

Future of the Romanian Stock Market in a European Context

Ovidiu Stoica

Department of Business Administration
"Alexandru Ioan Cuza" University of Iasi, Romania
ostoica@uaic.ro

Abstract

One clear trend in the pan-European capital market is the regionalisation: Euronext started the movement of regional integration about a decade ago, OMX Exchanges have created an impressive pool of Nordic and Baltic exchanges, Vienna Stock Exchange is more and more active in Central and Eastern Europe, but also Athens and Warsaw Stock Exchange are interested in expansion at regional level. After the European integration, the New Member States took advantage of a favourable period (most of them between 2004 and the beginning of the financial crisis) for the entire economy, including for the financial markets, which enhanced their preoccupations for growing and expansion. The goal of our research paper is to analyse the Romanian stock market within the European trends, identifying possible alternatives and best solutions for development, taking into account the European experience.

Keywords: stock exchange, Romania, European integration, single European capital market

JEL Classification: E44, F36

1. Introduction

In spite of the communitarian authorities' efforts, the European stock markets are still fragmented, this thing being also observed in the euro area and even if the single currency is able to facilitate and enhance this process. Lately, the European stock market framework has suffered impressive transformations, being marked by an impressive number of alliances, acquisitions and mergers.

The major European stock markets, in the last decade especially, generated three clear trends: demutualization, mergers and acquisitions, consolidation and fragmentation (Erkan, 2008, p. 3). Thus, if in 1998 only 38% of the stock exchanges were for-profit and the majority not for profit, in 2006 already 79% of the stock exchanges worldwide were for profit. Secondly, large stock exchange groups emerged in Europe: after Euronext, OM Group and several other stock exchanges started the expansion abroad, across Europe. Recently, some of the major European players consolidated their positions globally, involving in transatlantic partnerships, generating NYSE-Euronext and NASDAQ-OMX. Nowadays however, in the European Union the fragmentation of the stock market increased again, together with the new created dark liquidity pools and ECN (Electronic Communication Networks) within MIFID.

2. Significant Transformations in the Stock Market Environment in the Central and Eastern Europe

A review of some statistics offered by the Federation of European Securities Exchanges (FESE) for its members shows that at the European level, the discrepancies are big among the most important stock exchanges, the ones that are quoted in international tops, and the other stock exchanges, from the Central and Eastern Europe, inclusively.

Although, even in the Central and Eastern Europe area, the preoccupations for growing, by the help of some alliances, partnerships or acquisitions (less mergers), are more and more evident in the last decade. The main actors from the Central and Eastern Europe are the Warsaw, Vienna and the Athens Stock Exchanges, being the most active ones when talking about partnerships or acquisitions, for expanding the regional influence.

Table 1: Market capitalization in Europe, February 2010 (millions EUR)

Stock Exchange	Value at month end
NYSE Euronext	1,926,903.00
London Stock Exchange	1,925,544.67
BME (Spanish Exchanges)	880,445.65
Deutsche Börse	859,192.51
SIX Swiss Exchange	769,077.58
NASDAQ OMX Nordic	604,017.55
Borsa Italiana	423,327.48
Oslo Børs	153,493.72
Warsaw Stock Exchange	106,636.68
CEESEG - Vienna	77,150.78
Athens Exchange	69,519.98
Luxembourg Stock Exchange	68,423.00
Irish Stock Exchange	41,427.64
CEESEG - Prague	32,117.88
CEESEG - Budapest	21,056.07
Bucharest Stock Exchange	9,663.97
CEESEG - Ljubljana	8,192.19
Cyprus Stock Exchange	6,322.30
Bulgarian Stock Exchange	5,741.23
Bratislava Stock Exchange	3,767.61
Malta Stock Exchange	2,986.85
TOTAL	7,995,008.34

Source: <http://www.fese.be/>

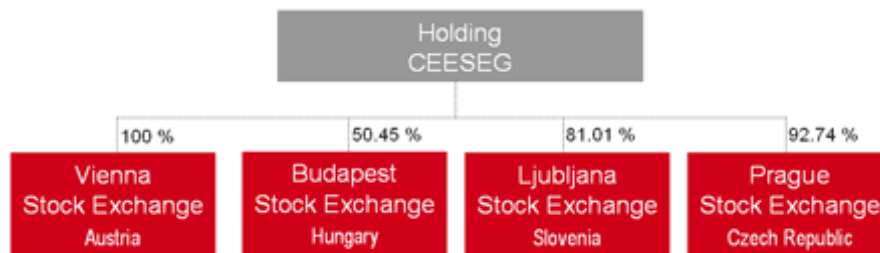
Vienna Stock Exchange (also known under the name of Wiener Börse) has become more and more active during the last years on a regional scale, following the OMX example of stock exchange acquisitions, mergers and alliances and succeeded to become *the most important player from Central and Eastern Europe*. Thus, on the whole, including the three

CEE stock exchanges they bought recently, it succeeded to outclass the rival Warsaw Stock Exchange - in what concerns the stock market capitalization - offering at the same time access on four stock markets from the region, following the same OMX model.

