



ORIGINAL PAPER

New Developments in the Evolution of the Bucharest Stock Exchange

Cristian Valeriu Stanciu*

Abstract

The Romanian stock market plays an important role in a capital allocation process and has a fundamental role in the growth of the industry and commerce of the country. The Bucharest Stock Exchange (BSE) was founded on June, 21, 1995 as a public non-profit institution based on the Decision of the National Securities Commission (CNVM) no. 20/1995. In July 2005, BVB became a stock company. Starting June 8, 2010, the Bucharest Stock Exchange SA is listed on its own regulated spot market, with the BSE symbol and is included in the Premium Category. BSE is the main market operator in Romania and manages the regulated market and the AeRO market. In the last few years Bucharest Stock Exchange (BSE) started to build a competitive capital markets in the Central-Eastern Europe, trying to compete, on the national level, with other segments of the financial market (such as the banking market, the foreign exchange market) and, on the international level, with other stock exchanges from countries located in the region (Czech Republic-Prague Stock Exchange, Croatia-Zagreb Stock Exchange, Hungary-Budapest Stock Exchange and Poland-Warsaw Stock Exchange). In this paper, we try to present the recent developments in the evolution of the Bucharest Stock Exchange, it's objectives and strategic initiatives.

Keywords: *stock exchange; developments; objectives; strategic initiatives.*

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Introduction

The Bucharest Stock Exchange (BSE) was founded on June, 21, 1995 as a public non-profit institution based on the Decision of the National Securities Commission (CNVM) no. 20/1995. In July 2005, BVB became a stock company. Starting June 8, 2010, the Bucharest Stock Exchange SA is listed on its own regulated spot market, with the BSE symbol and is included in the Premium Category. The company's capital is divided in 8,049,246 shares. BSE shares are included in stock indices which follow the evolution of listed stock prices (FTSE Mondo Visione Exchanges and Dow Jones Global Exchanges) as well as in local indices: BET and its total yield: BET-TR, BET-XT and BET-XT- TR, BET-BK, BET Plus.

BSE is the main market operator in Romania and manages the regulated market and the AeRO market. The regulated market is the place where transactions are made with shares and bonds, shares in collective investment companies, structured products. The AeRO market is designed for start-ups and IMMs and the role of this market is to support the development projects of these companies.

The list of financial instruments traded on the BSE includes shares (87 listed companies), bonds (number of bonds: 77), fund units (number of instruments: 3) and certificates (number of instruments: 125). The shares category includes both premium and standard shares. The bond category includes municipal, corporate bonds, and debt securities. Certificates are issued in turbo, index, and certified capital certificates. The total number of investors at the end of 2018 was 53,981 and this has decreased with 9.23% compared to the previous year (Investor Compensation Fund, Annual Report 2018: 10). Also, a very important aspect is that in 2018 the number of active accounts was 16,600.

As of June 8, 2010, BSE is a listed company on its own regulated spot market and is included in the Premium Category. The company's capital is divided into 8,049,246 shares with a nominal value of 10 lei. Romanian institutional investors own 70% of the shares, followed by Romanian private individuals (17%), foreign institutional investors (10%), foreign private individuals (2%) and BSE (1%).

In accordance with the provisions of Article 129(1) of Capital Market Law 297/2004, no shareholder of a market operator can hold more than 20% of the total voting rights directly or jointly with the persons with whom he acts in concert. Consequently, at the end of December 2018, no BSE shareholder had any stock packages that exceeded this threshold. The total number of shareholders as of 31 December 2018 was 1,805.

Bucharest Stock Exchange activity description

BSE's operating income are obtained principally from the trading activity of all listed instruments, from rates required to issuers for admission and keeping to trading, and the sale of stock data to different users, while BSE's net financial income is mainly obtained from interest on financial assets placed in bonds and bank deposits (Bucharest Stock Exchange, Annual Report 2018: 5-6).

The operating revenues in 2018 increased by 5% compared to 2017 (from 38.06 millions lei to 39.82 millions lei), but also the operating expenses registered increases of 7% (from 28.82 millions lei to 30.94 millions lei), which, finally, led to a net profit of 10.19 million lei in 2018, lower than in 2017 (14.69 millions lei).

