

THE DEVELOPMENT OF THE ROMANIAN'S CAPITAL MARKET AND ITS IMPORTANCE IN THE EUROPEAN ECONOMY¹⁷

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Abstract: A modern competitive economy, able to adapt to the current globalization is not conceivable without the existence and function of efficient capital markets. Capital is the lifeblood that feeds the economy, and if the channels in which the sap is insufficient, non-existent or wrong cut, economic progress is questioned. Capital market through its specific mechanisms, materializes and centralize capital, especially should provide tools and products to ensure the fruition of investments and hedging. It is a market that offers the most diverse investment opportunities and in which success depends on the training and knowledge.

The international financial markets, the extent and speed with which it evolves in a process of unprecedented change. By their functioning stock markets have always been characterized by a high degree of sensitivity to changes that occur at the level of investors, the developments and prospects of the real economy and the financial system.

The international economy is continuously restructuring and transition, impacting all nations, they are forced to adapt to the rapid changes taking place in the world. This restructuring is driven by two dynamic forces and interdependent: deepening of globalization of the world economy and the emergence and development of regional economic arrangements.

Due to inadequate risk management, risk assessment of weaknesses in the credit rating agencies of failure to properly apply the rules and supervision, the existing regulatory and supervisory framework failed to prevent the crisis.

Against the backdrop of globalization and integration of capital in the single market of the European Union, we made a radiograph of the domestic capital market to capture the main problems faced and developments and prospects.

Keywords: capital market, European economy, international financial markets, international economy, globalizations

JEL Classification: G15, F65, F36

¹⁷ This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/140863, Competitive Researchers in Europe in the Field of Humanities and Socio-Economic Sciences. A Multi-regional Research Network;

1. INTRODUCTION

The Romanian capital market development was intended to create a market in which both domestic and foreign investors to benefit from specific regulations and institutions in the developed capital markets. Global financial markets have become increasingly complex due to increasing competitiveness, the number of instruments used and the volumes traded and abusive behavior and absence of internationally agreed regulatory measures are some of the risks that might make investors will lose confidence in these markets.

The capital market provides specific mechanisms, legal and institutional framework designed to enhance overall economic efficiency and to ensure the free expression of the laws of the market. Among the most important changes manifested in the global financial markets were those related to the phenomenon of accelerating their integration and globalization? This development directly determined by national financial market liberalization, rapid technological and telecommunications giant leaps, led to the emergence of new investment opportunities and financing for financial market participants worldwide¹⁸.

An efficient capital market can be analyzed either by a normative manner or using a prospective method. Since the consolidation of the Romanian capital market is based on the first vision, we try to present some achievements or failures of this approach. National Capital Market falls among emerging markets, Romania, initiating a process of economic growth but failed to reach a high level of development, characterized by a significant degree of economic and political instability.

This research was focused on economic, legal and financial consolidation process of Romanian capital market in the context of joining the European Union and the integration process in the EU economy. The impetus for the study of such topics sprang from experience practice of PhD student, both as an economist and businessman involved in stock transactions. Although the creation and consolidation of a stock market began a long time in Romania showed its progress to be minor, Romanian capital market is far from reaching a level of development that enables it to exercise its primary role, which is to finance the economy. The importance of capital market resides in the fact that it is a measure of the degree of evolution and the development of a functioning market economy, its existence and level of development and national economy becoming a condition that must be met.

You must take into account internal factors, which are becoming increasingly prominent. Although Romania has only an economic slowdown, there are elements that will make investors thinking: lowering country ratings, volatility in exchange rates and interest rates, reduced foreign direct investment and expansion of various sectors of the economy, the possibility of rising unemployment, and the deficit problem. All this will mean still very low liquidity on the capital market that will keep institutional investors, high volatility that will test investors' nerves, postponement of several projects related to capital market financing and possible IPOs or stock market listing.

¹⁸ Bratu R. St., - *Tendențe și mutații în evoluția pieței de capital din România* , Publishing House Universitaria Craiova, 2010, page. 239 - 241.

2. OBJECTIVES

Capital market is a field whose existence and development depends both its institutional components and the availability of financial and largely on the confidence it inspires its mechanisms and behavior of those who lead and those who perform direct operations market-specific. The explanation is found in the fact that these operations may considerably affect the economic and financial interests of issuers and investors in many controllable variables such as timing of their onset, the price charged, the use of the information, the method used.