The regional expansion began in March 18th 2004, when a consortium made of HVB Hungary, Wiener Börse AG, Erste Bank, RZB and OeKB bought most of the shares (68.8%) of the *Budapest Stock Exchange*, in June 12th 2008, Vienna Stock Exchange increasing its participation as shareholder of the Budapest Stock Exchange from 12.5% at 37.7%, by the acquisition of the shares owned by UniCredit Bank Hungary Zrt (ex-HVB).

In June 20th 2008, Vienna Stock Exchange bought 81.01% from *Ljubljana Stock Exchange*. The fight for obtaining the control was harsh, competing with Hellenic Exchanges, Warsaw Stock Exchange and OMX, other stock exchanges that were interested in expanding their regional influence. Finally, in November 7th 2008, Vienna Stock Exchange bought 92.74% from *Prague Stock Exchange*, in this case competing with Warsaw Stock Exchange. As a necessary movement in order to increase its homogeneity, the 17th of September 2009 appears *CEE Stock Exchange Group*, the holding that incorporated all the four exchanges.

Figure 1: Structure of the CEE Stock Exchange Group



Source: ***, 2010, „*CEESEG Annual Report 2009*“, Vienna, p. 8.

As part of its strategy for increasing the influence in the region, Wiener Börse made partnerships with eight stock exchanges from South-Eastern Europe (Sofia - Bulgaria, Sarajevo - Bosnia and Herzegovina, Banja Luka - Bosnia and Herzegovina, Srpska Republic, Zagreb - Croatia, Podgorica - Montenegro, Bucharest - Romania, Belgrade - Serbia, Skopje- Macedonia, and also other stock exchanges: Shanghai - China, Tokyo - Japan, Almaty - Kazakhstan and Dubai - United Emirates. In the date of September 17th 2009, the *CEE Stock Exchange Group* was set up and under this holding's name, we officially find (after the Shareholder's General Meeting) all four equal subsidiaries, The Vienna, Budapest, Ljubljana and Prague stock exchanges. Thus, *the Warsaw Stock Exchange lost its supremacy in the Central and Eastern Europe, the new-born entity becoming the most important regional actor.*

The *Warsaw Stock Exchange* - WSE is, individually taken, the most important stock exchange from the Central and Eastern Europe and a significant regional actor. It is interesting to notice the collaboration between Warsaw Stock Exchange and Euronext, which signed a *partnership agreement* called "unique screen" at the beginning of the February 2002. Thus, starting with January 1st 2003, the two stock exchanges are reciprocally connected to the partner's trading system, the operators have full and direct access to the partner market (cross-membership and cross-access), and starting with January 1st, 2004, the trading platform for derivatives is also functional. It is significant that the alliance between the two stock exchanges was

facilitated because Warsaw Stock Exchange already was using the same trading platform as Euronext.

However, the ownership structure of the WSE (being owned by the government - 98.8% of the shares) had as result a certain expectation in the international expansion; recently, the Polish government committed itself to selling WSE to a strategic investor in order to enhance its possibilities of international development. In 2009, Deutsche Börse, London Stock Exchange, NASDAQ-OMX and NYSE Euronext have submitted bids to purchase a stake in the Warsaw Stock Exchange and now the Polish government is committed to privatise WSE until the end of 2010. After that, probably we can expect to maintain the same interest in external growing, only if the new stockholders will not represent a major stock exchange and will keep the expansion plans, otherwise the WSE will become only a piece in a puzzle and the expansion strategy will remain at the level of the main player in the holding.

Athens Exchange (ASE), part of the *HELEN Exchanges Group*, is on the third place in the top of the market capitalisation in the CEE area. In the framework of the last two EU enlargements, the ASE became more and more interested to consolidate its regional position, trying new collaborations or acquisitions on a regional level. Starting with October 30th 2006, the Common Platform - which was implemented by the Athens Exchange (ATHEX) and Cyprus Stock Exchange CSE) - came into force.

