gross non-financial investment was -3.9% in the second quarter of 2013, compared with -4.9% in the first quarter

Euro Area Economic and Financial Developments

In the second quarter of 2013 the annual growth rate of household gross disposable income was broadly unchanged at 0.2% (first quarter: 0.1%). The annual growth rate of household consumption expenditure increased to 0.5% in the second quarter, compared with -0.3% in the first quarter. Reflecting these developments, the annual growth rate of household gross saving decreased to -1.4% in the second quarter, from 3.6% in the first quarter. The household gross saving rate was 13.0%nin the second quarter of 2013, compared with 13.1% in the second quarter of 2012.

The annual growth rate of household financing was unchanged at 0.3% from the previous quarter, and that of financial investment was unchanged at 1.7%. Household net worth decreased at a slower annual rate (-0.1%) than in the previous quarter (-0.4%). The annual growth rate of net entrepreneurial income of non-financial corporations increased to -0.2% in the second quarter of 2013, from -1.0% in the previous quarter. The annual growth rate of gross fixed capital formation of non-financial corporations increased to -2.7%, from -8.3% in the first quarter. The annual growth rate of financing of non-financial corporations decreased to 0.7% from 1.0% the previous quarter. Non-financial corporations' financial investment grew at a lower annual rate of 1.2% (first quarter 2013: 1.5%).

Debt of households and non-financial corporations as a percentage of GDP stood at 64.9% (second quarter 2012: 65.6) and 103.0%, (second quarter 2012: 104.4) respectively.

Total euro area economy

Euro area net disposable income increased at an annual rate of 0.5% in the second quarter of 2013, compared with -0.3% in the first quarter (see Chart 1). The annual growth rate of euro area gross fixed capital formation increased to -3.2% (first quarter: -6.9%), due to less negative contributions from non-financial corporations, households and governments (see Chart 2). The growth rate of gross capital formation increased to -3.5% in the second quarter, from -7.4% in the first quarter. The continued decline in gross capital formation accompanied by broadly unchanged euro area savings led to a continued growth of net lending by the euro area to the rest of the world (corresponding to an increase in the current and capital account surplus).

(ECB Quarterly Report)

Chart 1. Growth of euro area net disposable income and its allocation to sectors
(annual percentage changes and percentage point contributions)

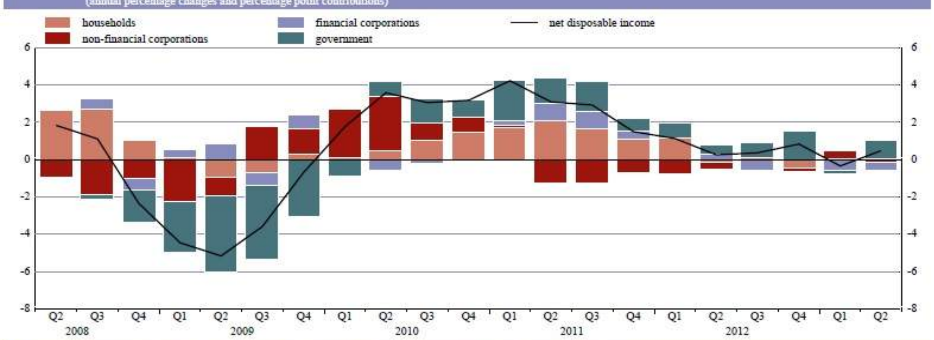
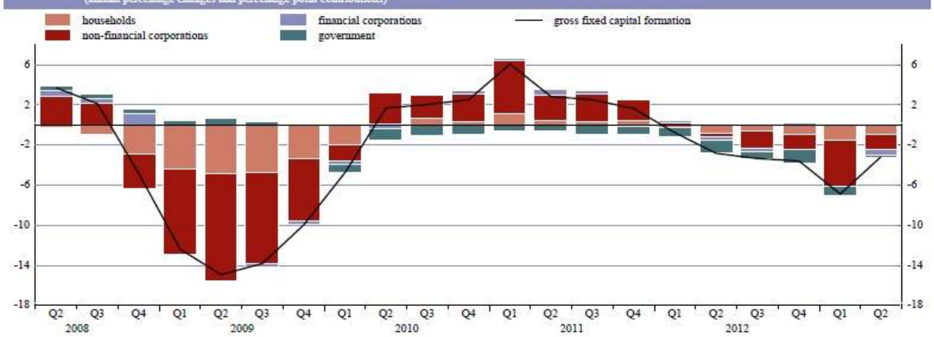


