

BUCHAREST STOCK EXCHANGE –EVOLUTION AND PERSPECTIVE

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Abstract: Bucharest Stock Exchange(BSE) registers important achievements regarding the organization and regularization, but also a disatisfactory level of the activity indicators (stock indicators, transactioning volume, number and structure of the issuers).

1. Premises of the appearance and development of capital market

The appearance and development of the Romanian capital market has been and still is influenced by decisional and economic factors. The capital market in Romania was market by the late appearance of the legal frame. The institutions typical to the capital market have registered a series of deficiencies in the supervision and even sincofes in the functioning. The disrespect towards the share holders insufficiently informed and without investitional knowledge regarding the capital market was shown both through legislative measures as well as by the management. The functioning of the capital market was influenced by the slow rythm of privatisation, economic recession, the saving level, the investmental capacity and the investments' rhythm[1].

The saving rate has met an increasing tendency, but still insignificant and limited to a reduced segment of the population. The saving rate in Romania increases to 13% of Gross Domestic Product (GDP), half of the level registered in EU. At the same time, there has been created a hiatus between the tendency to increase the saving and its attraction so as to finance the real economy. BSE has met a permanent process of growing up, made real by increasing the number of quoted companies, the number of shares and transactional bonds, the volume of transactions and of the financial intermediators[2].

2. Contradicting evolutions at BSE

1995 is the year in which started the transactions to the Bucharest Stock Exchange, after the re-opening of this institution in Romania. From the first day of transactioning (November 20) till the end of the year had been transactioned the shares of 9 companies. We are talking about companies with most state capital, of very different sizes and importance. The investors have not benefit of dividends this year (because they are distributed in spring) and neither of increasing in the registered capital. The shares have generally evolved in a decreasing manner: from the nine listed companies five have decreased and only three have increased with insignificant results. Cumulated, the evolution of the stock exchange was of 12.75% up to the end of the year. As a beginning year for the stock exchange transactions, the year 1995 represented more a curiosity from the BSE investments point of view, without real benefit possibilities.

The stock exchange remained an anonymous institution in 1996 too. The number of listed shares increased to 17. The average output of the listed shares that was counted based on the price differences only were of -44.36%. If we add the dividends too, then it is of -43.01%. By adjusting the result with the inflation rate we obtain a total real performance of the BSE of 62.28% in 1996, performance that marks the weakest year in the stock exchange history.

In 1997, the stock exchange got out of the anonymity and registered a major qualitative step. It began a common five days a week transactioning schedule, and the number of the issuers and that of the real estate companies has accelerated the increasing and in the course of the year a number of 75 listed companies were transacted. The first official index of BSE was launched: Bucharest Exchange Trading (BET), counted as a balanced average of the prices of 10 1st category representative shares. In Romania, the capital market registered a first period of glory in the 1st semester of the year 1997 when the prices of various shares had rapidly increased and brought big benefits to the investors. The foreign investors have invested a lot of money on the market and the prices of the shares increased spectacularly [3]; but not being sustained by economic results by the issuers, the prices dropped in the same spectacularly way.

The enthusiasm on the capital market continued a little bit longer out of inertia. The number of the listed issuers and that of the investment firms continued to increase. Thus, the number of the companies whose shares were transacted in 1998, reached 125. But the general trend of decreasing the prices was unstoppable while the investors' interest in the stock market decreased.

The general trend of decreasing continued in 1999 too, and on the market the depressing ruled. The number of the investment firms began to decrease. The number of the transacted issuers (138) in 1999 was higher than in the previous year. In 1999, began the fever of increasing the capital out of personal funds – 13 companies gave free shares to the share holders. Among them, important companies such as Terapia, Arctic, or Electroaparataj. The investors in the shares of the Transilvania Bank and those of Impact started to realize that these companies bring very good profit every year; 48 shares shared dividends, but they were modest. The general trend of decreasing prices continued in 1999 too, but the balance started to move downwards; although in 1999 had been listed the SIF shares, these elements were not enough to regain the investors' interest.

In 2000, the market decreasing stopped, many shares started to increase and the interest in the stock market revived. For the first time, the number of the transacted issuers (125) was lower than the one in the previous year. The stock market started to apply more rigorous criterion in listing, so that, in this year only two new issuers reached the stock market quota. From the 125 transacted companies, a number of 83 ended the year with a positive output for the investors; moreover, 56 of them brought real profit over the inflation rate. 29 shares brought nominal profit over 100%; six issuers gave free shares and 51 gave dividends. For the first time, the dividends started to be important for some of the issuers, and the dividends' influence in the total output of the stock market overpasses 10%. Practically, the stock market stopped from decreasing and most of the shares ended the year with a positive output on the market; As a result, it was the first year of real-positive increasing of the stock exchange from its setting up [4].