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The Bucharest Stock Exchange is the parent company of BSE Group, which includes the following subsidiaries (Bucharest Stock Exchange, Annual Report 2018: 8-9):

a) Central Depository - its object of activity is clearing / settlement of transactions with financial instruments performed at BSE and also keeping the shareholder register; it is held in proportion of 69.04% by BSE;

b) Investors' Compensation Fund - its object of activity is providing compensation in the case of the members' failure to return the money or the financial instruments owed; it is held 62.45% by BSE;

c) Bucharest Clearing House - the object of the activity is to study the market and realize public opinion sounding; it is held 52.53% by BSE;

d) Corporate Governance Institute- its object of activity is preparing listed companies and also the market participants, about corporate governance and long-term development; this is owned by BSE 100%;

In addition to the existing companies that are currently part of the BSE group, it is intended to create a new company, named Central Counterparty (CCP), in the future. The most important role of the CCP will be to manage the credit risk, a significant risk that appears on exchange traded derivatives markets. Also, CCP will provide trading anonymity and will reduce the counterparty risk.

The new entity will offer a diversify range of derivatives and will be able to increase the average daily trading value. The total investment needed to finance this project will amount to 16 million euros, to which BSE will contribute up to 10 million euro, so it will be owned by BSE in proportion of 62.5%.

The existence of a derivatives market at BSE has a real potential to increase the liquidity of our capital market, and this is possible by establishing a CCP in Romania. CCPRO implementation has various advantages. The most important advantage is a potential increase of liquidity by adding to the current liquidity on the BSE, the liquidity resulting from trading with derivatives. It is known that in countries with CCP, such as Poland and Hungary, derivatives revenues have a significant weight in the total transactions value (in 2018: 52% in Poland and 44% in Hungary).

The companies in the Group have been organized by segments and which generate distinct revenues as follows: BSE represents the "trading services" segment, the activity of the Central Depository is divided between the "post-trading services" segment and the "registry services" segment according to the share of the related revenues, while the Investors Compensation Fund (FCI) and Bucharest Clearing House (CCB) are part of the services segment "FCI and other services".

Most of the group's revenues come from trading services that at the same time generate the highest net profit. These are followed by the two segments of the Central Depository and on the last position are found FCI services and other services. Regarding the compliance of the Bucharest Stock Exchange with the principles defined by the BSE Code of Corporate Governance, it fully complies with the BSE Declaration on Compliance with the Corporate Governance Code.

The Corporate Governance Code of the Bucharest Stock Exchange is "a set of principles and recommendations for companies whose shares are admitted to trading on the regulated market" and "aims at building an international attractive capital market in Romania, based on best practices, transparency and trust" (Bucharest Stock Exchange, Code of Corporate Governance, 2015: 2). Corporate Governance BVB is based on building a strong relationship with its shareholders and other stakeholders

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(stakeholders), communicates effectively and transparently, and manifests openness to all potential investors.

The Management of the Company is carried out in a unitary system and is entrusted to a Board of Governors, elected by the General Meeting of the Shareholders, consisting of 9 members for a four-year mandate (President, 2 Vice Presidents, Secretary, 5 members).

By decision of the Board of BSE, the BSE Special Commissions (Listing Commission, Appeal Commission, Index Commission, Arbitration Chamber) - entities without legal personality, with consultative role for the activity of the Board of BSE, as well as advisory committees (Nomination, Remuneration, Audit) were set up. The Board of Governors adopts decisions, based on the opinions issued by the respective commissions, in relation to requests, appeals, actions / in actions or other acts or facts whose analysis, investigation, resolution and / or determination are their responsibility.

The executive structure is coordinated by the CEO and by the two deputies, having the role of organizing, managing and running the Company, including those of employment and salaries of the personnel, stipulated in the incumbent normative acts, including the authorization of the financial investment services agents as stock exchange agents, having several departments subordinated.

In recent years, the efforts of the Bucharest Stock Exchange towards corporate social responsibility have focused on complex educational projects that provide young people, but not only, with access to basic financial information: Fluent in Finance is a complex educational program consisting of 2 components: free of charge seminars offered by the BSE to employees within the Romanian companies and the eponymous online educational platform. 7/24 Capital is the online video production of the Bucharest Stock Exchange aiming to make the capital markets easy to understand, and attractive to a broad audience.

The Bucharest Stock Exchange organizes periodically free of charge Forums aimed at entrepreneurs and investors with the purpose of bringing closer to them speakers, as well as business people, investors with the purpose of facilitating the exchange of ideas. Made in Romania is a unique, ambitious program launched with the goal to contribute to the increase of the Romanian economy by identifying and promoting the Romania's top companies.