Chart 2. Growth of euro area gross fixed capital formation and contributions by sector
(annual percentage changes and percentage point contributions)



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EMU and Trade Effect

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SMEs Exports and Managing Currency Risk—
Professor Pavla Breckova—Professor Karel Havlicek

The importance of international trade for economic prosperity and development of nations has been extensively documented in the economic literature since the time of Adam Smith (1776). The basic rationale contained in his work points out that economies need to export goods and services to generate some revenue to finance imported goods and services, which cannot be produced "at home".

One of the main assets of the SMEs, is their flexibility and an ability to survive under various conditions and it applies also to the international operations, which are no longer a domain of large or multinational companies. In this process European enlargement played not a negligible role for small enterprises. Even stronger role in simplification of cross-border trade and elimination of risks connected is played in the field of Eurozone. The most frequent forms of international business activity have traditionally been export and import. Despite the elimination of many trade barriers, still there is a large number of companies facing the various currency dealing issues. Throughout the economic downturn and the recession of the last years, SMEs have retained their position as the back- bone of the European economy. Their stability lies in the fact that they rarely live the country of origin.

The vital contribution of the SMEs in Europe focuses on:

- They provide two out of three of the private sector jobs (today they provide about 65 million jobs).
- They contribute to more than half of the total value- added created by businesses.
- They are primarily responsible for wealth, economic growth and social cohesion.

The Internationalization of world economy is self-evident over the last two decades since global trade has grown at an average of 6% since 1990, faster than global GDP. Some countries have even implemented policies aimed at encouraging SMEs to increase their international activities. This effect is perceived to be especially important for countries where forward foreign exchange markets are not very well developed. Moreover, a reduction of the transaction cost associated with elimination of the exchange rate risk is argued to be important for countries that are characterized by the strong concentration of their trade with one large trading partner or a group of countries that share a common currency. This is the case for many Central and Eastern European countries for which Germany is the main trading partner, and more than 50 per cent of their trade takes place with the members of the Eurozone. According to the recent empirical studies, the trade among the members of the EMU has grown on average by 10–15 % due to the use of a common currency and there was also an increase in trade with the non-member states. However, these studies did not take into account the latest EMU enlargements and the impact of 2008–2009 economic crisis

The elimination of the exchange risk will give a boost to export activities of all countries and especially those who were characterized by a strong concentration of their trade with one large trading partner or countries that share a common currency. More specifically in Czech Republic, only 1,6% of SMEs is active in export activities, and 80% of all Czech export is still directed to the EU. The introduction of the EURO not only benefited EMU member states but also spurred cross- border transactions, decreasing the currency administration risk. Within the EU International trade, 75% of operations are made in EUR and 25% in other currencies. For Czech Republic the currency risk applies approximately to 6500 enterprises.

Number of tools for managing the currency risk has been developed over time where most of them are on the speculative basis to some extent. It, however, requires either deep dependency on an bank expert or a profound knowledge of the whole global context and, of course time. Among the typical currency management tools in SMEs belong first of all purchases in the currency (received from export activities), if possible. Further, it is exchange rate fixation followed by the tools which are typically less under control of SMEs, like conversion, swap or forward operations.

Survey on Czech SMEs (524 SMEs):

- 96% of enterprises make financial plans, though those are on average short term (3 months to 1 year) in vast majority of companies. Book reports used for planning are P&L statement (92%) followed by B/S (82%). The least frequent is cash-flow sheet (52%),
- It has been proved that bankruptcy of an enterprise is a consequence of lack of cash flow rather than short-term loss.
- The currency risk applies approximately to 6,500 SMEs in the Czech Republic.
- Over 20 per cent of trade is made with third countries (out of the EU), which counts for 3,500 companies.
- Financial planning and controlling in terms of currency risk management requires, certain qualification and a deeper insight on International Business, exactly what SMEs very often lack.
- only 59% of questioned SMEs have the independent position of financial director, otherwise the financial operations are managed by the owner (87%), general director (69%) or exec. director (64%).