The increasing trend started in 2000 continued in 2001 too. More important, the stock market registered the second major qualitative step in its history. Among the measures adopted in 2001, there were the down-listing of a high number of unattractive issuers for the investors, the increasing of the transparence level imposed to the issuers, the beginning of the transactions with bonds and the listing of some companies with a major impact over the Romanian economy. These elements, together with the performances obtained by the stock exchange in the previous year, attracted more and more investors and the prices continued to increase [6]. The increasing was generalized out of the 110 transacted issuers, 94 brought a positive output (out of which 76 over the inflation rate); The increasing was speeded for the 47 issuers who brought nominal profit of over 100%.

The measures taken in the previous year by the new management of the stock exchange and the performances from 2000-2001 brought up results; in 2002, BSE marked

the best year in its history. As a result of the hardening of the regulations, the number of the transacted issuers decreased to 66, while the number of the investment firms to 75. These measures have had a positive influence leading to the increasing of the trust in the investments in listed shares at BSE. The number of the municipal bond emissions listed at the stock exchange also increased, but the transactions remained sporadic. Although the legal frame of the capital market has been modernized, the stock exchange has not announced any significant events this year while the danger of stagnation began to threaten the benefits expected by the investors. It seems that the investors did not notice these lacks since they had been busy with calculating their registered benefits [4]. From 75 transacted issuers, 56 brought positive output in 2002 (out of which 52 over the inflation rate). Helped by the reduced inflation and by the performances in the past years, the BSE marked an extraordinary year; Practically, it was registered the highest real average output in the BSE history: 81%.

In 2003, the evolution of the shares listed at the stock exchange, offered reasons for joy to the investors, but this joy did not equal the one in 2002. The BET index registered an increase of only 30, 91%, much less than the one in 2002 (+119, 79%), and even less than the one 2001 (+38, 58%). Another tendency was that the capital increasing based on the re-evaluation differences, which brought great benefit in the past, disappeared. As a result, the number of own funds capital increasing operations reduced considerably. Besides these, we still have to follow the capital increasing with cash at prices below the market; neither these were many, but some of them were significant. In 2003, the importance of the dividends as income source continued to reduce itself; From the 65 companies, 27 gave dividends in 2003 based on the profits from 2002, but the benefit brought by them were not significant. Another trend was that of consolidating the issuers by fusions. 2003 is also the first year from the modern history of the stock exchange when this did not list any new issuer. For a change, the opposite trend of down-listing continued in force. All in all, in 2003 were down-listed the shares of three issuers. Although many shares increased, the investment firm registered its first year of stagnation after a period of accelerated increasing.

The year 2004 was a year of exception for the stock exchange investors and from various points of view the best year in the BSE history of after 1990. Of course, the major interest for the investors is the output offered by the shares, and from this point of view, the situation was more than satisfying: the official stock index, BET, counted as average of the prices of the most representative 10 shares listed at the stock exchange, increased with over 100% in 2004. In other words, the average profit offered by the shares listed at the stock exchange doubled the investors' money. The increasing registered in 2004 was quite surprising, if we think of the evolution in the past two years. Thus, after a 2002 excellent from all points of view, when there was registered a generalized increase of the shares and an appreciation of the BET index of 119, 8%, followed a 2003 relatively disappointing, with stable evolutions and an index increasing of only 30, 9%. In these conditions, there were fears that stock exchange (or at least the shares listed at the stock exchange at that moment) reached their potential and, lacking some issuers or new instruments, the prices of the shares would stagnate. The year 2004 contradicted this hypothesis: the BET index increased with 101, 2%, the BET-C index (counted on the basis of the prices of all shares listed at the stock exchange) with 103, 8% and the BET-FI index (counted on the basis of the SIF prices) with 115, 5% [5]. The fluctuations on the currency market made the performances of the stock exchange expressed in currency to be even better than those expressed in lei. Thus, the increase of the stock index expressed in EURO was of +111,5%, +114,1% and +127,0% for BET, BET-C, namely BET-FI. The stock exchange made the first (timid) steps towards new instruments by transacting two

preference right emissions; the bond market continued its development through new emissions; BSE registered some new interesting listings and made big steps towards the institutional consolidation through the fusion with the Rasdaq Electronic Stock Exchange. We may say that 2004 was a very good year, but with a series of new tendencies, such as: higher volatility on the market and more selective increasing [6].

2005 may be considered the SIF's year due to the spectacular increasing of the shares of the five financial investment companies. Starting with 2005, the stock exchange evolution became more agitated, due to the stronger and stronger correlation with the stock exchange from other countries.

The year 2006 was a pretty good year from the point of view of the investment on the capital market, but the performances were generally below expectations. The stars of the stock exchange (including the SIF shares) show more and more clear signs of tiredness. The BET index which expresses the average increase of the prices of the listed shares at the stock exchange, registered an increase of 22,2% in 2006 (the smallest output in the last six years), while BET-C+28,5%. The performance remains solid compared to the bank interest level at deposits, being of about three times larger than this. At the chapter positive events we may mention the conclusion of the fusion between BSE and Rasdaq, the introduction of the transactions in the margin for the spot market (shares), the successful run of two public emissions of important bonds (those of the World Bank and those of BCR), the setting up of the Central Depository, and the successful listing of shares after concluding an initial public offer of the shares. Transelectrica (the first issuer in the field of utilities listed at the stock exchange); the initial interesting public offers are more and more attractive. As lacks in the stock exchange activity we may mention the disapproval for the fusion between BSE and Sibiu Monetary Financial and Commodities Exchange (SMFCE), the ending without success of one of the three Initial Public Offers launched (CCC Blue Telecom), the small number of new listings, not beginning in 2006 the transaction the state titles and not introducing the selling in absence.

