

FEATURES OF THE CAPITAL MARKET'S EVOLUTION IN ROMANIA IN THE CONTEXT OF THE TURBULENCES PRODUCED BY THE FINANCIAL CRISIS

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Abstract:

The international financial markets, through the amplexity and speed with which evolve, are in an unprecedented process of change. Through their functioning, the stock markets have always been characterized by a high sensitivity degree to the changes that take place at investors' level, on the developments and perspectives of the real economy and of the financial system.

The international economy is in a continuous reorganization and transition process, with impact on all nations, these being under the necessity of adapting to the rapid changes that occur worldwide. This restructuring process is led by two dynamic and independent forces: the enhancement of the world's economy globalization process and the emergence and development of the regional economic arrangements.

Even if in 2007, through its membership to the European Union the local capital market benefited from substantial funds inflows, the signs of the global financial crisis initiated in the United States became obvious, 2008 being one of the most difficult years.

Due to improper risk management, to the rating agencies' failures in risk assessment, to inappropriate application of the regulation and control, the existing regulatory and supervisory framework failed to prevent the crisis' occurrence.

In the context of globalization and integration into the unique capital market of the European Union, we achieved a blueprint of the internal capital market, in order to identify the main issues that it faces, as well as its developments and perspectives.

Key words: financial crisis, capital market, investors, foreign capital invasion

JEL classification: G01, G12, G15

1. INTRODUCTION

Among the most important modifications produced in the global financial markets were those related to the integration and globalization acceleration phenomenon. This evolution directly determined by the liberalization of the national financial markets, the rapid technological progress and the huge developments in the telecommunications' field led to the emergence of new investment and financing opportunities for the financial markets' participants worldwide. [1]

The national capital market is one of the emerging markets, Romania initiating an economic growth process but failing to reach a high level of development, being characterized by a substantial degree of economic and political instability.

Even though the stock market's creation and consolidation process began a long time ago in Romania, its advances proved to be minor, the Romanian capital market being far from reaching a development level that allows it to exercise its main role, that of financing the economy. The importance of the capital market resides in the fact that it represents a benchmark of the functional market economy's evolution and development degree, its existence and development level becoming for the national economy a condition that must be met.

2. THE IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS ON THE CAPITAL MARKET

The capital market's slowed down progress also resides in the fact that Romania after approximately a half of century in which did not benefited from a stock market, it basically started from scratch, without experience and without having a developed infrastructure and institutional

personnel. Among the causes that affected this market's development, we can mention some internal ones, such as high interest and inflation rates, economic environment's low profitability, economic recession, late and incomplete enactment of the securities' legislation and its frequent change, but also a series of external financial events, such as the Asian crisis, initiated at the end of 1997 and the 1998 Russian crisis. [2]

It must also be taken into account the national economy's maroeconomic context of the last 10 years, characterized by a foreign capital invasion that took over most of the local production factors, a banking system burst that provided loan capital at historically low costs (the LIBOR for USD registered the decade with the lowest average in the history of USD's existence), and the few Romanian entrepreneurs start-ups benefited from private-equity type structures financing (that in turn were funded by the home markets at historically low costs).

The capital market is a field of activity whose existence and development depends both on its institutional components and financial availability, as well as mostly on the trust inspired by its mechanisms and the behavior of those who lead it and of those who directly perform market specific operations. The explanation can be found in the fact that these operations can considerably impact on issuers' and investors' economic and financial interests through numerous controllable variables, such as: the moment chosen for their initiation, the charged price, the way of using information, the used method.

The capital market's ascending or descending trend, respectively the registered progress or setbacks are calculated based on quite a relevant criterion, namely market liquidity. In analysts' opinion, the Romanian capital market is not a liquid market, only the Bucharest Stock Exchange listed shares and the very few shares traded on the RASDAQ market ensure investors with a reasonably liquidity.