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EMU and Economic Integration

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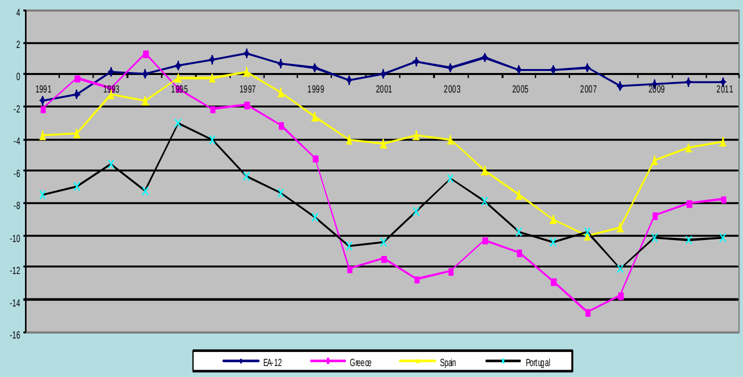
ECBs Monetary Policy

- Monetary policy is a financial tool that if used correctly by the ECB, can maintain price stability in the Euro zone. When the Euro System is also utilized correctly, a set of principles for the conduct of monetary policy will then be able to successfully achieve their goals, and especially the main and primary objective of maintaining price stability.
- The ECB's current two-pronged approach for developing and managing European monetary policy must continue to be utilized. If this is achieved then there will be several benefits in terms of economic growth and employment. Furthermore, it will also prevent problems that may arise in the future.
- The ECB's alternative plan B is the Emergency Liquidity Assistance (ELA). The aim for ELA is to meet the emergency liquidity needs as, "Credit institutions in the euro area have the opportunity to receive funding from central banks not only by conducting monetary policy, but in exceptional cases, and through the provision of Emergency Liquidity Assistance (ELA)

The EURO and Southern European Countries—Professor Savvas Katsikides

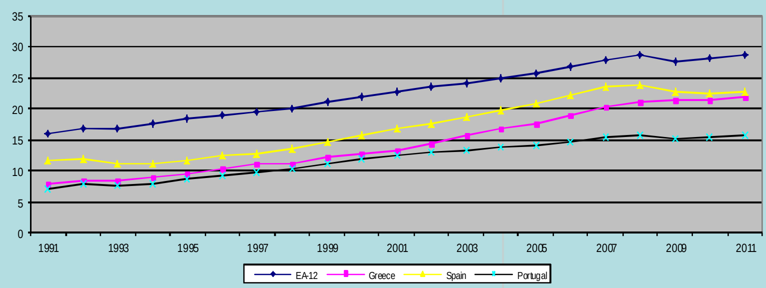
In southern European countries, the adoption of the euro increased the current account deficit until 2008. Since 2009, the deficit is reduced due to the recession and the decline in their imports.

Figure 1: Balance of current transactions (% of GDP) in EA-12, Greece, Spain, and Portugal 1991-2011



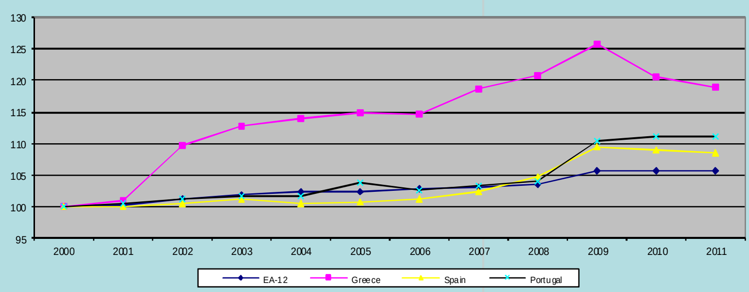
The Southern European economies have numerous similarities. To begin with, their entrance into the euro area had a major impact on their current transactions. After adopting the euro, their trade deficits were increased, reflecting their lack of competitiveness which was eroded, and they had got caught in 'backward' specializations. Figure (1) shows how current transactions evolved in Greece, Spain and Portugal as well as in the euro area of the initial twelve member states (EA-12). Spain and Portugal adopted the euro in 1999. The deficit in their current transactions rose from 1.06 per cent and 7.32 per cent in 1998, to 9.49 per cent and 12.7 per cent in 2008 respectively. Greece joined the zone in 2000, and its current transactions deficit has increased from 5.11 per cent in 1999 to 13.76 per cent in 2008. In contrast, the creation of the euro area does not seem to have affected the current transactions of the EA-12 members, which since 1991, tend to show more often small surpluses than small deficits.

