THE ROMANIAN CAPITAL MARKET DEVELOPMENT

Prof. Gabriela ANGHELACHE PhD (gabriela.anghelache@gmail.com)
Bucharest University of Economic Studies

Prof. Constantin ANGHELACHE PhD (actincon@yahoo.com)
Bucharest University of Economic Studies / „Artifex” University of Bucharest

Assoc. prof. Mădălina-Gabriela ANGHEL PhD (madalinagabriela_anghel@yahoo.com)
„Artifex” University of Bucharest

Mariana CHILIMENT Ph.D Student (mariana.chiliment@gmail.com)
Bucharest University of Economic Studies

Abstract

The capital market has existed in Romania for some time, although concrete elements could not be identified for the period 1945-1989, but nevertheless, although we can not discuss in the broad sense of the word, we can conclude that there were a series of activities with character market. Of course, in the communist period, we can not talk about a capital market, the economy being staged, but yet some Romanian participations in some markets through the cereal exchange were a presence in this area of the capital market. After 1990, with the deployment of the free market by strengthening it, the capital market has become an intermediary market, a bond between the issuer and the investor, which has its place of equilibrium and the realization of market operations. There are intermediaries who in turn provide financial investment services, in accordance with the requirements and directives of the European Union, but also with the capital market. The stock exchange, the financial exchange and the other institutions specialized in this field, although the number of transactions on the capital market is increasing year after year, that the evolution of the national value of the futures transactions at SIBEX is also one that leads to results from the better and in other ways, the capital market being autonomous ensures its control and direction. The authors in this article sought to highlight the way in which the activity on the capital market in our country evolves with references and explanations regarding the evolution from one time period to the next. The study is based on a series of data contained in the Financial Supervisory Authority (ASF) reports that highlight the strengthening of the capital market in our country and the prospect of improving this activity.

Key words: capital market, financial instrument, stock market capitalization, Bucharest Stock Exchange, stock indices

JEL Classification: G12, G23, O16
Introduction

In the case of this article, the authors focused on a number of issues, starting from the evolution of the world capital market in the period up to 1990, also revealing a number of elements attesting the existence of capital market germs in Romania. The analysis is deeper and more precise in relation to the emergence and development of the capital market activity after 1990 in the context of the free market. The institutions, the operators acting on the RASDAQ stock market, the Stock Exchange, the Sibiu Financial Market, etc., are being analyzed, and others are showing the developments that have taken place in this ... of course, there are also a series of indicators specific to the capital market, on the basis of which it is highlighted how the market evolved and developed within the Romanian economy. It reveals the important role of the capital market in consolidating privatizations, in enhancing efficient activity and especially in the national institution, the Financial Supervision Authority ensures the supervision of the activity under market conditions in compliance with all the principles of the capital market. The authors also focus on the alternative trading system and many more, showing how RASDAQ or the stock market works in attracting and directing investment activities on the market that are and can play an important role in the evolution of the Romanian economy.

Literature review

Research methodology, data, results and discussions

The capital market has existed in Romania in very early inception. We cannot believe that there were concrete elements of the capital market, but Romania was at the center of the European market, under the time-specific forms. During the communist period (1945-1989), we cannot talk about a capital market in the broad sense of the word with specific segments. Romania participates in European scholarships without a special authority. Mainly, our country was active on the grain market, with good results in the realized revenues that materialized in the creation of the Social Product, the indicator close to GDP.

After 1990, the growing free market resumed the preoccupations to set up the non-banking financial market segment.

The capital market has seen an ascendant course in the 24 years since its establishment, registering a qualitative leap after Romania’s accession to the European Union.

This was an important moment in the evolution of the capital market, both in terms of openness to foreign investors, and especially by the application of European standards by all regulated market-specific entities.

Through the capital market, the cash flow circuit in the saving-investing process is ensured, transforming short-term financial assets into long-term capital available. Issuers attract available capital through market operations, respecting specific standards and practices.

In turn, investors who are exposed to capital supply benefit from transparency and protection of their own investments.