So the first important observation is that the stock market (as industry and professional community) was probably the first important area of the economy that has felt the effects of the subprime crisis started in the United States.

It happened so, because, at the time the crisis start in the US stock market was already strongly correlated Bucharest (actually, not just speculative) with international capital markets as a result of inflows of foreign capital entering the Romanian economy . A part of these flows took the path of scholarship and led in time to the accumulation of significant foreign capital stock in relation to liquidity and reduced market capitalization Romanian.

As such, foreigners have strongly influenced the market trend in both pre-crisis period (when their inputs sharp increase in share prices Romanian) and then trigger it (when they started to leave the Romanian market and, as such, put a strong negative pressure on shares and indices on the BSE)¹⁹.

The past decades have occurred in terms of economic power centers, they have disappeared or have lost the importance of some of these in turn appeared tend to develop more. Increase or decrease of prices for raw materials and fuels (oil), increasing or decreasing interest rates on loans to various countries and external debt, have made to increase the sensitivity of the international economy and trends in the evolution of international economic life, which They have printed a dynamic interdependence of countries that have not had before.

Upward or downward trend of the capital market, on the progress or setbacks are calculated based on a criterion that is quite relevant market liquidity. As analysts appreciates the Romanian capital market is not a liquid market, BSE Stocks and only very few shares traded on RASDAQ market provides an acceptable liquidity to investors. Another problem facing the national market is that due to the unclear legislative, financial blockage and the high level of interest rates and inflation, the funding mechanism through public issue of bonds is underused, bonds failed to provide an alternative to investments in shares .

3. METHODOLOGY

The Romanian capital market is not evolving in isolation for years and its correlation with various other markets is becoming stronger. Explanations related strategies to institutional investors, which often causes major trends in the market.

¹⁹ Bratu R. St., - *Tendențe și mutații în evoluția pieței de capital din România* , Publishing House Universitaria Craiova, 2010, page. 271 - 273.

However we cannot talk about a real correlation, direct correlation to the national capital market with countries in the immediate vicinity of emerged with the integration into the European Union, although it suffered as a result of developments in the global context influences (financial crisis the last years of the twentieth century in Southeast Asia, Russia's entry into default, the trends of the printed New York Stock Exchange) were similar.

There are significant differences between the size and dimensions of BSE to other markets in Central and Eastern Europe. But as the domestic capital market is maturing relationship between it and other emerging economies become stronger and begin to be perceived by foreign investors as space Apart Central and Eastern Europe, dominated until now by the markets of the Czech Republic, Hungary and Poland. General characteristic of these markets is their sensitivity to the fluctuations of foreign capital and the permanent search for ways to limit the effects of these fluctuations.

Unfortunately, the market does not have the social and political stability, a favorable macroeconomic environment that would allow him to control these fluctuations. In the market there are endogenous factors which could help balance the market: companies listing liquids, good quality and strengthening governance corporative.

Variations deep gap between them and their development derives from how to attract international investors. From pronounced differences in terms of market capitalization and average daily traded amounts , where Bucharest Stock Exchange has a reduced size scale region we conclude that Romania is not very skillful in to attract investors. Market capitalization emphasizes that it is not irrelevant to note that the level of an institutional investor trading and the other three markets (Hungary, Poland and Czech Republic) lacks liquidity of any order execution in their market, causing major changes in price these securities.

4. ANALYSES

Macroeconomic indicators, first quarter 2015 positively influenced the favorable macroeconomic environment for capital market development in Romania in the first quarter of this year. GDP accelerated to 1.6 % from the previous quarter, and compared to the same period last year, recorded a significant advance of 4.3% (4.2% seasonally adjusted). According to Eurostat, the four largest economies in the euro zone, Germany, France, Spain and Italy have made progress in the first quarter of 2015 causing the euro area economy to move faster than the US and UK compared with the previous quarter. It also noted the Italian end of the period of economic decline. Annual growth in gross domestic product ranks Romania first in the EU (+ 4.2%) , followed by Hungary (+ 3.1%) , Slovakia (+ 2.9%) , Spain (+ 2.6%) , Latvia (+ 2.1%) and Bulgaria (+ 2.0%) , all with dynamic economic growth over 2%.