The Corporate Governance Code, introduced by BSE, aims to promote higher governance and transparency standards for listed companies. The implementation of the rules is based on the "apply and explain" principle that would provide the market with clear, accurate and up-to-date information about how listed companies apply corporate governance rules.

The introduction of the new Corporate Governance Code was one of the objectives undertaken by the Bucharest Stock Exchange when joining the UN Sustainable Stock Exchanges Initiative in March 2015. BVB was the 19th member to join the global initiative and the fourth European Stock Exchange alongside Deutsche Borse, the London Stock Exchange and the Warsaw Stock Exchange.

Companies must include a corporate governance statement, in a separate section in the annual report, which contains a self-assessment of how the provisions are met and the measures taken to comply with the provisions that are not fully met. Also, the White Book is the result of an analysis conducted by the Bucharest Stock Exchange in order to evaluate the quality, completeness and accuracy of the information provided to investors

by the issuers listed on the Main Market of the BVB through their own Internet pages and emails.

The analysis aims to improve the communication of listed companies with investors in the online environment by evaluating and identifying aspects that can be improved (The Whitebook, 2017: 5). Furthermore, the Corporate Governance Institute of the BSE was created to promote, among the directors of the companies listed on the Stock Exchange, a managerial culture that complies with the European standards and the OECD principles of corporate governance. CGI-BVB is organizing training programs as well as projects, seminars and conferences to increase the awareness of participants in the capital market, in corporate governance and sustainable development.

Current developments in the evolution of Bucharest Stock Exchange

The stock market plays a pivotal role in the growth of the industry and commerce of the country that eventually affects the economy of the country to a great extent. The Bucharest Stock Exchange is the only exchange on the capital market in Romania and the following metrics are useful to characterize the development of the local market (Bucharest Stock Exchange, General Statistics, 2019):

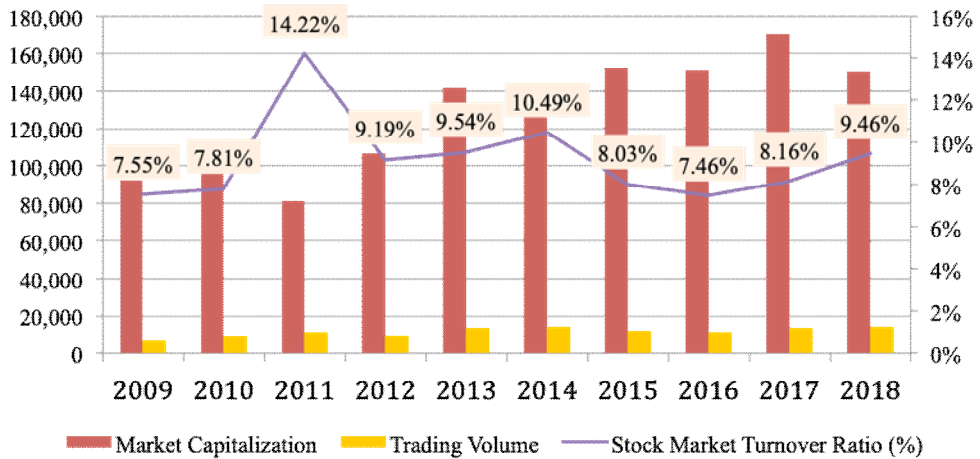
a) Market Capitalization. The Bucharest Stock Exchange market capitalization, at the end of 2018, was 150.37 billion lei, recording a decrease of 12 percent compared to 2017; the most important factor for this decrease was the issue of the new fiscal measures, by the Government, especially the ones regarding the bank assets taxation and the gas prices capping. Overall, in the last 10 years, the evolution of the market capitalization had a fluctuating trend, with a significant decrease in 2011 (80 billion lei), because the epicenter of the global financial crisis moved to Europe. The problems related to the public debts of certain countries, such as Greece, Ireland, Spain, Portugal or Italy, but also the European governments and common institutions failure to provide quick solutions heavily affected the investors trust.

b) Trading Volume. An increasing trend in the values of this indicator can be observed in the last 10 years, with small variations in some years. 2012 is one of those years and from the analysis on the BVB annual reports the decrease is generated by the dramatic drop in the traded value with shares, unit funds, rights and traded value with futures contracts. In 2015 the total trading volume went down 15 percent caused by the variations of the traded value with shares, unit funds and rights similar to 2012 (-32%). The decreased by 8 percentage points in 2016 was due to the trading value of the fixed-income, which registered at that point a 52% reduction. The highest value was recorded in 2014 of 14,417.18 million lei and Bucharest Stock Exchange has yet to reach that value, in 2018 the Trading volume is 14,225.18 million lei.