The capital market is an intermediary market, the link between issuers and investors is not direct, through financial investment companies (SSIFs) and credit institutions carrying out direct intermediation activity on the capital market. Intermediaries, in turn, only provide financial investment services if capital requirements are met in accordance with EU directives.

They have the obligation to observe the rules of prudential and conduct, as well as capital adequacy requirements, in accordance with Community law.

Financial instruments are traded on regulated markets, on multilateral trading platforms or on alternative trading systems.

The evolution of the capital market is determined by legislative changes that can be considered as a continuous process of adaptation to the requirements of the European single market, as well as the diversification of financial products, types of operations, number of investors and issuers, value of transactions and market access modalities.

The financial instruments market has expanded, including not only the financial instruments that are traditionally traded on the stock market,
but also the money market specific instruments. The development of the international market, the crisis-specific phenomena of the financial market, the diversification of risks are all the reasons that led to the introduction on the Romanian capital market of new financial instruments, such as: derivatives having stock indices, contracts for difference, binary options, structured products and others.

Equity investments are also traded on the stock exchange. Collective investment funds are represented by closed-end equity investment funds (the five SIFs and the Fondul Proprietatea) and open-end investment funds with continuous issuance and redemption, the net assets of which are divided into fund units, each investor owning units under its subscription.

Over the 24 years since its re-establishment, the Bucharest Stock Exchange has made positive developments by diversifying traded financial instruments, types of operations, attracting issuers with medium- and long-term development potential by creating a flexible organizational structure including more many segments and market types by improving the trading system to make it compatible with the stock market and to provide foreign investors with trading conditions similar to those in other markets.

The evolution of the stock market is characterized by the stock market capitalization indicator.

In a rather volatile international context, the total capitalization of the BSE (the main market and alternative trading systems) had a growing trend, reaching 10.7% of GDP at the end of 2016.

The stock market capitalization of Romanian companies whose shares are traded on the main market represents about 60% of the BSE’s total stock market capitalization. It should also be mentioned that, in the context of GDP growth in the last three years, the market capitalization of Romanian companies as a share of GDP has decreased. The same trend, which is to reduce the share of GDP in local companies, was also recorded in other countries.

An analysis of stock market capitalization over a long time segment highlights the upward trend of this indicator from 1.37% in 2000 to over 20% in 2007, so that the economic crisis over the last decade has a bearing on the evolution the weight of GDP capitalization down to 4.63% in 2008 and then gradual increases. We appreciate that the same trend in the evolution of stock market capitalization has manifested itself in other countries in the region.

Except Poland, where the share of capitalization to GDP is around 30%, other countries such as Hungary, the Czech Republic and Bulgaria show a similar evolution to that in Romania.

The Bucharest Stock Exchange continues to remain, predominantly, a stock market, which holds over 90% of the total trading value.
The value of share transactions has increased, indicating the increase in market prices of traded shares, although the number of transactions has declined. The structure of transactions by the value of each type of financial instrument indicates an overwhelming weight of over 89% of the value of transactions in shares. Transactions in debt securities have a low weight in the total value of transactions on BSE.

In 2015, the first issue of state securities exclusively for private investors was successfully carried out at the Bucharest Stock Exchange, in the sense of rapidly exhausting the entire issue through sale to the public investor.

Structured products, as synthetic investment instruments, had a growing value. This indicates an increased interest of investors for new financial instruments transactions.

Other corporate events include three public takeover bids and two public bids, 18 changes in share capital, two new bond issues, a government bond issue, and the listing of 93 products structured.

Structured products since their launch in 2010 to date have had a positive development both through issuance of new certificates and by increasing the volume of transactions.

Structured products, as synthetic investment instruments, based on a basket of assets, have financial institutions as issuers.

The activity of the stock exchanges is appreciated by stock market indices, considered to be barometers of the market. The Bucharest Stock Exchange has created successively, since 1997, the BET index family, supplemented with the ROTX index, for a better visibility on the international market.

Since 2014, BET-TR has been calculated, reflecting the total BSE yield and the BET-Plus index, which includes the issuers that meet minimum eligibility requirements. The calculation of the BET-C index, which also included the companies listed on RASDAQ, was dropped.