Another problem faced by the national market is that due to the instability of the legislative framework, the financial blockage and the high interest and inflation rates, the public bonds' issuances funding mechanism is underused, the bonds failing to provide an alternative to the shares' investments. Also, in the problem of bond issuances, Romania, as it can be seen in the chart below, has the same values as in 2010, at the lowest level, both as instruments' number as well as value, compared to the similar size capital markets, namely those of Central and Eastern Europe.

Of the Central and Eastern Europe stock exchanges, Vienna has the best results (with 3670 series, most issued by companies), followed by the Warsaw Stock Exchange (142 series), the Bratislava Stock Exchange (132) and the Budapest Stock Exchange (112). The Bucharest Stock Exchange with 55 listed series out of which 53 series issued by municipalities, outperformed even by the Sofia Stock Exchange, where 69 bonds' series are listed.

The Romanian bonds market has such a low level compared to those in the proximity, because of the disparities between interest rates and capital cost for local companies.

From an operational point of view, the capital market is not very high, and the speculations, the transactions with social character and the cross trade disrupt the rates' normal distribution, the truthfulness and homogeneity of investors' prices anticipations.

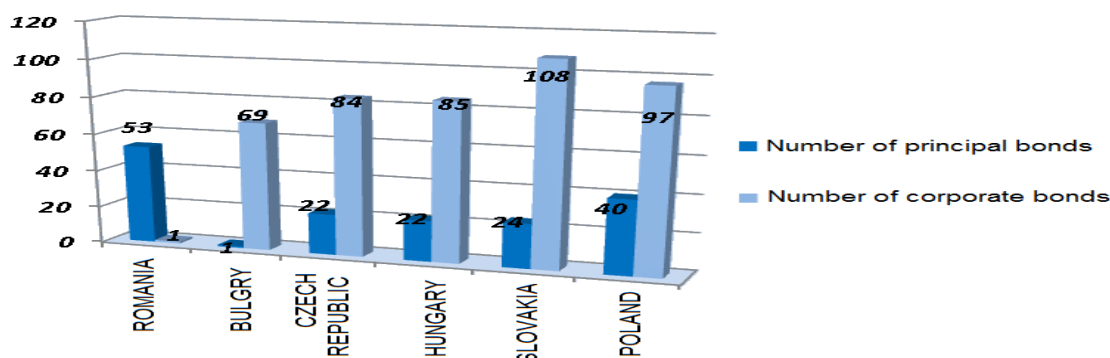


Figure no.1 The number of bonds' issuances in Eastern European stock exchanges (2010)

Source: Proper processing after the National Securities Comissions' report, (CNVM), 2010

The most important argument for the inefficiency of the Romanian capital market is the informational one. Although the listed companies have the obligation to periodically elaborate reports regarding the financial situations, managers' and auditors' reports, on the Romanian capital market the lack of public information is felt, fact that can influence investor's decisions as they take into account the issuers' appreciation prospects. Therefore an impaired communication relation was established between issuers and investors. The issuers are reluctant in exposing more than required to by the supervisory and regulatory authority, fearing that competitors might use their "weaknesses" to their disadvantage.

When concerning the listed stocks' prices information, things are clear, these information being immediately available (including on the Internet), not the same can be said about the information of the listed compnies, in Romania being possible to speak of an informational asymmetry.

There still are listed companies on which exist only occasional periodic information regarding the company's situation and evolution, a fact that has negative effects on the correct substantiation of the investment decision, especially for individual investors. In order to have a company's performances and market prestige officially recognized, it should create a financial and non-financial communication with investor's policy, aiming to gain the loyalty and the relative dispersion of the shareholders, the ensuring of shares' mobility, and the inveiglement of new shareholders through public offerings.

Also, the local capital market is defective in terms of protection offered to minority shareholders. This problem resulting from the lack of legislation in this field, to which is added the dispersed shareholding structure of the Romanian companies as a result of the mass privatisation program enabled certain abuses of the majority shareholders against the minority shareholders.

The main obstacles that held back the market's development were mostly legislative. The frequent changes in the tax code regarding capital gains' taxing, the National Securities Comissions' Regulation regarding delisting or the SIFs' holding limit modification ordinance were negatively perceived by both foreign and local investors. The investors from the Romanian capital market pay among the highest taxes in Europe and do not benefit from tax remission.