Table no. 1. Economic growth in EU

	2013-T.IV	2014-T.I	2014-T.II	2014-T.III	2014-T.IV	2015-T.I
Hungary	3,5	3,7	3,9	3,4	3,3	3,1
Poland	2,8	3,5	3,3	3,3	3,2	-
Great Brittan	2,4	2,5	2,9	2,8	3,0	2,4
Romania	5,0	4,0	1,8	2,9	2,7	4,2

Spain	0,0	0,6	1,2	1,6	2,0	2,6
Germany	1,1	2,3	1,4	1,2	1,5	1,0
UE – 28	0,9	1,4	1,3	1,2	1,3	1,4
Bulgaria	1,9	1,5	1,8	1,5	1,3	2,0
Euro Zone	0,4	1,1	0,8	0,8	0,9	1,0
France	0,8	0,8	-0,2	0,2	0,0	0,7
Italy	-0,8	-0,1	-0,3	-0,5	-0,5	0,0

Its economy was stimulated primarily by the rapid rise of activity of the construction sector, by 13.4% compared to the first three quarters of last year when construction declined by over 10 percent annually, and the industry return to annual growth 3.3%. On the demand side, it is estimated a positive contribution from gross fixed capital formation, returning to growth due to current repair works (+ 9.0%) and capital (+ 6.0%). Annual growth in retail sales volumes, car and fuel has stabilized at 3.5% in the last two quarters, while market services for population grew by 0.9%. The first quarter results highlight the important role that investment will have on economic growth Components 2015 by contributing both demand and supply.

Exports (+ 4.9%) and imports (+ 6.3%) had a positive contribution to growth in the first quarter stimulating both supply and demand. This development was supported by improved macroeconomic conditions in key partner countries, Germany, France, and Hungary which has enhanced external demand for Romanian exports.

Table no. 2. The dynamic values of the main macroeconomic indicators

	2013-T.IV	2014-T.I	2014-T.II	2014-T.III	2014-T.IV	2015-T.I
GDP	5,2	4,1	1,5	3,0	2,7	4,3
Industrial production	10,2	10,2	8,0	4,2	2,4	3,3
Construction works	-1,5	-10,2	-10,6	-11,7	1,8	13,4
Commerce with vehicle, fuels	4,7	7,0	6,4	4,2	3,4	3,7
Markets services for people	-5,9	6,5	1,4	-3,9	-3,5	0,9
Services for companies*	9,0	5,1	5,1	5,0	4,7	7,2
Export FOB **	13,3	10,2	5,1	6,1	2,4	4,9
Import CIF **	4,7	9,6	6,6	4,1	3,7	6,3

Source: National Institute of Statistics, gross series; ASF calculations

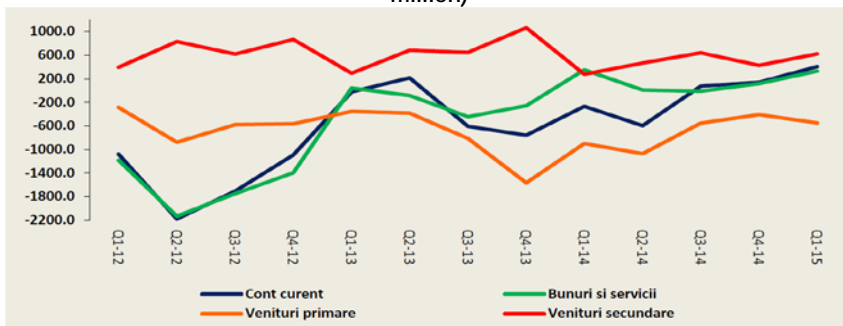
* Dynamic values calculated in nominal values; ** Dynamic values calculated in euro

The current account of balance of payments recorded a surplus of 406 million in the first quarter compared with 268 million deficit in the same period of 2014, amid secondary income account surplus (348 million), reducing the deficit primary income balance (347 million) and the increase of the services balance surplus (167 million euros). Evolution and current account balances in absolute value components reveals the positive shift in the balance of goods and services balance since September last year. The positive balance of current account will significantly reduce pressure on foreign borrowing.

Direct investments of non-residents in Romania totaled EUR 885 million, of which equity stakes (including estimated net profit) registered 200 million euros and 685 million euros intragroup loans (net). Year 2015 started with an increase in confidence of foreign companies to the Romanian economy thanks to improved macroeconomic outlook, which resulted in an increased inflow of loans to subsidiaries

in Romania, resulting in a 55% increase in foreign direct investment compared with the period similar to last year.