Other indices, such as BET-BK, have been added to the BET indices family as a „benchmark index”, which includes Romanian and foreign stocks. Then the BET-XT-TR index was used as an active asset for derivatives and structured products.

Of the indices calculated by BVB, two are sectoral indices, the others being general market indices. The sectoral indices are BET-FI for investment funds and BET-NG, which includes energy actions.

The fall in the oil market and the turmoil on the international capital markets influenced the evolution of all BVB stock exchange indices in the direction of their decline.
The RASDAQ market, set up in 1996, was no longer in line with the requirements of the regulated markets, the European standards in force. Law no. 151/2014 clarifying the legal status of shares traded on the RASDAQ market or on the unlisted securities market required the solving of the RASDAQ market problems by the end of 2015. Most of the companies whose shares are traded on the RASDAQ section of BSE did not meet the market requirements regulated.

Issuers of shares have followed the procedure required by law, so that was completed restructuring RASDAQ market, as follows: five companies have migrated to the regulated market administered by BSE, 271 on the alternative trading system of BSE and 35 on the alternative trading system administered by SIBEX. The activity of RASDAQ and the unlisted securities market ended on October 27, 2015.

The Bucharest Stock Exchange, as a system operator, manages the alternative trading system ATS-Intl on which shares of foreign companies are traded as well as the AeRO system on which Romanian companies are traded, both those with increased visibility seeking financing through the capital market, as well as companies that migrated from RASDAQ. As an example, the monthly evolution of the value and number of transactions carried out on the ATS segment of the BSE in 2015 is presented in the chart below. The segmentation of the AeRO market was made on two categories: premium and standard. 23 companies are traded in the premium category, the other being listed in the standard category.

The monthly evolution of the value and number of transactions conducted on ATS during the period 2015-2016

*Figure no. 1*

Source: ASF, ASF-supervised markets report in 2016
The Sibiu Scholarship was set up in 1997 as a futures market on which derivative financial instruments are traded. It is currently licensed and operates both as a spot and on-time regulated market and as an alternative trading system operator.

The regulated spot market was authorized in 2010, the only listed company being Sibiu Stock Exchange SA with its own shares, symbolized by SBX. The number of transactions is small and insignificant.

The alternative trading system, called Start, was also in place in 2010, with only one issuer traded over the 2010-2013 period. The number of issuers increased in 2015 by transferring those from RASDAQ.

The evolution of the value and number of transactions carried out on Sibex ATS in the period 2015-2016 is presented in figure no. 2.

The monthly evolution of the value and number of transactions conducted on SIBEX ATS during the period 2015-2016

![Figure no. 2](image)

Source: ASF, ASF-supervised markets report in 2016

There is a significant fluctuation in the value of transactions from one month to the next.

The instruments traded are futures contracts, having as underlying assets: Romanian shares, other European shares, American shares, currency pairs, the Dow Jones index and gold. Dow Jones futures transactions represent almost 80% of the total value traded.

The monthly evolution of the value of futures contracts is shown for one year in the chart in figure no. 3.
The monthly evolution of the national value of futures transactions at Sibex

*Figure no. 3*

**Sursa:** ASF, Raport piețe supravegheate de ASF în 2016

From the point of view of the support, the structure of the futures contracts is presented in figure no.4.

**Structure of futures transactions, conducted on SIBEX in 2016, by the value of each type of underlying asset**

*Figure no. 4*

**Source:** ASF, ASF-supervised markets report in 2016

Entities with or without legal personality, collective investment undertakings (UCIs) are intended to attract individual savings (by public or private call) for the purpose of their collective investment.
For example, in 2016, entities operating in the collective investment scheme are listed in the table in Figure no. 5.

**Evolution of the number of OPC and ISA; depositing of SAI assets**  
*Figure no. 5*

<table>
<thead>
<tr>
<th>Category of entity</th>
<th>30.12.2015</th>
<th>29.06.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entities authorized to manage</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Open-ended investment funds</td>
<td>74</td>
<td>76</td>
</tr>
<tr>
<td>Societies of investment banks</td>
<td>29</td>
<td>27</td>
</tr>
<tr>
<td>Societies of insurance companies</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Societies of financial institutions</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bank points of issue</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

**Source:** ASF, ASF-supervised markets report in 2016

As depositories of the assets of the bodies, the collective investment is limited to authorized credit institutions.