Figure 2: Gross national income per head of population (in thousands Euro, current prices) in EA-12, Greece, Spain, and Portugal, 1991-2011



Since the adoption of the euro and until the 2008 crisis in Greece and Spain, their per capita income was converging towards the euro area average per capita income while since 2009 it shows a trend for divergence.

Figure 3: Real compensation per employee (2000 = 100) in EA-12, Greece, Spain, and Portugal, 2000-2011



The real wages and salaries in Greece were growing faster, in real terms, than the euro area average. However, since 2009 a downward trend takes place, while Spain follows the same trend.

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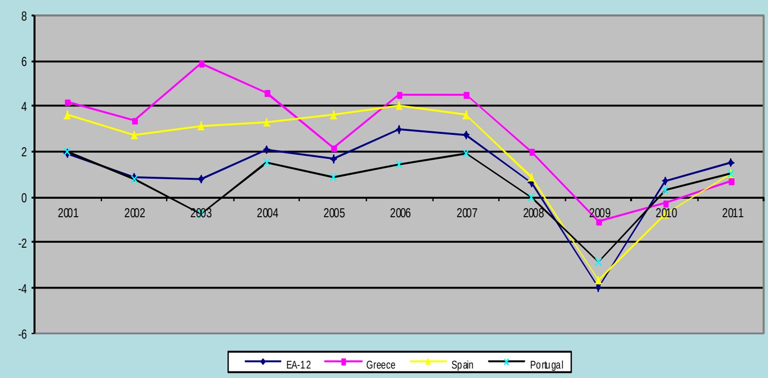
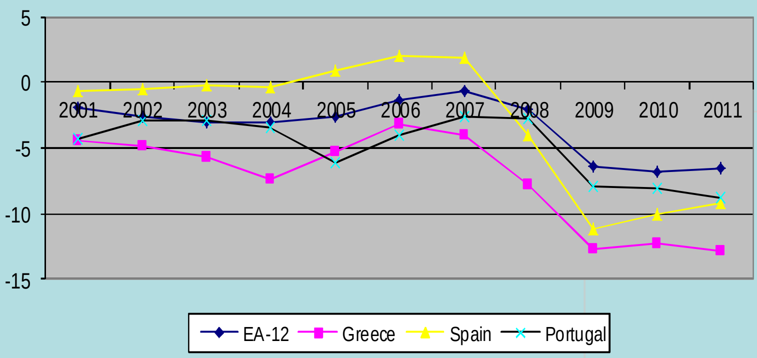
The EURO and Southern European Countries—Professor Savvas Katsikides (cont'd)

Figure 4: Real GDP Growth (%) in EA-12, Greece, Spain and Portugal, 2001-2011



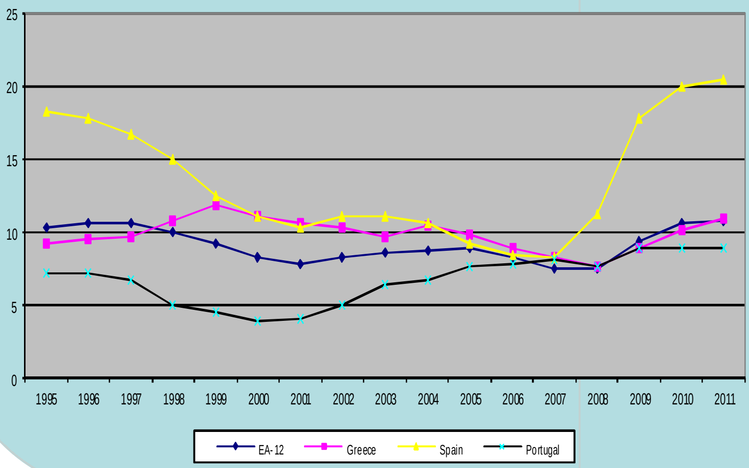
Since the early 2000s until the end of the decade, the annual GDP growth is higher in Greece and Spain while after 2010 this is changing.

