

EVOLUTION OF THE ROMANIAN CAPITAL MARKET IN THE LAST FOUR YEARS

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ABSTRACT: *The effects of the great recession have also been felt in Romania and the domestic capital market, component of the European financial market, has suffered from the negative evolutions of the world's economy, following the downward trend of the external markets since the crisis started. Considering the economic situation as of 2008, the Romanian capital market was faced with a small number of transactions, a decreased stock capitalization and low level of credibility, massive diminishment of liquidities, capital withdrawal on the financial market and significant depreciation of stock exchange indicators. This paper aims at presenting the evolution of the capital market in Romania for the last four years, pinpointing several strategic directions that are meant to support the domestic stock exchange and place them in the European stock exchanges top.*

KEY WORDS: *capital market; emergent capital markets; investors; market growth; Bucharest Stock Exchange; Romania.*

JEL CLASSIFICATION: *G01; G11.*

1. INTRODUCTION

Within globalization of the financial markets, the stock market plays an important role in generating and maintaining the economic dynamics and contributes, at the same extent, to the growth of economic instability.

Theoretically, the stock market is considered an alternative in the field of finance in any economy, but this major role has never been exploited enough within the Romanian stock exchange. Along its activity, the local stock exchange did not desire to ensure this financing role for the economy by attracting available capital in the medium and long run based on the issues of real estate securities and it evolved unexpectedly low. Thus, it did not have an important role in the growth of efficiency of available resources from the economy in order to facilitate demand for financing sources.

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In Romania, the activity which is specific to the capital market is underdeveloped both regarding quantity and quality. Its extent to the total of financial markets is reduced and the blue chips have dropped in comparison with European countries or other emerging countries.

The market's weak development has mainly resulted from the fact that it is related to the Mass Privatization Programme (MPP) and Romania's engagement with other international financing organisms in order to create a secondary market for the shares resulted from the above mentioned programme. Unfortunately, in Romania, the capital market was seen by most people as a necessary annex in the privatization process.

The Bucharest Stock Exchange (B.S.E.) is a regulated market, authorized to trade forwards and deliver cash which work regularly. We observe the transparency requirements in view of ensuring the investors' protection and function based on the regulations that permit access to and the conditions of the market, and act based on financial instruments and transactions of the stock rules of the system.

B.S.E. is not considered very representative for the Romanian market because only a few great companies are listed. The reduced dimension of the local market with few Romanian investors, very few transactions underdone monthly, foreign investors represent an important element of the market which, through time, definitively influenced its evolution.

The financial instruments used for the B.S.E. transactions are classical (shares, bonds, titles, fund units, structured products and futures contracts), the investitures are in an impossibility to transact modern financial instruments which combine the characteristics that regard a maximum capacity of titles with minimum risks.

The weaknesses of the international financial system have indirectly generated negative effects on the emerging markets. The evolution of the international financial crisis, which originated in the most developed economy of the world, affected the capital markets in Romania and thus put an end to the rising trend of market indexes regulated by the Bucharest Stock Exchange starting from 1998.

Within the crisis, the Romanian capital market has recorded an evolution which was common to all other European, American and Asian markets. It is characterized by liquidity loss and stock indices depreciation. The correlations between the indices of the Bucharest Stock exchange and the European stock exchanges have determined a rapid and persistent growth of the market volatility where the Romanian market was characterized by high vulnerability to foreign shocks.

2. MARKET EVOLUTION FOR 2008-2011

In 2008 the economic and financial environment changed drastically in comparison to previous years and this had an obvious impact on the capital market. The first three trimesters of the year an important growth of the Romanian economy could be noticed, with the highest hit of +9.1% in the third trimester but with lower values in the last part of the year.