c) Stock Market Turnover Ratio (%). This indicator was determined as total value of shares traded during one year divided by the market capitalization for the same period as a percentage rate. In the last 10 years, the highest value was recorded in 2011 (14.22%), as a result of a drastic decrease with 30% of the market capitalization. The lowest point occurred in 2016 (7.46%), generated by a significant value of the market capitalization, one of the highest in the analyzed timeframe. In 2018, this indicator shows a higher value than the one in 2017 (9.46%, compared to 8.16%), due to the fact that market capitalization decreased.

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Figure 1. BSE metrics (2009-2018)



Source: Own calculations

d) Average Daily Turnover. This indicator does not have a constant evolution but rather a fluctuating one. The average daily turnover went down approximate 32% in 2010 (from 51.18 million lei to 34.92 million lei), 13% in 2012 (from 45.16 million lei to 39.19 million lei), 16% in 2015 (from 57.67 million lei to 48.67 million lei) and 9% in 2016 (from 48.67 million lei to 44.28 million lei). The highest value occurred in 2014 (57.67 million lei), but the highest growth happened in 2013 by 37 percent. The value of 57.13 million lei, from 2018, is very close to the one in 2014, the Bucharest Stock Exchange needing at least 0.54 million lei to exceed that value.

Figure 2. BSE Average Daily Turnover (2009-2018)

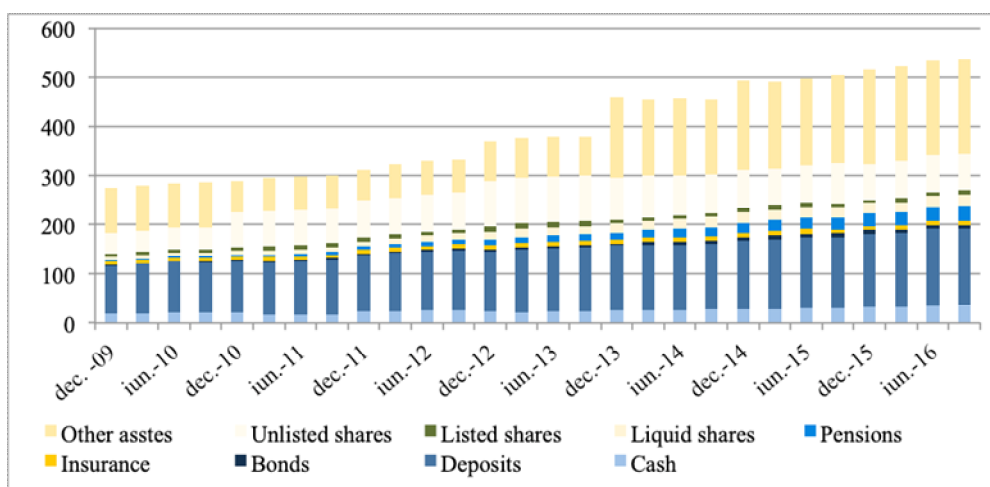


Source: Own calculations

In the last few years Bucharest Stock Exchange (BSE) started to build a competitive capital markets in the Central-Eastern Europe, trying to compete, on the national level, with other segments of the financial market and, on the international level, with other stock exchanges from countries located in the region (Czech Republic-Prague Stock Exchange, Croatia-Zagreb Stock Exchange, Hungary-Budapest Stock Exchange and Poland-Warsaw Stock Exchange).

The Bucharest Stock Exchange holds the monopoly over the market in which it operates, especially as a result of the merger by absorption with SIBEX. Even if it does not have direct competition on the market nationally, to attract savings, it competes with other segments of the financial market such as the banking market, the foreign exchange market. This aspect can be seen in the following chart, which targets the households' financial assets. (National Bank of Romania, Financial Stability Report May 2017: 49).