For example, in Austria and Germany the investors enjoy tax remission for the sale of the shares held for more than a year that represent less than 1% of the company's capital. In France, the incomes of less than 15,000 euros are tax free. In the Czech Republic, tax exemptions are given for shares held for more than two years, and in Hungary taxes are not charged for the capital market gains or for interest earnings.

Another provision that bothers investors is the introduction the prepayment concept, by retaining 5% of the earnings all over the year, so as at the end of the year to apply the 16% rate on the net gain. [5]

This 5% retention tax is a decision that ignores the capital market's reality, where complex operations such as hedging or in absentia trades are performed. The taxes' increase will only hold back new investors' inveiglement and capital market development. [11]

3. COMPARATIVE ANALYSIS REGARDING THE CAPITAL MARKET'S DEVELOPMENT IN ROMANIA VERSUS THE EMERGING COUNTRIES

For many years, the Romanian capital market did not evolved in isolation and its correlation with various other markets becomes ever stronger. The explanations are related to the institutional investors' strategies, which often cause the major trends in the market.

Nevertheless, we can not talk about a real correlation, the direct correlation of the national capital market with the countries in the proximity commenced with Romania's integration in the European Union, although the susequent developments experienced due to the global context influences (the Southeastern Asia financial crisis in the last years of the twentieth century, Russia's entry into payment default, the trends set by the New York stock exchange) were similar.

There are significant differences between the dimension of the Bucharest stock exchange and the dimensions of the other Central and Eastern Europe stock exchanges. But, as the national capital market reaches maturity, the correlation between it and other emerging economies becomes stronger and begins to be perceived by foreign investors as part of the Central and Eastern European area, dominated until now by the stock exchanges of the Czech Republic, Hungary and Poland. The main feature of these markets is their sensitivity to the foreign capital's fluctuations and the permanent search for ways to limit these fluctuations' effects.

Unfortunately, the market lacks social and political stability, a favorable macroeconomic environment that enables it to control these fluctuations. At market's level there are also endogenous factors that might help balancing the market: high quality liquid companies' listing, as well as corporate governance reinforcement.

The variations between these and their deep development disparity also derive from the modality of attracting international investors. From the differences pronounced in terms of market capitalization and in terms of the average of the daily traded sums, according to which the Bucharest Stock Exchange has a dimension reduced to the region's scale, we conclude that Romania is not very dexterous in attracting investors. The market capitalization highlights that it is not unimportant to observe that at the institutional investor's trading level the other three markets (Hungary, Poland and Czech Republic) also lack liquidity, the market execution of any of these order, determining major price changes to the respective securities.

From the point of view of stock exchange capitalization, the strongest exchange in Central and Eastern Europe is the one in Poland, this recording the most outstanding growth in 2009 compared to the previous year.

Table no.1. The Bucharest Stock Exchange capitalization compared to other emerging markets, in 2009

Country	Local companies' stock market capitalization (mil.EURO)	Stock exchange capitalization evolution compared to 2008 (%)
Romania	9.186,57	32,8
Bulgaria	6.030,96	-5,3
Czech Republic	31.265,36	5,6
Poland	105.157,15	61,3
Slovenia	8.462,22	-0,1
Hungary	20.887,90	56,8

Source: *Elaborated after the National Securities Comissions' report 2009*

Another figure that ranks Poland higher than the Romanian stock exchange is given by the stock transactions' level achieved during 2009, the Warsaw Stock Exchange 41.415 billion Euros compared to 1.324 billion Euros the Bucharest Stock Exchange.

Table no. 2. The evolution of the transactions' value on the main European markets in 2009

Country	The stock exchange tranzactions' evolution (mil.Euro)	The transactions' value evolution 2009/2008
Romania	1.340	-42
Poland	41.415	-13
Bulgaria	358	-73
Hungary	18.464	32
Czech Republic	17.565	35

Source: *Elaborated after the National Securities Comissions' report 2009*

Quotations' restoring led to the stock exchange capitalization increase, but as it can be observed in the second table, did not determined an increase in the volume of stock transactions, being observed a significant decrease of these in 2009, compared to 2008. The drop in trading value in 2009 compared to the previous year has also been a characteristic for almost all the European stock markets. The decrease of the value of share transactions was of 33%, up to 5.67 billion lei. Related to the Euro currency, the decline was of 42%.