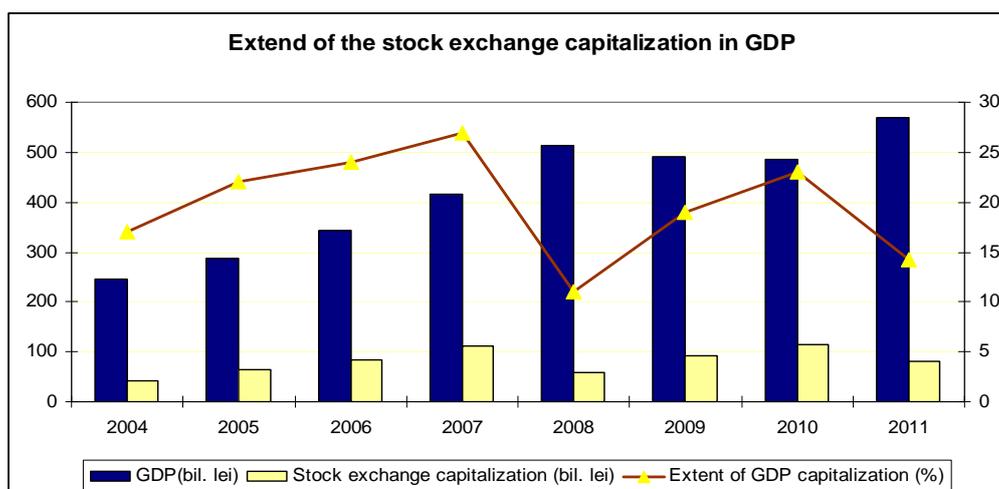
While the most developed countries contributed with important sums of money to the financial stability, the Romanian government acted with prudence regarding

inflation. The Romanian government was concerned about guarding the national currency stability and prudent lower of monetary politics interest, which had as effect fewer foreign investors on the local capital market. At international levels, the monetary authorities supported indirectly the activities underdone within the stock exchange by lowering interest rates.

Table 1. Extent of the stock exchange capitalization in GDP

Indicator	Year							
	2004	2005	2006	2007	2008	2009	2010	2011
GDP (bil. lei)	246.47	288.18	344.65	416.00	514.65	491.27	485.38	568,09
Stock exchange capitalization (bil. lei)	42.14	64.27	84.05	110.4	57.8	92.4	113.27	81,01
Extent of GDP capitalization (%)	17	22	24	27	11	18.8	23.34	14,26

Source: working of the author based on available data from B.S.E./N.S.I. (www.bvb.ro, www.insse.ro)



Source: working of the author based on the results in table no. 1

Figure 1. Extend of the stock exchange capitalization in GDP

Although along the year 2008 the shares issued by 9 new trading companies were introduced for transaction on the regulated market by the Bucharest Stock Exchange. At the same there were admitted for transactions the first shares issued by a foreign company, Erste Group Bank and over 20 series of titles. By the end of the last transaction of the year, the total value of the stock exchange capitalization on the market was of 57.8 billion lei, with over 50 billion lei below the index of 2007. The fall of capitalization reflects the downward alterations of the reference prices for most titles

transitioned by B.S.E. in the absence of significant enlisting during that period. In the same time, the value of the transactions at BSE dropped by 53% in comparison to the previous year, which is considered the most dramatic and steep fall of the last 10 years.

The volatile stock exchange indexes have highly risen during September - October of 2008, as a result of the important instability of the international financial markets. In December, the BET index was 70% below the start value of January and the loss recorded by the market indices of BSE had the highest level on the European markets.

Starting 2008, on the background of the turbulences that affected the international financial market, the investors' antipathy towards risk raised, there was higher interest for the financial instruments with fixed income. This orientation was eased by listing the first state-owned titles, 33 in number.

By comparison to the previous year, at the end of 2009 all the BSE recorded significant appreciation. The most important rise was for the sector indices BET-FI (+90 %) and BET-NG (+71 %).

BET has a downward trend in the first two months of the year, but in March the BSE indices negative evolution was stopped. These indices went upward and recorded a growth of 61.7% by comparison to 2008, and the composite index BET-C has raised by 37.3%.

Table 2. Dynamics of BSE indices BVB in 2009-2011

B.S.E. index	Value at 31.12. 2009 (points)	Variations of the index in 2009 (%)	Value at 31.12. 2010 (points)	Variation of the index in 2010 (%)	Value at 31.12. 2011 (points)	Variation of the index in 2011 (%)
BET	4,690.57	+61,68	5268.61	+12.3	4,336,95	-17,68%
BET-XT	461.95	+ 66,55	470.61	+1.8	405,62	-13,81%
BET-C	2,714.77	+37,31	3111.17	+ 14.6	2,621,41	-15,74%
BET-FI	23,885.96	+90,33	21980.58	-7.9	19,341,50	-12,01%
BET-NG	596.16	+71,10	771.97	+29.4	612,35	-20,68%

Source: working of the author based on available data from B.S.E. (www.bvb.ro)

The indices appreciation was determined by the trend imposed on the Romanian market by the main European stock exchanges even if in certain classes BSE was over the European average values. Thus, the Romanian stock exchange market was one of the most dynamic stock exchanges besides the stock exchanges of Vienna, Luxembourg, Oslo and Stockholm. Still, the nominal value of the total stock exchange capitalization of BSE is much under the Romanian capital market.