Figure 3. Household's financial assets (2009-2016)



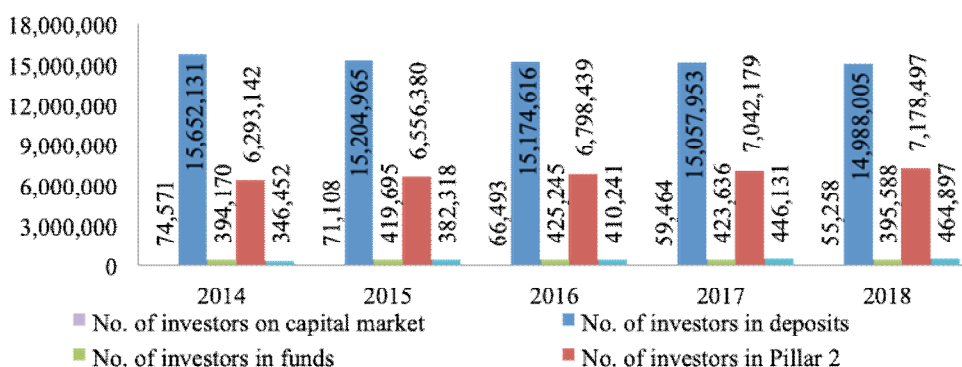
Source: NBR, billions of lei

One of the two components of the household's net wealth, according to National Bank of Romania, is the net financial assets (the other one is real estate assets which has the most significant weight). It can be noticed that the financial assets followed an upward trend, posting a marginal diversification. Thus, households continued to make bank deposits (up by 9.1 percent in September 2015 – September 2016) and to invest in assets such as pensions and listed shares, which rose by 29.3 percent and 20.1 percent respectively. On the other hand, bonds saw a growth in their share in households' financial assets approximately throughout the analyzed period from 0.9 million lei in December 2009 to 8.4 billion lei in March 2014, but then they started to fall. Listed shares had a fluctuating evolution with higher values in December 2012 of 12.2 billion lei and in March 2015 of 10.8 billion lei and in the last part of the analyzed timeframe they resumed the upward trend. Probably the population tends to invest their money in bank deposits as they are much safer, less risky than listed shares, for example, but the gain they generate is very low. The interest rate on bank deposits offered by banks is below 2.5%, which means a very small amount compared to the earnings that the shares could generate. This depends on investor aversion to risk but also on their financial

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education. Figure 4 and 5 come to strengthen the information on the financial assets held by the population. The number of investors in deposits records the highest values, but yet it shows a decreasing trend. The total number of investors to the private pension system, at the end of September 2018, was 7.64 million. Of them all 7.18 million invest in the Pillar 2 pension system showing an increase of 1.98% compared to 2017 and the other 464,897 participants invest in the Pillar 3 pension system which actually increased by 4 percent over the first nine months of 2018. On capital market, the number of participants is ranked last, after investors in funds, with a decreasing evolution.

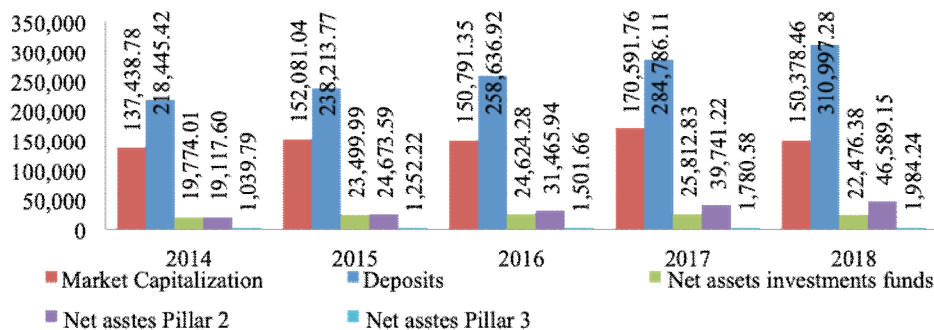
Figure 4. Number of investors on different segments of financial market (2014-2018)



Source: Own calculations

Regarding the assets on different segments of financial market (Figure 5), once again total value of deposits occupies the first place in the ranking, is followed by the market capitalization on the BSE, which expresses the level of shares on capital market. Net assets investments in funds had an upward trend until 2017 and next they went down 13 percent. As far as the pension system goes, net assets are rising from year to year and according to ASF the average contribution to the Pillar 2 pension system is of 158.75 lei and to the Pillar 3 pension system is of 52.11 lei.