Figure 6: Public Balance of General Government [% of GDP, net lending (+) or net borrowing (-)] in EA-12, Greece, Spain and Portugal, 2001-2011



By 2008, the budget deficits of Greece and Portugal were higher than the average of the euro area. Since 2008, Spain, a country with a very good performance in previous years, is starting to show a larger deficit than the average of the euro area, while the deviation of Greece from average increases significantly.

Figure 7: Unemployment Rate (% of civilian labour force) in EA-12, Greece, Spain and Portugal, 1995-2011



Through the crisis period, unemployment is rising everywhere, but especially in Spain and more recently in Greece, which at the end of 2013 was over 30%.

Monetary Policy Instruments

- To achieve the inflation objectives, interest rates or currency exchange rates are used for buying and selling government bonds. Free market operations are divided into four categories:
- First, is the refinancing operations, which are regular liquidity-providing reverse transactions, with a frequency and duration of a week.
- Second, includes longer-term refinancing, i.e. monthly liquidity-providing reverse transactions, with a maturity of 3 months.
- Third, refers to the conduct of fine-tuning on such transactions, carried out urgently, in order to administer the liquidity situation in the market and steering interest rates.
- Fourth, class is structured by acts of being able to perform in the Euro system, through reverse transactions, outright transactions and issuance of debt.
- Active facilities provide and absorb liquidity with a maturity of one day, signalling the general stance of monetary policy and the effect of market rates for one day placements.
- Changes in monetary policy will not affect the price level as a result of time lags in the transmission process

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EMU, Economic Governance and Institutions

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EMU and the Challenges Ahead:

Four Future Scenarios:

- Muddling through the Crisis. The Eurozone remains a house without a protecting roof..
- Break-up of the Eurozone. The Euro house falls apart.
- Core Europe: Evolution of two-level integration with a smaller and stable, but exclusionary Euro house.
- Completion of the Monetary Union by a fiscal and political union. The roof is repaired and construction completed.

The euro area's ambitious reform agenda includes a battle on three fronts:

- Fire-fighting actions to keep the crisis economies' (Southern Europe)adjustment Programmes on track;
- Establishment of closer institutional ties to shore up the footings of the single currency;
- Supporting a broadening and deepening recession by demanding more by way of monetary support.

EMU and the Process of European Integration: the Need for Revisiting EMU's Institutional Framework –c. PhD Georgios Dafnos—Prof. El. Thalassinos

European integration comprises the most successful peace project in history leading to the longest period of peaceful coexistence between leading European powers (60 years). The EU has resulted to a *Pax Europaea* managing to abolish the idea of war between its member states as the means of solving inter-state problems and promoting cooperation and joint management.

This achievement was realized through a painstaking progress, applying a careful incremental approach to the expansion of EU competencies, many times by performing a qualitative leap forward for breaking the mould and lifting a deadlock. EU's historical development stands as an unquestionable testament to its political nature and its initial raison d'être. Whenever Europeans reached a dead end in the field of political cooperation they resorted to further cooperation and coordination on economy, trade and secondary fields of state policies anticipating that the development of supranational institutional bonds and interests would bend hard core sovereignty interests converging one day to a political union. Hence, the integration process has not always been smooth and economically or politically costless.

Several theoretical concepts over the EU's future modus vivendi have emerged over the span of time. Federalism and Functionalism proposed the containment of the nation-state, while Transactionalism sought to theorize the conditions for the stabilization of the nation-state system. The two competing theories that dominated the debate over EU integration were Neofunctionalism (Haas 1958; Lindberg 1963) and Intergovernmentalism (Hoffmann 1964; 1966) while Constructivism came to enrich the debate.

Today, the EU is the culmination of 60 years of evolution exhibiting many state-like attributes, such as an executive (European Council), civil service (European Commission), parliament, court of justice, single currency and single market, but not being a unitary state. At the same time, it sustains a mix of intergovernmental and supranational institutions, with common economic, environmental, foreign, military, social and transport policies, without being a confederation or federation. Instead, the EU is best described as a unique system of multilevel governance, which Kleinman (2002) described as 'incomplete federalism'.