Till the end of 2010 the index BET of BSES recorded a growth of 12.3%, BET-C 14.6%, and BET-FI dropped by 7.9%.

In 2009 without taking into account the admission for transaction of new shares, the stock exchange capitalization was only influenced by the transaction price evolution of the already-listed real estate. But the growth recorded at the end of 2009, by comparison to the last year, was generated by the market value of the sole foreign company whose shares are admitted for transactions on the local exchange market – that is Erste Group AG. The state-owned titles transaction could bring a plus of value for the local stock market but it did not come to an end successfully and it turned into

an imitation of the activities carried on by the commercial banks on the monetary market.

The evolution of capitalization based on the GDP estimated at the end of 2010 was of 23.24%, with a value of 113.27 billion lei by report to the 92.4 billion lei at the end of the previous year. The evolution of the local stock market in 2009 suggests the fact that it is before a new stock exchange cycle.

In 2010 there were listed 7 new credit titles issued on the BSE segment downward than in 16 of 2009, but the transaction value recorded was the highest until the present day. The total number of the bonds transactions was of 543 downward by comparison to the 965 transactions of 2009.

From the point of view of the issuers on the Rasdaq segment and the regulated market, the Bucharest Stock Exchange recorded a rising trend starting 2006. Although linear, the growth contributed to positive evolutions of the stock exchange, one of the objectives of the local stock exchange being to attract higher numbers of issuers.

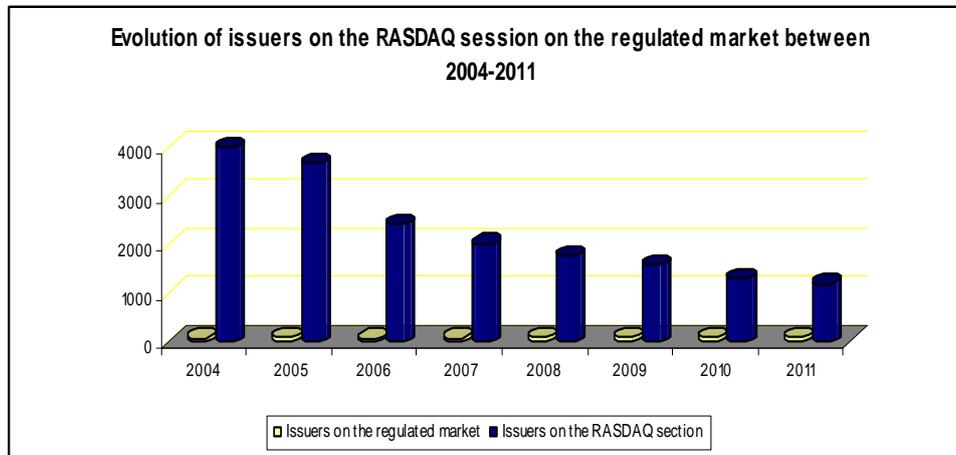
Table 3. Evolution of issuers on the RASDAQ session on the regulated market between 2004-2011

Year	Issuers on the regulated market	Issuers on the Rasdaq
2004	60	3998
2005	64	3683
2006	58	2420
2007	59	2019
2008	68	1753
2009	69	1561
2010	75	1309
2011	79	1183

In comparison to the capitalization of the stock exchanges in the Czech Republic, Hungary, Slovakia, Bulgaria, the capitalization of BSE in 2010 knew significant appreciation of 20.1% (EUR), while the stock Exchange in Poland remains regional leader with a growth of 35% and capitalization of 141,918 million EUR. The stock exchanges of Greece and Bulgaria recorded significant lows both of capitalization and transactions while the stocks of NYSE Euronext and Deutsche Borse knew significant growth for both indices. The highest growth was recorded by the Oslo Borse with a capitalization growth of 39%.

In 2010 the investors placed their available funds in mutual funds bonds which were considered as low risk financial instruments, to a greater extent than in 2009: 93% of the institutional investors and 74% for individual investors.

In 2011 there were confirmed the growth predictions regarding the growth of market liquidities and the investors' interest regarding the capital market by listing at the stock exchange of the Property Fund. The interest grows more once the state lists the energetic companies.