Figure no. 1. The evolution of the value of the current account balance and components (EUR million)

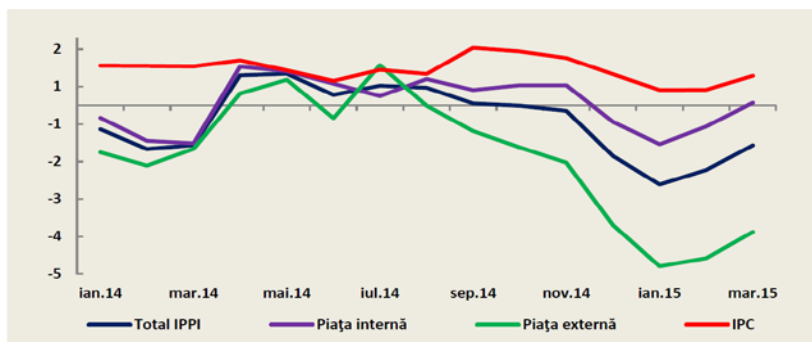


Source: National Bank of Romania

The annual inflation rate climbed to 0.79% in March, up 0.38 percentage points from the average of the first two months (0.41%) amid the non-food prices (1.17% versus in March 0.65% in February). It is noted in this group slowing reduction in fuel prices (-2.1% in March compared with -4.0% in February) and sharper price increases for tobacco and cigarettes (4.5%), footwear (2.43%) and clothing (1.80%). Significant reductions have seen prices in the group food products, vegetables (-4.3%), edible oil (-5.1%), confectionery (-4.9%), those products falling under the additional imports Community. The annual inflation rate still remains at low values, below the target set for 2015-2016 (2.5%).

Industrial productions prices and negative annual growth slowed to 1.1% in March (compared with -2.1 % in January) under the influence of external market prices, the annual decrease of 3.4% (compared with -4.3 % in January). The downward trend of the external component is still under the effect of the decline in international prices of crude oil , and reduce costs in the energy industry (significant reductions in energy prices by 10% in EU28 and 6.8 % in the euro area) and a drop in commodity prices capital (-2.3 %).

Figure no. 2 Inflation rate and annual growth of the industrial productions prices



Source: ASF, based on NIS data processing

** The rate of price increase current month compared to the same month of the previous year*

On the other hand, the annual prices for the domestic component passed in the positive values (+ 0.1%) due to significant increases in prices of manufactured durable goods industry (+ 1.3%) and goods durables (+ 1.1%). It is expected that industrial producer prices in the foreign market to return to growth in the medium term, while stabilizing crude oil quotations and US dollar appreciation against the euro and the national currencies.

The labor market in Romania is constantly improving employment conditions by positioning the number of employees on an upward trend and seasonally adjusted number of unemployed reduction (indicating the unemployment trend in the medium term). Seasonally adjusted ILO unemployment rate was stable a maintained the first three months of the year at 6.5% (with a minimum of 6.4% in February), compared to the evolution of decreasing unemployment rate. The unemployment rate in March remained stable for both the euro area (11.3%) and for UE28 (9.8%). The highest level was registered in Greece (25.7%) and Spain (23%) and lowest in Germany (4.7%). Risks related to the stability of the labor market at European level are minimal, most Member States economies recorded the upward revision of the forecasts²⁰.

Continuing the upward evolution recorded during 2014, the annual growth of gross earnings accelerated in March to 7.3% in nominal terms, approximately equally competitive sector (+ 7.4%) and public sector (7, 2%). Annual wage growth in the public sector was influenced by the situation in education (+ 8.6% in March, compared with 4.7% in February) due to the application of GEO no. 83/2014 on staff salaries paid from public funds in 2015.

Consolidated general budget execution for the first quarter ended with a surplus of 4.9 billion lei, compared to 0.9 billion lei deficit recorded in the first three months of 2014. It highlights the significant increase in VAT receipts (+20.8 %), excises (11.4%), income tax (+ 14.6%) and a better collection of social security contributions (+ 0.5%) in compliance businesses, which offset the loss coming CAS reduced rate of 5 percentage points. First quarter revenue growth is due to progress in fiscal management while reducing economic availability of tax evasion. The budget surplus provides the prerequisites to achieve the annual target deficit while reducing the VAT rate to 9% for food and soft drinks.