The management of collective investment undertakings rests with entities that are expressly authorized as investment management companies (ISAs).

The most important ISAs and the size of the assets under management are shown in Figure no. 6.

**Main investment management companies and managed assets**  
*Figure no. 6*

<table>
<thead>
<tr>
<th>SAI</th>
<th>ACTIV TOTAL (lei)</th>
<th>% din total active</th>
<th>ACTIV TOTAL (lei)</th>
<th>% din total active</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAI ERSTE ASSET MANAGEMENT SA</td>
<td>8,013,691,825</td>
<td>36.56%</td>
<td>7,835,585,284</td>
<td>35.94%</td>
</tr>
<tr>
<td>SAI RAIFERSEN ASSET MANAGEMENT SA</td>
<td>6,709,324,003</td>
<td>30.95%</td>
<td>6,685,115,132</td>
<td>30.66%</td>
</tr>
<tr>
<td>SAI BRD ASSET MANAGEMENT SA</td>
<td>2,918,479,501</td>
<td>13.46%</td>
<td>2,800,253,225</td>
<td>12.84%</td>
</tr>
<tr>
<td>SAI BT ASSET MANAGEMENT SA</td>
<td>2,350,835,855</td>
<td>10.84%</td>
<td>2,169,502,887</td>
<td>12.34%</td>
</tr>
<tr>
<td>SAI OTP ASSET MANAGEMENT SA</td>
<td>481,494,382</td>
<td>2.22%</td>
<td>538,581,708</td>
<td>2.47%</td>
</tr>
<tr>
<td>TOTAL ACTIV GESTIONATE DE CELE 5 SAI</td>
<td>20,473,829,567</td>
<td>94.43%</td>
<td>20,549,038,236</td>
<td>94.25%</td>
</tr>
<tr>
<td>TOTAL ACTIV CELE 5 SAI-uri</td>
<td>1,206,851,040</td>
<td>5.57%</td>
<td>1,254,162,639</td>
<td>5.75%</td>
</tr>
<tr>
<td>TOTAL ACTIV ADMINISTRATE de SAI-urile locale</td>
<td>21,680,674,307</td>
<td>100.00%</td>
<td>21,803,200,874</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

**Source:** ASF, ASF-supervised markets report in 2016
It can be seen that the SAIs managing the largest volume of assets are entities affiliated with the banking system.

SAIs can manage both closed-end investment funds (the five SIFs plus Fondul Proprietatea) as well as open-end funds, which are more numerous and accumulate high value assets.

The degree of concentration of open-end assets is high, which is due to the fact that the first three SAIs (Erste, Raiffeisen and BRD) hold a market share of 81.32%.

In the case of open funds, there was an increase in assets.

Open-ended funds mainly invest in fixed income instruments, while SIFs, FPs and closed-end funds invest in shares, with higher returns but also a high risk.

**Conclusion**

The author’s study shows that the capital market as a regulated market is important for the complex evolution of a free market economy. From the data presented, it results that the activity of the capital market has strengthened and became important in the system of our country’s economy. Together with the National Bank, the Financial Supervisory Authority is two important entities that provide control to avoid becoming stabilized, and when such prospects appear to act with precision to avoid some slippages in the financial and non-financial market. The activity of stock exchanges that began operating in 1997 is positive from the point of view of the data under analysis. It follows that the Romanian capital market system is active but also perfectionable in the sense that the volume of transactions needs to increase, market surveillance must be adequate and the capitalization in gross domestic product is slightly higher, as is the case in other countries like Hungary, The Czech Republic, Bulgaria, or especially Poland, which provides a GDP capitalization of around 30%. Structured products on the capital market are also analyzed, with the result that there is a positive trend with growth trends in the coming years.

**References**

14. *** ASF, Raport piețe supravegheate de ASF în 2016***