In 2010, the correlation of the Romanian capital market with the neighbouring markets weakened in intensity (PX, WIG and BUX are the indices of the stock markets from the Czech Republic, Poland and Hungary) unlike in other years. The correlation coefficients between BET and WIG, PX and BUX indices were in 2010 of 0.16, 0.67 and 0.74 versus 0.97, 0.99, 0.98 in 2009.



Figure no. 2 The correlation of the capital market with the neighbouring markets in 2010

Source: *Intercapital Invest, The evolution of the capital market in 2010*

From analysing the above chart, we can observe a slight delay in the correlation of the internal stock exchange with the foreign stock exchanges, in the strict context of the internal risks (budgetary, political and social), that intensified in 2010 and determined the embracing of budgetary consolidation measures.

In 2010, the stock exchange in Poland was the first of the regional stock exchanges, with a 200 capitalization, 5 billion Euros and with a trading value of 59 billion Euros. Romania ranks slightly ahead of Bulgaria with a capitalization of 23.9 billion euros and with a trading value of 1.3 billion Euros, almost 9 times smaller than the Warsaw stock exchange.

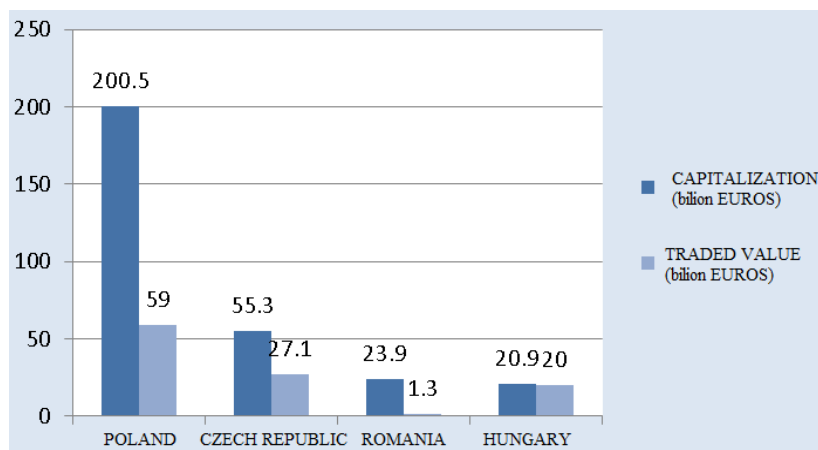


Figure no. 3. The capitalization and the trading volumes in the regional stock exchanges in 2010

Source: Proper processing after the National Securities Commissions' report, 2010

Even though Romania is considered to be one of the largest outlets from the Central and Eastern Europe, the second after Poland, with over 22 million inhabitants, and the attractive geographical location allows easy access for the countries of the former USSR, of the Middle East and North Africa, the foreign capital that came into Romania represents a very small part of the total investments from the Central and Eastern Europe. From the Creditanstalt data it appears that the Hungarian, Polish and (to a lesser extent) the Czech capital markets depend mainly on foreign capital.

After having a stagnation period in 2010 and few partial comebacks in 2009, the capital market recorded a year of decline in 2011. This can be seen from the evolution of the main index of the Bucharest Stock Exchange, according to the figure no.4.



Figure no. 4. The evolution of the Bucharest Stock Exchange main index between 2007 and 2011

Source: www.intercapital.ro

In 2011 the BET index registered the third full year of decline (-17.7%) in its history, after the 50.2% drop in 1998 and the -70.5% in 2008. If we extend the analysis to the level of 2013, we can note that the BET index recovered, ending 2013 with an increase of 26.1%, the best annual output recorded after 2009. If in 2011, all the indices of the Bucharest stock exchange dropped, BET-FI, lost 12.0%; BET-XT lost 13.8% and BET-NG, the index of the energy sector dropped by -20.7% in 2013. BET-FI increased by 23.3%; BET-XT gained 23.4% and the index of the energy sector BET-NG ended the year with + 6.1%; BETC, the composite index of the regulated market increased with 20.0%.



