CHARACTERISTICS OF FOUNDING VIA THE BUCHAREST STOCK EXCHANGE AND THE EVOLUTION OF THE PERFORMANCES AS COMPARED TO THE EVOLUTIONS RECORDED ON THE FOREIGN CAPITAL MARKETS

CARACTERISTICILE FINANŢĂRII PRIN INTERMEDIUL BURSEI DE VALORI BUCUREŞTI ŞI EVOLUŢII COMPARATE ALE PERFORMANŢEI ÎN RAPORT CU EVOLUŢIILE ÎNREGISTRATE PE PIEŢELE EXTERNE DE CAPITAL

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Abstract: *On the Bucharest Stock Exchange indices as: stock exchange capitalisation, the volume and the values transacted on the Romanian capital market are very low as compared to mature, European-level, capital markets. The local capital market depends on the evolution of the mature capital markets. The efforts of integrating the domestic capital market into the single European market is very evident especially on a legislative and institutional level.*

Key words: *capital market, stock exchange capitalization, stock exchange performance*

INTRODUCTION

While funding by means of initial public offers (IPO) is common practice for issuers on the mature capital markets at European and international level, the situatin on the internal capital market has totally different characteristics.

At European level, the market of initial public offers seems to recover after recent unfavourable evolutions on the financial markets.

MATERIAL, METHOD, RESULTS AND DISCUSSIONS

In 2009, the European stock exchanges operated during the last term of the year 61 IPOs, with an approximate value of 5 billion euro, according to the surveys conducted by Price Waterhouse Coopers, in constant groth as compared to the amount attracted in the first half of the same year, of 1, 37 billion euro, in 44 IPOs. These listing operations by IPO benefited from a less favourable context, as the price of the listed financial instruments continued to be low, as a consequence of the pressure exerted by institutional investors when buying.

A significant example of IPO listing, successfully achieved, is that of the Polish energetic group PGE Polska, which determined an increase of capitalisation of the Warshaw stock exchange of 1, 41 billion lei.

The following massive listing occurred on the platform NYSE Euronext, where the Dutch insurance agency Delta Llyod NV attracted about 1, 02 billion euro.

The total value of initial public offers that took place at European stock exchanges in 2009 was 6,83 billion euro (corresponding to a number of151 IPO), that represents 49% of the total value attracted during the previous year, 13,96 billion euro (337 IPO). Within this statistical record, NYSE Euronext ranks first with 13 IPO, representing 1, 91 billion euro, the second place going to the Warsaw exchange, with 16 IPO, representing 1, 45 billion euro. The London exchange ranks third, with its 14 IPO, the sum attracted being 0, 95 billion euro.

In 2010, it is the exchanges in London, Oslo and Warshaw that lead the performance as far as the successful development of the I.P.O.-s is concerned, the sum attracted being 26,3 billion euro. The European level is below the level of the I.P.O. market in the U.S.A, while the total amount attracted was 29,5 billion euro and a still lower level as compared to Asian performances (Greater China, which includes the exchanges in Hong Kong, Shanghai, Taiwan şi Shenzen), of 97 billion euro.

The London exchange had in 2010 a number of 123 de IPO's, the sum it attracted being 12, 6 billion euro, while the Warsaw exchange attracted 3, 8 billion euro, from 112 IPO's. The last quarter of the year brings a new important listing, achieved by the Spanish and Italian exchanges, as a consequence of which the utilities company Enel Green Power attracted 2, 26 billion euro.

At a national level, the process of funding the activity of the issuers via the capital market highlighted a persistence of some reticence in accessing financial resources by initial public offers. Although the cost of funding via the capital market is lower, as compared to other funding opportunities (loans from crediting institutions), the number of IPO's that took place at the exchange indicates a low interest of different companies for obtaining from the exchange, the resources necessary for developing their activity.

Table 1

Evolution of the number of initial public offers at BVB

	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Number of IPO's at BVB	4	1	1	4	2	2

Source: www.bvb.ro Date of extraction: Fri, 23 Dec 10 18:38:30

We consider that the factors that contribute to keeping this type of funding at an stage depend on the level of the investment culture, on the possibility of non-subscribing the bonds offered in an I.P.O., on the statistics of the latest years, which, from the point of view of the number of IPO's operated at The Bucharest Exchange were not at all encouraging;
One can add to these factors the reticence of the shareholders of different societies to part with a portion of their social capital, for fear not to loose control on the decisions made for the activity of the society. The issuing societies transacted on the capital market in Romania are mainly those introduced in transacting at the beginnings of the Bucharest Exchange and by the process of mass privatization. In most situations, the social capital of different societies is low, so that increasing this capital via IPO's, with 10-20%, does not represent sufficient contribution to funding economic activity.

