

EVOLUTION OF CAPITAL MARKET IN ROMANIA

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Abstract: This study aims to present the main aspects regarding the evolution of capital market in Romania. The main component of capital market in Romania is Bucharest Stock Exchange. The Bucharest Stock Exchange role is to provide a marketplace for securities transactions. With the exception of 2008, recent evolution of the capital market in Romania was very good and the perspectives are also positive.

Keywords: capital market, stock exchange, capitalization, transaction.

1 INTRODUCTION

Capital market is a specialized market for trading stocks and bonds. The main role of this market is to mobilize the capital and to realize a profitable placement of this capital. Usually, these financial funds are attracted by the issuers of shares / bonds to finance investment projects. The capital market allows taking control of the company through significant acquisitions of shares or to obtain short-term gains by speculation of the changes in price of the securities [1].

From 1995, the capital market in Romania was structured in two distinct components: the Bucharest Stock Exchange (BSE) and RASDAQ (Romanian Association of Securities Dealers Automated Quotation), which subsequently merged into a single market namely BSE, by absorbing RASDAQ by BSE in 2006. Bucharest Stock Exchange (BSE) has started in 1995 while RASDAQ worked since 1996.

2. BUCHAREST STOCK EXCHANGE (BSE)

The first stock exchange in Romania was inaugurated in 1881 and the first transactions made on this stock exchange were recorded in 1882. After the Second World War, the Stock Exchange of Romania has stopped work due to the nationalization of the Romanian economy started in 1948 by the new Socialist government led by Petru Groza [2].

Only after the fall of the communist regime in Romania were undertaken steps necessary to recover the Bucharest Stock Exchange. Based on a decision of the National Securities Commission on April 1995, the Bucharest Stock Exchange was reestablished, as an institution of public interest. Starting on 2005, the Bucharest Stock Exchange is becoming a Romanian stock company.

In present, Bucharest Stock Exchange is structured on two segments: regulated market (BSE), which is structured on spot market and derivatives market and RASDAQ market. The sectors of the BSE are: equities sector, debt securities sector and collective investment undertakings

The quote of a stock company on BSE is a recognition of the company issuing effective, because of criteria to be met in order quotation criteria that refer to the issue of securities, administration and activity of the company

issuing, informing investors etc. In light of these criteria, the shares issued by Romanian legal entities and listed on the BSE are divided on three tiers [3]:

Quotation criteria on BSE.			Table 1
Quotation criteria on BSE	Tier I	Tier II	Tier III
Free float	>25%	>25%	>25%
Free float held by at least:	2000 owners	-	-
Shareholders equity for the last financial year	>8 mil EUR	>2 mil EUR	>1 mil EUR
Net profit	For the last 2 years	-	-
Have a bussiness plan	At least for the next 2 years	-	-

3. RECENT EVOLUTION OF CAPITAL MARKET IN ROMANIA

The first step in the evolution of capital market in Romania (1995-1996) was one of the formation of institutions, mechanisms and procedures of this. During this period, the BSE and RASDAQ markets had a similar development, being influenced by economic and political developments in Romania. This first stage was characterized by low level of transaction both in number and value.

The capital market in Romania knows a significant development in 1997. This year, the value of transactions on BSE recorded a spectacular increase from 5 million in 1996 to 264 million dollars in 1997, and the market capitalization of 60 million U.S. dollars as it was in 1996 to 632 million dollars in 1997.

Unfortunately for the Romanian capital market, this increase was not long. Since the end of 1997 and until 2000, the local stock market has experienced a significant decline both in value and as long due, firstly, unfavorable results obtained by the government of that time in the implementation of economic reforms.

The end of 2000 year represents the moment of recovery for the capital market in Romania. This revival of the capital market has occurred on political changes background produced in 2000 and due to stopping the country's economic decline, reducing inflation and interest rates on the banking market.

2001 was a year of growth for BSE, both in terms of quantity and the quality. Thus, the BET index of BSE, which records the evolution of the market price of the 10 most liquid listed stocks, reached 38,57% in 2001 compared to 21,4% in 2000 and 18,7% in 1999. On BSE, among 22 companies listed on the first category in 2001, 19 made real gains over the inflation rate.

2002 brought a new legislative framework more favorable to the development of capital market. This year was very good for all the indicators of Romanian stock market. Thus, BET index of BSE has increased by over 119%. In 2002, the total value of the traded shares was of more than 205.86 million USD, an increase by 57.1% compared to 2001. However, both 2001 and 2002 were years with a rather modest achievements on the RASDAQ market.