Figure 5. Market size (different segments of financial market, 2014-2018)



Source: Own calculations, millions of lei

Regarding the analysis on international level, a comparison between BSE and some countries located in the region near Romania (that can represent competition for our market), based on a few indicators that characterize a stock market, is necessary. The choices are stock exchanges of the following countries: Czech Republic-Prague Stock Exchange, Croatia-Zagreb Stock Exchange, Hungary-Budapest Stock Exchange and Poland-Warsaw Stock Exchange. In our analysis we have used the following indicators (calculated for 2018):

a) Size indicators:

- Market Capitalization. These values include the market capitalization for domestic companies only, for each stock, and it is a measure of the size of the stock market in those countries. Our stock market is in the penultimate position (18.23 billion euro), but at a fabulous difference to the first position, Warsaw Stock Exchange (143.14 billion euro). The second and third positions are occupied by Budapest Stock Exchange (25.20 billion euro) and Prague Stock Exchange (23.57 billion euro). The last position is occupied by Zagreb Stock Exchange (17.79 billion euro). Only Romania and Croatia are still frontier markets, the other 3 have advanced to the status of emerging countries but Poland had a considerably larger investable market capitalization than the Czech Republic and Hungary.

- Number of listed shares. The number of listed companies on the stock exchange is an indicator of the development of the stock market. A higher number means that more companies use equity financing in their business, as it is clear the case of the Warsaw Stock Exchange in Poland. From this point of view the Bucharest Stock Exchange ranks third, after Warsaw (465) and Zagreb (132), with a number of listed shares of 87. The last two positions are occupied by Prague (54) and Budapest (40).

b) Liquidity indicators:

- Trading Volume. Stock liquidity is an important issue in trading volume that tells to investors about the market's activity and liquidity. The total traded value for the Bucharest Stock Exchange is 2.50 billion euro, with a 2% growth compared to 2017, despite the news provided from the government at the end of 2018. Zagreb Stock Exchange is the one with the lowest value (0.21 billion euro), at a significant difference from BSE. Low trading volume means that a stock is bought and sold infrequently, and that it may be difficult to purchase shares if investors desire them, or to sell them if they own them. The WSE owns the highest trading volume in 2018 (49.73 billion euro), which indicates that the stock has high liquidity and may be bought or sold easily. The second and third positions are occupied by Budapest Stock Exchange (8.77 billion euro) and Prague Stock Exchange (5.56 billion euro).

- Trading Volume to GDP %. In the estimation of this indicator, the GDP for 2018 is used at the values predicted to be recorded by the European Commission. As before, the leaderboard remains unchanged: first place is owned by Poland (10.16%), followed by Hungary (6.78%), Czech Republic (2.82%), Romania (1.29%) and the last is the Croatian stock (0.42%). It should be noted, however, that if we are talking strictly of GDP level, Romania has a high GDP of about 194 billion euro, being overcome only by Poland.

- Stock Market Turnover Ratio %. This time Budapest Stock Exchange and Warsaw Stock Exchange record very close values (34.81% and 34.76%) and that's because both of them established Central Counterparty and have derivatives as financial instruments. The third position is occupied by Prague Stock Exchange (23.59%). The

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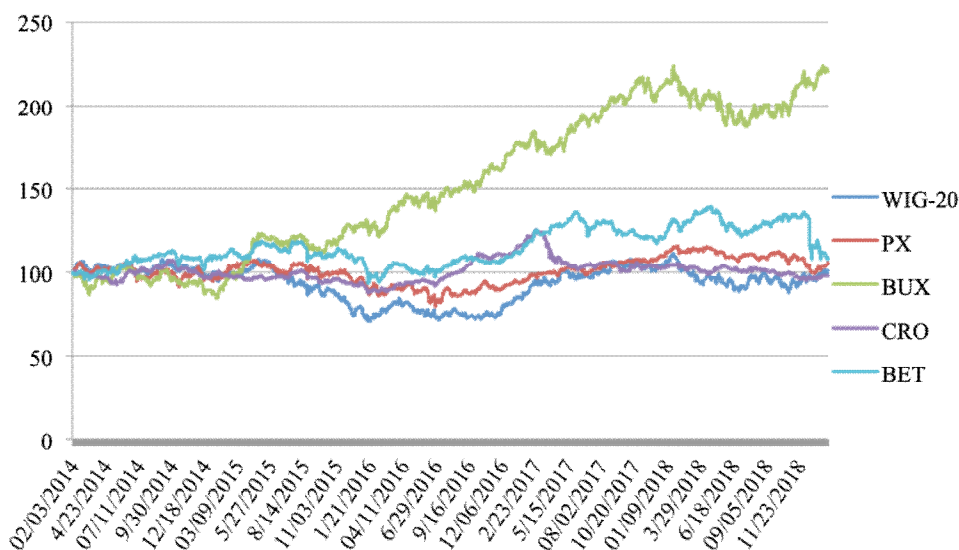
Bucharest Stock Exchange occupies again the penultimate place (13.75%), followed by Croatia (1.19%).