Figure no. 5. The evolution of the Bucharest Stock Exchange main index between 2007 and 2013

Source: www.intercapital.ro

The similitude occurred in the evolution of the shares listed on the regulated market of the Bucharest Stock Exchange, registering two distinct phases during the same year. In 2011, the first quarter brought slight increases for the index, this accumulating + 12.5% between December 31st,

2010 and March 31st, 2011, while in the same period of 2013, the shares had an oscillatory evolution, with increases in the beginning of the year, followed by decreases until the mid of the year.

The correlation of the Romanian market with the neighbouring markets increased in intensity in 2011 (PX, BUX and WIG are the indices of the stock exchanges from the Czech Republic, Poland and Hungary). This can be observed in figure no.6.



Figure no. 6. The evolution of the BET-C and BET-FI indices, compared to BET, in 2011

Source: www.intercapital.ro

Comparatively, in 2013, the correlation of the Romanian market with the Czech Republic and Hungary stock markets decreased even more in intensity, as presented in figure no.7.



Figure no. 7. The correlation with the neighbouring markets in 2013

Source: www.intercapital.ro

Therefore, in 2013 the correlation coefficients between BET and the PX and BUX indices were of 0,47 respectively -0,15 (compared to 0,57, respectively 0,53, in 2012); but the correlation with the Polish market grew, with a correlation coefficient between BET and WIG of 0,87 in 2013 (0,20 in 2012). [9]

BET's volatility, calculated as standard deviation of the daily turnovers, continuously decreased in 2013 to 0.71%, compared to 1.04% in 2012, 1.39% in 2011, 1.89% in 2010, 2.58 % in 2009 and 2.68% in 2008. [10]

A number of 31 companies listed on the market regulated by the Bucharest stock exchanges paid dividends in cash in 2013 based on the results obtained in 2012, compared to 29 companies in 2011, 25 in 2010, 24 in 2009 and 20 in 2008. Of the 31 companies that paid dividends in 2013, 13 were listed on the first category of the stock market, 16 in the second category and two in the international category.

4. CONCLUSIONS

The national or international financial market offers to companies a wide range of financing sources. At companies' level, the managers must choose between the available resources and combine them, thus outlining the financial policy of the company. One of the most important benefits of listing companies on the stock market is that by this operation, the companies' shares become more liquid offering compensation and financial freedom for founders and employees.

The financial resources that exist on the capital markets may represent a significant financing component for companies that enter this market and use its instruments. Financing through the capital market is a much cheaper alternative, it surpasses the bank loan and it is more accessible to performant companies due to market's dynamics and investor's perception. Over the years it was proven that an IPO (initial public offering) is quickly analyzed and assimilated both by speculators and portfolio investors. Maintaining their attention through the frequent use of market instruments and after the company's shares trading admission, can provide for the company a continuous supply of financial resources associated with meeting investors' expectations regarding the profitability and company's prospects.

The analysis of the capital market transactions in Romania as detailed in the present research has revealed that the Bucharest Stock Exchange has had a constant and positive development, despite the current economic crisis and the subsequent long recession period. Thus, in 2013, equity transactions have amounted to 11,2 billion lei (2.5 billion Euros), as compared to 7,4 billion lei (1.6 billion Euros) in 2012, 9,9 billion lei (2.2 billion Euros) in 2011, 5,6 billion lei (1.2 billion Euros) in 2010 and 5,1 billion lei (1.1 billion Euros) in 2009. These trends actually signal the significant increase in the investors' confidence as far as the potential of this market is concerned. The foreign capital that recently entered in Romania represents a very small part of the total investments from the Central and Eastern Europe. The statistical data reveal the fact that the Hungarian and Polish and (to a lesser extent) the Czech capital markets depend largely on foreign capital.

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