From certain points of view, 2007 evolved in similar coordinates with 2006. The official BET index registered a positive performance of 22, 1%, and the composite index, BET-C won 32, 6%. After the fusion of the two stocks exchange (BSE and Rasdaq), the companies in the Rasdaq market became more visible. I noticed an increasing interest for these, materialized in the increasing of the price and of the transacted volumes. The shares listed at BSE have had a constantly positive evolution in the past years; as a result, the investors searched for new challenge. They set their attention on the companies; thus, they oriented themselves towards the companies with increasing potential. Their option was for those listed on Rasdaq, since many were part of dynamic sectors or had very good actives, namely lands. This way we can explain the fact that the highest increase was hold by the RASDAQ market indexes with appreciations around 100%. The capital market registered a spectacular Initial Public Offer (IPO) – that of SNTGN Transgaz which attracted record sub-subscriptions of EUR 1, billiards and an exceptional sub-subscription order number of over 12.000. The Transgaz offer brought a new premier – the transaction of the allocation rights. The BSE derivates had no success and the spot market is still awaited at Sibiu Monetary Financial and Commodities Exchange. 2007 was also the year when the private pension system was launched in Romania, system that might have in time positive influences over the capital market. I may say that 2007 resembled 2006 from the point of view of the market evolution positive performances, higher at category II than at category I and high volatility. The SIF shares disappointed while IPO Transgaz was the most spectacular Initial Public Offer till now. In 2007, the correlation index of BSE with New York Stock Exchange(NYSE) reached 0, 52 of the maximum 1, which explains the reason for which when the market drops there, we also feel it strongly. The crisis on the

sub-bonuses market extended and the negative signals on the external markets affected also BSE. The internal context proved to be a less favorable one in an international crisis.

The bigger and bigger influence that the external markets have over the evolution of the market in Bucharest marked the beginning of the year 2008 at the Stock Exchange; thus, the debuted of 2008 was an unusual one because instead of the usual increasing, in the first semester were registered massive decreasing. The average capitalization companies from the Stock Exchange have been the most hurt by the decreasing from then beginning of this year, losing between 40% and 60%, in the conditions in which the BET decreased with 30%.

2. Perspectives

The bad news that came from the external markets brought great decreasing at BSE. For now, the trend is negative and on short term (at the date when the work was written at the end of March 2008) new decreasing are expected. The correlation of the stock's internal local indexes with the external ones is more on the decreasing trend [4].

Still, the evolution of the stock exchange can be mainly considered as a cyclic one and it is estimated that the most expected increasing will not be long waited for; it is foreseen that BSE shall have a total stock capitalization of EUR 45 billiards at the end of 2008 (BSE + Rasdaq) and a daily average value of the transactions of EUR 30 million.

Even if the private pension funds shall start this year to invest at the Bucharest Stock Exchange, in 2008 their influence on the market shall be low due to the reduced size they will have in the first year of function. It is estimated that the weight of the foreign investments shall increase in the total of acquisitions, there will be more Initial Public Offers and the volatility shall continue to be high;

Up till now, BSE and Sibiu Monetary Financial and Commodities Exchange (SMFCE) have no success in developing themselves on each other's market. It seems that cash attracts cash; so far BSE has had no success on the market on time, although its launchment had been prepared for a long time and the panders were anxious for it.

One problem of the BSE is the little cash which can also be explained through the more reduced transactioning program compared to the developed stocks in the area that are closed after 16.00. There are wanted much more cash, more sophisticated investors but there is no way to satisfy their needs because of the lack of correlation with the external markets.

In the conditions when BSE wants to become a reference market in the East-European region, the transaction program is helpless. On the one hand, the run of the transactions during four hours daily limits the cash of the Stock. The daily average value of the transfers from BSE is of only EUR 12, 1 million, which raise questions regarding the attainment of the BSE representatives' objects for this year, of EUR 30 million. And more when we take into account that the immediate effect of a short program is the moving of the investors' interest towards long schedule markets.

3. Conclusions

Presently, the big economies of the world have to deal with certain economic problems and this fact may generate unfavorable effects on the capital markets and, implicitly, on the emergent markets too, which correlated as trend with the mature capital markets.

Although, under the aspect of the institutional construction, of the automatic and flexible electronic transaction technical systems, of the flexible mechanisms for forming the prices and of some regulations adjusted to the BSE and Rasdaq international standards they

detached from other stocks, under other aspects they are beyond other stocks in the Central East-European are.

The number of the companies quoted at BSE and of investors is still low; despite the increase of the volume of the transacted shares and bonds, their contribution to the optimum allocation of the financial resources is low.

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