Long-term external debt totaled EUR 73.7 billion at March 31, 2015 (79.3 percent of total external debt), down 2.7 percent compared to 31 December 2014. It is anticipated that external debt will follow a downtrend due to repayments to the IMF and reduced pressures on the current account deficit drinkable thanks to funding from foreign direct investment.

Romania continued improvement of macroeconomic balances by keeping the budget and current account deficits at low values. Progress led by the European Commission forecast revision published on 5 May 2015. The European Commission estimates Romania's economic growth to 2.8% in 2015 to 2.7% predicted in advance of winter weather and 3, 3% in 2016, due to persistently high growth in private

²⁰ Totilca A., Bratu R., St., - *Young people and the labor market in Romania*, Annals of the University of Craiova, Economic Science Series, Publishing House Sitech Craiova, Year XLII, No: 42, 2014, vol. 1, page. 164 -171.

consumption (3.5% -3.8% 2015-2016) and accelerating investment growth (3.2% - 4.2% 2015-2016). Unemployment will continue downward trend to 6.6% and 6.4% in 2015 and 2016 (below the European average 9.6% - 9.2%) and the average annual inflation will be significantly reduced from 0.2% in 2015 under the influence of the tax measure to reduce the VAT rate on food group. As regards fiscal consolidation, it is possible to register some slippage in 2016, applying the tax code as initially proposed, but without taking into account the positive effects of improving the collection and the second round of additional economic growth.

5. CONCLUSIONS

National or international financial market provides companies with a comprehensive range of sources of finance. At company level, their managers must choose between available resources and combine them, thus shaping the company's financial policy. One of the most important benefits of listing the company on this transaction is that the shares become more liquid offering rewards and financial freedom for the founders and employees.

The financial resources available in the capital markets may represent a significant component of funding for companies that come to the market and used its instruments²¹. Financing through the capital market is a much cheaper option, it outperforms bank loan and is more accessible for companies performing due to market dynamics and investor sentiment. Over the years it has been demonstrated that an IPO (initial public offering) is quickly analyzed and assimilated both speculators and investors portfolio. Keeping their attention by the frequent use of market instruments and the admission to trading of the shares after the company, the company can ensure a continuous inflow of financial resources associated with investors' expectations regarding the profitability and prospects of the Company.

We can say that the Romanian capital market activity is good, but for it to live up to European standards is necessary to take a series of measures to improve the existing legal framework through its harmonization with EU directives in the capital market, increasing interest of large companies to the capital market through a more complete and accurate information on their activities and use of all facilities capital market, increased interest in the stock market by attracting major companies operating in the Romanian economy, development of laws and regulations that provide increased market activity and avoidance of recalls. Ensuring the implementation of corporate governance principles at most of the issuers listed on the exchange.

The Year 2014 represent the target year for Romania to become a member of the Eurozone. Capital market institutions in Romania should be prepared at that time to face regional competition and be part of a consolidated European capital markets. The growth rate of stock market indicators in Romania must exceed that of EU scholarships indicators: market capitalization exceeding 40% of GDP and average daily turnover value increased to 50-100 mil. Euro.

²¹ Bratu R. St., Tudor m. S., - *The growing importance of Capital Market derivatives in Romania and their impact in the European economy*, Revista Tinerilor Economişti (The Young Economists Journal), YEAR XI – NO.23 November2014, ISSN 1583-9982 (printed), 2067-0052 (e-ISSN), page 101 – 108, <http://stat257.central.ucv.ro/rte>

In conclusion, I believe that Romanian investors can benefit increasingly more from the monitoring and analysis of the more developed markets - at least in the US, along with some major EU markets (UK, France and Germany). Tracking CEE markets is not sufficient, given that causation is linked to developed markets, not regional ones (although for both groups there is strong correlation with Romanian market).

We cannot conclude without noticing that the stock market reflects the image of the real economy. Without a political attachment to structural change and without success in implementing a stable macroeconomic framework, the Romanian capital market has a good chance of recovery.

ACKNOWLEDGEMENT

This work was supported by the strategic grant POSDRU/159/1.5/S/140863, Project ID 140863 (2014), co-financed by the European Social Fund within the Sectorial Operational Program Human Resources Development 2007 – 2013 "Researchers competitive at European level in the field of science humanities and socio-economic. Research Network multiregional "CCPE.

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