Source: working of the author based on available data from B.S.E. (www.bvb.ro)

Figure 2. Evolution of issuers on the RASDAQ session on the regulated market between 2004-2011

In the same year, the total transaction value of BRS over passed 11 billion rising 32.1% by comparison to 2010. This plus was generated by certain active classes highlighting a change of transaction of stock turnover. Over 90% of the stock turnover was registered as listed shares. The value of the exchanges was 9, 93 billion lei, rising 77.5% by comparison to 2010. Thus, this segment represented the main engine for the growth of the transaction values.

The performances of the year were recorded due to the important induction of the listings of the Property Fund, first class issuer which determined high interest of the resident and non-resident investors.

The bonds recorded a steep fall of 80% of investments. The trend was determined by the insignificant role played in the stock turnover during the last two years by the corporatist and municipal bonds.

The reduction of the state-owned bonds transaction could be the result of behaviour of hoarding.

If at world level the developed stock markets have approached the level of 2007, locally, BSM has not succeeded to recover neither the loss of the last four years neither regarding prices nor the volume of financial titles proceedings.

As the volatile foreign markets will have later effects on the local market, the intern stock exchange is still among the sectors of economy most affected by the economic and financial crisis.

In the present economic state, Romania cannot protect itself from the impact of a possible break from the Euro area as it has not developed own development forces as have other countries such as Czech Republic and Poland. In these circumstances, the local stock market is expecting both the listings of the state-owned companies and the stock launch of other issuers interested in new listings and/or corporatist bonds in view of growth of market liquidity and stock capitalization. We all know that the local capital market needs a strong drive in this moment. This drive is hoped –owned

companies. The capital market of Romania can benefit by the privatization programme planned to create a virtuous circle made of extended offer, investors' higher interest and more liquidities.

In the future, the operations with financial assets will focus on the most dynamic markets – Hong Kong, Singapore, Warszawa, and BSM will become a peripheral stock exchange where the local brokers will find it hard to exist.

3. CONCLUSIONS

The financial crisis proved that, once again, the financial markets are deficient from the point of view of surveillance and regulation of activities. In this case, the situation highlighted the need to reformulate and regulate the institutions. At the moment, the whole European system of financial surveillance is passing a difficult process of legislation and institution reorganization and consolidation of the means and mechanisms of surveillance. The European authorities realised that the negative elements which slow the future development of the capital market belong to implementation of reforms in economy and the lack of stability of the financial legislation.

The development of an effective capital market is hard in the present Romanian environment. The great extent of the state sector, ignoring of market rules by the decision factors from the Government and the central bank, lack of transparency of the listed issuers, lack of powerful financial agents who can place titles on the retail networks, lack of cooperation between the commercial Banks and financial agents, breach between the monetary market and the financial market, ignoring from the Finance Ministry for stock Exchange mechanisms, population's low income and many other factors situate the Romanian capital exchange market under the level of development.

The stock exchange should be seen more and more as an active instrument for the foundation of companies, where issuers should appeal first, as it is the cheapest source. Unfortunately, we are not witnessing a growth of the Primary Public Offers and I believe there should be done more by presenting the benefits of listing to entrepreneurs.

The Bucharest Stock exchange follows to develop the forward transactions, in a sense of extending the range of derived financial products transaction and adapted to the quality growth of trading and clearing models. Also, there are high efforts for attracting new listed companies and new IPOs, as their representatives recognised that that the IPO – vital instruments for the mobility of financial resources in the real sector – are almost inexistent.

In this respect, there are underdone intense activities to identify new possible issues. They have to be serious issuers and their abilities should contribute to the stock exchange capitalization and liquidity of the regulated market. They should familiarize themselves to the service offered by the BSE as well as to the advantages of listing and the possibility to attract finance through the capital market.

After a partial recovery in 2009, stagnation in 2010 and decrease in 2011, the Romanian stock exchange market will make efforts to solve the crisis issues and

encourage economic growth with the support of both stock exchange market authorities and the companies listed on the Stock Exchange through certain activities aiming at attracting new issuers or promoting stock exchange and financial investments among the large audience.

In conclusion, we would like to highlight the fact that the capital market reflects the real economy. Without political support regarding the structure change and sustained effort for successful implementation of a stable macroeconomic implementation, the Romanian capital market will not reach the performance it had recorded before the international financial crisis.

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