In this context of EU's unique nature, the EMU represents the crown's jewel, the most ambitious integration policy that the EU ever embarked on; it represents the pivotal policy of economic and monetary cooperation which was deemed as necessary for completing the Single Market. At the same time, it touches on the heart of the nation state arriving from a different departure than the one that was firstly attempted in early 1950's, fostering or even demanding further integration for its smooth operation.

On a more practical level, a monetary system represents a crucial factor for national, regional or global economy. It facilitates international trade, foreign investments and economic interdependence and is considered as a prerequisite for a growing economy. The basic goals of a monetary system are to provide liquidity, to be adaptable and to ensure trustworthiness and credibility. On an existential level, currency alone has increased political significance since it is:

- an expression of political existence in the International Community, closely related to concepts such as sovereignty and state,
- a symbol of political belonging to a community (society, country, region),
- a form of social bond within a community (society, country, region)

All the aforementioned were reflected on EU's attempts to gradually advance a Monetary Union. The motives for establishing the Monetary Union were the following:

- Increase of Monetary stability & Economic Security against speculation.
- Increase of Financial Credibility in International Markets.
- Boosting of the Single Market that preceded the Monetary Union.
- Increase of Economic power and independence in the International Political and Economic arena.

Today, the EU seems as a stateless economy, an entity that has state-like competencies on the economic field which though lacks the necessary system of political governance. The gap between politics and economics has always been tantalizing the EU and comprises the challenge to be answered ahead.

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EMU, Macroeconomic Convergence & Fiscal Integration

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A New Budget for the Eurozone? — Professor Elzbieta Kawecka-Wyrzykowska

As a monetary union, the eurozone conducts a single monetary policy, but has almost no instruments to shape fiscal policy. This becomes a problem especially when a Member State is hit by an asymmetric shock. Since shock absorption via market mechanisms does not function properly in the eurozone, effective stabilisation would only be possible by means of fiscal policy instruments. For many years the Member States have built up imbalances and they differ so much structurally that the eurozone is still a great distance away from being an "optimum currency area" as suggested by theories. In this environment (heterogeneous monetary union), the European Central Bank (ECB) is faced with the challenge of pursuing a single monetary policy that cannot fit all eurozone members.

The recent financial and sovereign debt crises in the euro area have not only focused attention on the necessity of reforms in the member states, but also raised questions about institutional shortcomings and the necessity of a greater role for fiscal policy at the EMU level.

In this environment, the so-called Van Rompuy report followed by the European Commission Blueprint of 2012 and conclusions of recent European Councils advocate creation of a "fiscal capacity" to better neutralise country-specific shocks and to support longer term structural adjustments in the EU Member States. In turn, the European Parliament (EP) adopted a resolution20 on the future of EMU. It outlined the Parliament's preferences for a more deeply integrated EMU. Majority of Members of the Parliament (those who endorsed the resolution) shared the opinion that the smooth functioning of EMU requires a move towards a fiscal union. They adopted a number of recommendations to make this objective easier to achieve. As regards budgetary aspects, the European Parliament was of the opinion that a well-functioning EMU needs an increased fiscal capacity. This should be achieved through genuine and specific own resources. Also, the EP called for the democratic legitimacy and accountability of EMU governance to be strengthened. In this context it's necessary to add that the resolution was very critical about the way in which the report of the four Presidents was drafted. They considered it democratically unacceptable that the President of the EP had not been involved in the drafting of this report.

No new element of the financial proposals appeared in the European Council Conclusions of June 2013, apart from the statement that "The discussion will be continued in December 2013, with the objective of taking decisions on these issues, in particular on the main features of contractual arrangements and of associated solidarity mechanisms. Any such measures would be voluntary for those outside the single currency and be fully compatible with the Single Market in all aspects.". The above statements of the leaders of EU Member States and the general discussion among politicians seem to show that the earlier push (in 2012) for more integration has lost the political momentum. This can be explained by the decreased tension on financial markets that has followed the presentation of the ECB's bond-buying programme. The other reason can be closer European Parliament elections in June 2014. Politicians may be afraid that far reaching initiatives of a new budget can make unavoidable discussions on the future of the EU integration more difficult and discourage citizens of the EU to take part in elections.