- Average Daily Turnover. Bucharest Stock Exchange is in fourth place in the ranking (10.07 million euro) after Warsaw (198.92 million euro), Budapest (35.95 million euro) and Prague Stock Exchanges (22.32 million euro). The stock with the lowest value of this indicator is the Croatian stock (0.82 million euro).

c) Return indicators:

- Stock Exchange Indexes Growth (Figure 6). The Bucharest Stock Exchange index, BET, up until 4/17/2015, had the highest growth from all five indexes, when it was exceeded by Budapest Stock Exchange index, BUX. Take in consideration that this index is total return compared to the other ones. In 2017 the BET index manages to overcome PX, CRO and WIG20 for the rest of the time period analyzed, even though in December 2018 suffers a significant decrease. The downward trend was triggered by the public information regarding additional taxation in banking, energy and telecom sectors, as well as changes in the Pillar II pension system. On that day, the BET index plummeted by 11.21 percent, wiping out in a single day the entire increase the capital market had seen in the entire year. Prior to this day, namely from December 18th, to the last trading session of 2018, namely December 31st, the main index of the Romanian capital market dropped by over 12 percent. The Bucharest Stock Exchange ended last year in the red following a nearly 5 percent drop.

Figure 6. Stock Exchange Indexes Growth (2014-2018)



Source: Own calculations

Investing on BSE carries some degree of risk. Identifying the categories of risk of the Romanian financial market is an important step in order to understand, assess and manage the investing risk. We have divided the risks in two categories:

1) Business, operational and market risks:

a) Risk of decrease in the transactions value (and, implicitly, a liquidity risk for instruments listed on the BSE) may be due to supply and demand factors.

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Factors related to supply are:

- the inability to attract important companies to the listing (through the IPO); for example, the Hidroelectrica listing project was postponed (just as with other companies, like Electrogrup Infrastructure, Doripesco), and the possible emergence of the Sovereign Development and Investment Fund may constitute a new barrier due to a high degree of non-transparency in SDIF future activity and strategy; the fact that 33 companies in which the Romanian state is a shareholder will make a contribution in nature with a series of shares could lead to the delisting of these companies from the BSE;

- delay in the implementation and operationalization of CCPRO (central counterparty) will lead to delays in launching new products and trading mechanisms (derivatives, short-selling, trading on margin, lending and borrowing); establishment of CCPRO as a joint stock company, with a share capital of € 16 million, BSE bringing a maximum contribution of € 10 million can become, also, a problem (finding eligible investors, in an optimal timeframe, to bring a minimum contribution of € 6 million, will not be an easy job); furthermore, regulatory risks in the case of CCPRO may appear (delays in approvals of possible improvements / modifications needed in the legislative and / or local regulations; at European level, in view of the current state of discussions at the level of the European legislative institutions on the change of the EMIR regime, the updating of the applicable CCPRO rules is envisaged in the coming years); also, there are two elements that may lead to difficulties in implementing the project: the degree of market difficulty in the speed of assimilation / technological implementation; the lack of local expertise in providing compensation services to potential clearing members (GCM) and individual clearing members (ICMs).

Demand factors are:

- a decrease in the amounts invested by Pillar II pension funds in BSE-traded instruments (or even portfolio restructuring, including the withdrawal of pension funds from the market) as a result of recent legislation changes, implicitly lowering the value of commissions;

- the same legislation changes (OUG 114/2018 and the ANRE Order on Capping Electricity Prices to Households), establishing over-taxation regimes for banking, energy and telecommunications companies, have a major impact on the activity, investment projects and the financial situation of the targeted companies, and leads to a significant reduction of the investors' interest and implicitly the decrease of the transaction volume; the impact of this legislation changes on the medium and long-term horizon for the capital market is, according to CEO statements, that the market will be marked by a restriction of the existing activity, or the existence of additional "discount" transactions that are to pay the uncertainty, being obvious an undervalued listing of listed companies compared to their fair value.

b) Failure to obtain emerging market status, with effect on the level of external capital flows and, implicitly, on the level of transaction values and operational revenues. The recent legislation changes manages to keep Romania in transition status, delaying the transition to emerging market status, due to the uncertainty regarding the pension pillar II and the over-taxation of the banking, energy and telecommunications companies, thus reducing the number of transactions on the market and, implicitly, the liquidity of the market.