In 2003, the evolution of the shares listed on the Bucharest Stock Exchange have been extremely favorable, generating earnings much higher than the rate of inflation and bank interest. Instead, in this year, the RASDAQ market recorded modest performances. In 2003, the primary market for bonds has increased, recorded the 12 public issues, compared to 8 in 2002 and 2 in 2001.

It followed a period of spectacular growth in 2004, 2005 and 2006. During this period, increased the number of foreign investors who have invested in Romania, along with gaining membership of NATO (March 2004) and encouraged by the prospect of Romania's accession to EU. At the same time has increased investment made by Romanian investors, the number of transactions, the number of accounts opened, the capitalization of stock exchange market.

2004 was perhaps the best year in recent history of BSE. Thus, BET index of BSE has increased by over 100%. 2004 was also the start of the merger of BSE with RASDAQ. Bond market has also registered a significant jump

in 2004. The value of transactions in bonds represented an increase of more than 15 times compared with 2003. 2004 was also a year when the BSE's image and its perception by the business environment in Romania improved sensibly.

In 2005, most of the stocks listed on the BSE recorded increase in reference prices. BET index of BSE reached 50.9%, while market capitalization increased by 64% compared to 2004 and the value of transactions with shares has increased by 223% compared to 2004. This year, the bond market continuing increasing but the increase over +400% recorded by bond market last year, was slowed down. In 2005 the most important event on the Romanian capital market was the continuing in merger between Bucharest Stock Exchange and RASDAQ market.

Year 2006 has led to obtaining a BET by 22%, pretty good performance in the context in which the level of interest from bank deposits was approximately three times lower than the value of this index. This year, the Romanian capital market offered superior yields in comparison to the ones offered by other European capital market. 2006 recorded the finalization of merger between BSE and RASDAQ market. The newly created market kept the name and technical infrastructure of the Bucharest Stock Exchange. At the end of 2006 on the BSE was traded seven issues of corporate bonds, compared to only six in 2005 and the issuance of municipal bonds traded at the BSE was 11, compared with 15 in 2005.

Year 2007 was relatively similar to 2006. Thus, in both 2006 and 2007 companies traded on the tier II of the stock exchange led to achieving better yields than those treaded on the tier I. Average gains made by shares listed on the BSE, for last few years, are presented in the following table [4]:

Average gains made by shares listed on the BSE. Table 2

	2004	2005	2006	2007
Tier 1	+113,4%	+52,6%	+33,7%	+52,5%
Tier 2	+108,2%	+15,3%	+47,1%	+72,3%
Tier 3	-	-	-	- 43,1%

If by 2005 the shares listed on stock exchange in tier I were more profitable than those in tier II, in 2006 the situation has changed, shares listed in tier II have led to achieving earnings above those achieved on account of shares listed in tier I .

The best-represented sectors of activity on BSE, in terms of number of issuers, are capital goods sector (14 issuers in 2007), the raw materials and basic materials (11 issuers) and financial services sector (10 issuers).

As regards the year 2008, negative evolution on the external markets, caused by the financial crisis on the U.S. market and increasing in oil prices affected the Bucharest Stock Exchange. In the first half of 2008, the main indexes of BSE have known significant decreases. For example, BET index of BSE decreased by 45% compared with the level of last year. In 2008 the most important event on the Romanian capital market was the admission to trading of the treasury bonds on the BSE.

However, for the short time, expectations are quite optimistic. If the Romanian economy will maintain a high level of economic growth, Romanian capital market will record a new favorable evolution if will not appear other major events that adversely affect global market capital.

4. CONCLUSION

The market capital of Romania, reopened in 1994, after an interruption of nearly 5 decades, develops and strengthens, from year to year. Even if by the year 2000 this market has developed quite modest, the years that followed (with the exception of 2008) have meant years of very favorable for the capital market in Romania.

Very good evolution in the last years obtained from BSE was followed by the decline recorded in 2008 on the Romanian stock exchange. This decline, due to international financial crisis, is not considerate a very big alarm

signal for investors from BSE, which remain very confident in its potential.

The forecast for short and medium term regarding the capital market in Romania are quite optimistic. In the near future is felt that the capital market in Romania will develop further, and will become increasingly attractive for investors.

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