The EMU crisis unexpectedly has resulted, in the face of the possible collapse of the common currency, in the intensification of discussions to deepen fiscal integration and to complete the existing EMU as a "genuine" monetary union, including a new budget for the eurozone. Several years ago it would have been unimaginable to read about any plans for a common budget or a banking union. In a new economic situation there is at least a debate on the shortcomings of the architecture of the Monetary Union.

"Fiscal Capacity" Raises Concerns

- The first source of concerns is related to a risk that the new budget would affect negatively the discussion on the Multiannual Financial Framework (MFF) and result in reduced money of the common budget of the whole EU, with negative implications mostly for net beneficiaries.
- Risk of overlapping of functions of the eurozone budget with the EU's cohesion policy. The eurozone budget will support not the poorest regions or countries, but those with the biggest debt and unemployment problems. Hence, for instance Slovakia or future eurozone member Poland would benefit little from such an instrument.
- Risk of reducing the common budget in order to find financial means for the new budget of the euro zone. Even in case, the general budget is not reduced and the new budget is created – some Member States would have access to funds of one budget, the other – to funds of two budgets. This would distort rules of the single European market.

Financial Reporting Quality as a Factor of Capital Market Development—Prof. Dejan Spasic—Assoc. Prof. Ksenija Dencic-Mihajlov

The process of communication of enterprises with their environment involves continuous exchange of financial as well as non-financial information. With the purpose of achieving competitive advantage, it is important that enterprises use their publicity policies for providing existent and potential investors with information that are relevant for making decisions on their capital investment. Regular annual financial reports stand for the part of the reporting process, especially when enterprises whose shares and other securities are listed on capital markets and enterprises that recognize the significance of publishing information at frequent intervals are taken into consideration. Interim financial reporting differs from enterprises' regular annual reporting on assets, financial position, income and cash flows. Interim reporting involves disclosure of information related to short and regular semiannual or quarterly intervals as well as disclosure of the so-called ad-hoc information in cases when this extraordinary disclosure should protect the investors' interests and improve competitive advantage.

Protection of investors' interests by providing them with relevant and reliable information stands for one of the segments of harmonization of regulations within the European Union. In that sense, purposes of harmonization of existent regulations related to the reporting of companies whose securities are traded on EU capital markets engaged the European Commission and its bodies in an intensive work on the passing of directives, regulations and other acts in the last couple of years. Transparent reporting of companies which participate in the capital markets involves voluntary disclosure of a classic set of financial reports as well as other reports to the public and investors. Within that process, what matters is not only the quantity of reports, but also the quality of disclosed financial information.

The companies whose securities are traded in the capital markets in the Europen Union, no matter whether originate from EU member states or not, have to meet certain requirements in terms of transparency of information that have to be provided to the public, particularly to existing and potential investors. These requirements are contained in the regulations of the regulatory bodies of individual countries, but also in the harmonized rules at the EU level in the form of regulations, directives etc.

The regulatory framework and accounting practices in the Republic of Serbia have undergone considerable changes, especially in the implementation and enforcement of International Financial Reporting Standards. As a country that affirms ambitions to EU accession, Serbia has had to amend its legislation to comply with the EU Directives and require listed companies to prepare their financial statements according to IFRSs. However, the harmonization with the EU accounting directives and adoption of IFRS is not fully completed. There are problems in the implementation and enforcement of new legislation and difficulties in following these regulations in practice (Denčić-Mihajlov, Spasić, 2005).

The analyses of regulatory bases and financial reporting practices have pointed out several important issues:

- Mandatory financial reporting is not expected to be sufficient, which is applicable to Serbia as well which is characterized by unstable market economy with poor efficiency of capital market. Foreign investors, whose share in the total volume and the number of transactions on the Serbian capital market in the period of global financial crisis is declining, prefer financial reporting above the proscribed legal minimum.
- Voluntary financial reporting is required in order to build quality and strong relations with the investing public. The analysis of the reported financial information of seven companies listed on the Belgrade Stock Exchange points out that the level of voluntary disclosure is very low. One could conclude that such accounting practices suit the needs of thin and illiquid Serbian capital market.
- Domestic companies, whose aim is to attract foreign investors, should improve the quality of financial reporting in English.

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