c) Political instability, low regulatory quality, weak rule of law, and poor corruption control can have a negative short and medium-term impact on transaction values. The emergence of the Sovereign Development and Investment Fund may lead to

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a serious upsurge in the present situation, there may be significant problems such as: total disappearance of transparency and management accountability in state-owned companies; an arbitrary level, derisory regarding the appointment of the leadership of these companies, which will lead to their complete politicization; lack of control and public monitoring of company spending.

d) Worsening of the economic climate and of the main macroeconomic indicators (decrease in GDP growth rate, changes in GDP level and structure, an increase of inflation rates, budget deficit rates and current account deficit rates) can lead to portfolio restructurings from the market investors. Moreover, declining in GDP growth rates, unsustainable public wage increase (9,1% from GDP in 2018 and an 10% from GDP in 2019), the evolution of unemployment rates and the twin deficits are important signs that lead to the idea that Romania is at the end of an economic cycle.

2) Financial risks:

a) Cash risk, which may lead to the occurrence of losses from exchange rate differences, in case of foreign currency investments.

b) Interest rate risk (decrease in interest rates), which may affect interest income obtained by BSE.

c) Liquidity risk and the price risk, which may affect the level of the sale prices of the financial assets held by the BSE.

3) Regulatory risks: possible changes (in the medium term) of fiscal legislation on the corporate tax, the dividend tax (if in the period 2010-2015 the tax rate on dividends was 16%, from 2016 the tax rate is 5%) and the tax on capital gains, in the sense of increasing tax rates, have an effect of portfolio restructuring from the part of investors; the probability for these changes to happen is significant, given the evolution of the budget deficit and the risk of exceeding the 3% GDP deficit level.

Objectives and strategic initiatives

Given the size of Romanian economy, the population number, the free float of the listed companies and the number of private or state owned companies which have the potential to get listed, the Romanian capital market is considered to be under potential (Bucharest Stock Exchange, CCPRO Business Case – December 2018: 4).

In this light, the most important objective of the Bucharest Stock Exchange, on medium and long term, is increasing liquidity. This can be achieved through strategic initiatives engaged by BSE (Bucharest Stock Exchange, CCPRO Business Case – December 2018: 5), as follows:

a) Attracting new listings. In the last 3 years, 6 new companies were listed on BSE, with a positive influence on the market capitalization and daily trading volume.

b) Upgrading to emerging market status. FTSE upgraded BSE from ‘Not Met’ to ‘Restricted’ the single outstanding criterion, liquidity criterion, following an improvement in broad market liquidity. Thus, in September 2018, Romania was maintained by the FTSE Russell rating agency on the list of countries monitored for a possible reclassification from Frontier Market to Secondary Emerging Market next year.

c) OTC liberalization. This became effective on September 2018. The expected effect will be the growth of volumes traded on the stock market.

d) Development of financial education programs. These will lead to an increase in retail investors base and their trading activities.

e) Investors’ forums participation (internationally and locally) to promote Romanian capital market.

f) Alignment to the new EU standards (MIFID II and MIFIR requirements) and re-authorization of the post-trading activity according to CSDR requirements.

g) Removal of Systemic Barriers. This program is offering solutions to issues referring to account opening, investors' corporate rights, dividend payment procedures and primary market offerings. It aims to remove investing obstacles, which served directly or indirectly the interests of local and international institutional investors.

The key driver that will determine a significant increase in market liquidity is the launch of the financial derivatives market, which will provide a new range of products and market mechanisms, such as stock futures, power derivatives, FX futures, index futures, stock options and derivatives based on other asset classes (repo, interest rate, natural gas, agricultural etc.). Having a more diversified pool of instruments will generate more trades, thus increasing liquidity.

Conclusions

Given the size of Romanian economy, the population number, the free float of the listed companies and the number of private or state owned companies which have the potential to get listed, the Romanian capital market is considered to be under potential

In the last few years Bucharest Stock Exchange (BSE) started to build a competitive capital markets in the Central-Eastern Europe, trying to compete, on the national level, with other segments of the financial market (such as the banking market, the foreign exchange market) and, on the international level, with other stock exchanges from countries located in the region (Czech Republic-Prague Stock Exchange, Croatia-Zagreb Stock Exchange, Hungary-Budapest Stock Exchange and Poland-Warsaw Stock Exchange).

In this light, the most important objective of the Bucharest Stock Exchange, on medium and long term, is increasing the market liquidity.

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