There might appear an opportunity of reversing the tendency of the capital market in Romania in 2011, when, following to the notification of the Ministry of Economy, the exchange will offer sets of 15% of the social capital of the big utility providers: Transgaz, Romgaz and Transelectrica, and also the listing of the Proprietatea Fund. There are arguments in favour of considering these offers will have a successful outcome, having in view the high interest of investors for the shares of these companies and the previous success of the first IPO's with Transgaz and Transelectrica bonds.

As compared to the volumes transacted on the international markets, the capital market in Romania maintains its character of emergence, the transacted amounts being extremely low, as compared to the transactions on mature capital markets (Figure 1).

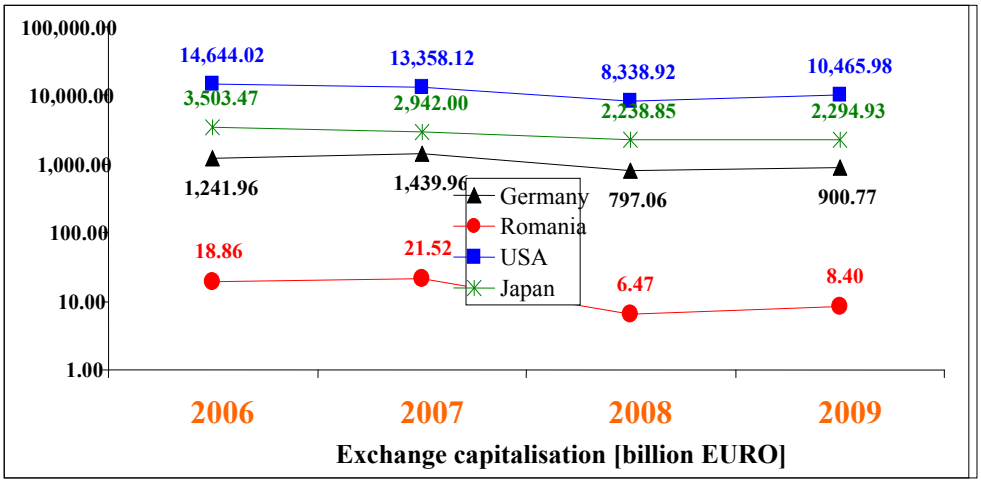


Fig 1.- Comparative analysis of the international exchange capitalisation

Low exchange capitalisation is one of the factors of influence, as not enough issuers are listed to ensure adequate liquidity of the exchange and more numerous investment opportunities for investors. The significant differences between the local capital market and the other European capital markets are to be felt at the level of the transacted values too.

From the point of view of the volatility of the market, the price of the financial instruments varied much more on the internal market than on mature markets. The deviations within the price variation are something typical, being an effect of the emergence characteristic of the capital market. Several annalists drew the conclusion that the domestic exchange manifests a high degree of sensitivity to evolutions on international markets. One can identify a correlation of the Romanian capital market with the foreign markets, especially with the capital market in the USA, which continues to be “the engine” of international finance.

Both enthusiasm and panic are more visible on the domestic market than on the international ones, a characteristic that might be attributed to the poorer investment experience of the local investing public. Investment opportunities are also narrow, and the relatively recent launching (at the Bucharest Exchange) of new financial instruments (derivate, basic units structured products), has not brought yet remarkable results concerning the transacted values.

The performance of the domestic capital market could make a significant leap into the European landscape only if the objectives aimed at for the following years -new listings (Romgaz, Romtelecom) or new IPO's of utility companies already present at the exchange, of the ""Proprietatea" Fund, of crediting institutions like BCR and CEC, unification of the two market operators BVB Bucureşti and BMFMS Sibiu-are attained.

CONCLUSIONS

The annual evolution of the number of new listings with the Bucharest Exchange reflects, without any doubt, non-utilisation of the funding function via the capital market, this feature being an intrinsic characteristic of the market, (starting with the very moment of its re-launching), little influenced by the effects of the international financial crisis.

In fact, the revival, general on all capital markets starting with the second quarter of 2009, represented an effect that could mainly be assigned to the restoration of the financial instruments.

The capital market in Romania still cannot attain its task of concentrating the capitals necessary for funding the economy.

But from the point of view of investments, the efficiency and the liquidity of the investments placed in securities offered satisfactory levels in the period under discussion, if one takes into consideration all the advantages of possession (dividends, and/or new shares assigned for free as a consequence of risings of capital).

The efforts of integrating the domestic capital market into the single European market very evident especially on a legislative and institutional level. But, as far as diversification of financial instruments is concerned, the

steps are still modest, the recent launching for testing of the new financial interests being nearer to a process of testing of the interest of the investors, who continue to be, even at present, reticent about restoring the investing process.

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