At the beginning of November 2007, Deutsche Börse announced that *Bulgarian Stock Exchange - Sofia* implements the German electronic trading system- Xetra, opening thus the pathway towards a partnership of five years, where Deutsche Börse houses trading services for Bulgarian Stock Exchange - Sofia. The system's implementation (that became functional on June 16th 2008), shows the desire of internationalization of the Bulgarian stock exchange, under the circumstances in which the Xetra trading platform is also used by Vienna Stock Exchange (since November 1999), by the Irish Stock Exchange from Dublin since June 2000 and, in the future, we expect its implementation in the Shanghai Stock Exchange. At the same time, the Xetra system is also used by the Eurex Bonds, Eurex Repo and European Energy Exchange, Leipzig. In March 2006, Sofia Stock Exchange signed a Memorandum of understanding with Vienna Stock Exchange, while in May 2002 signed a similar agreement with Russian Trading System Stock Exchange and in April 2001, with Athens Stock Exchange. In 2006, The Hellenic Exchanges group has expressed its interest in buying 44 percent of Bulgarian Stock Exchange (BSE) shares as well as WSE and other more important EU markets, including OMX, Deutsche Börse and Borsa Italiana.

3. Romanian Stock Market - Future Challenges and Perspectives

The Romanian capital market had a continuous growth especially during the last decade. After some institutional reorganisations due to the necessity of consolidation and regaining investors' confidence, but also to the European integration the stock market landscape includes two players, Bucharest Stock Exchange, the oldest one, starting in 1995, and a more recent one, Sibiu Monetary Financial and Commodities Exchange, that started on the derivatives market and entered recently the stock market.

The *Bucharest Stock Exchange* started in 1995 with a sole transaction session per week with an average of 200,000 USD in transactions and a

stock market capitalisation of 100 millions USD, arriving today to reach over 10 millions USD in transactions and 17 billions USD market capitalization; if we connect this with the ambitions to overpass 20 billions EUR in capitalization, that would represent between 30 to 40% of the GDP in the next few years, we will have a better picture of the progresses realized.

The Bucharest Stock Exchange has tried during the last years to boost its international visibility (more precisely the regional one), by signing some agreements of collaboration with stock exchanges from the CEE region. Thus, at the end of the year 2003, the Bucharest Stock Exchange signed an agreement with the *Thessaloniki Stock Exchange*, setting up the basis of a collaboration between the two institutions for creating a new segment of market - the "new market", designed for small and medium sized companies, as it exists in all developed countries; unfortunately, this market segment has not become functional up to now.

As a follow-up of the collaboration between the Bucharest Stock Exchange and *Wiener Börse*, set up by the help of a *Memorandum of Understanding* signed in Vienna in December 2004 by these two stock exchanges, the ROTX index (Romanian Traded Index) was issued; the index was calculated on the basis of the share prices of the most traded 6 companies quoted at the Bucharest Stock Exchange. The importance of the stock index derives - as the ex-CEO of the Bucharest Stock Exchange, Stere Farmache, highlights, from the international visibility: "By the help of this index, specific for the stock market, the Bucharest Stock Exchange gives a new international representation of the companies quoted at the Stock Exchange, and by extension, of the Romanian economy".

A question that the Bucharest Stock Exchange must answer as soon as possible is whether the best solution for its European future is to develop on its own - as a good number of the shareholders (intermediaries/financial investment companies) sustain, or to choose an alliance/fusion/to accept an acquisition by a world-known stock exchange, for being on the trend that exists at the European level, for gaining the necessary visibility for its development and for attracting in a greater measure, the foreign investors and according to its potential.

The second actor from the Romanian stock market, the *Sibiu Monetary Financial and Commodities Exchange* (SMFCE), which surprised many times by its courageous decisions, seems to have a more pragmatic tackling in comparison with the Bucharest Stock Exchange, in what concerns the *international opening*. According to the estimations, SMFCE will become a more and more important actor on the Romanian capital market, and hopefully even at a regional level, in the future.

In October 2007, The Warsaw Stock Exchange became a shareholder of the Sibiu Monetary Financial and Commodities Exchange, after it bought 586 shares, valuing 937,600 RON (281,000 EUR), owning 1.8% from the SMFCE. The acquisition was seen as a first part of the strategy of development of a regional market in Central and Eastern Europe, according to what Ludwik Sobolewski, the CEO of the Warsaw Stock Exchange, stated.

In the context of the European integration, for respecting the communitarian acquis, SMFCE was forced to reach a share capital of minimum five million Euros up to the year 2008, in comparison with the level of two million EUR, reached in the year 2007. As a consequence, even from the summer of 2007, three stock exchanges manifested their interest of becoming main shareholders, by their participation at the capital increase: Euronext, Eurex and the Warsaw Stock Exchange, in the conditions in which, in November 2007, the Morgan Stanley

investment bank received the notice of the National Commission of Securities of owing indirectly, together with the involved persons, the maximum of 5% from the right of vote of the Sibiu Monetary Financial and Commodities Exchange, thus, becoming the most important shareholder. Unfortunately, the capital increase was made by reserve incorporation and not by attracting an important shareholder, a stock exchange meant to confer the desired regional amplitude. Thus, until now, SMFCE preserves its independence of movement and the freedom of choosing the best movement for its future development, but one question remains: is the current organisational structure (and its shareholders) strong enough in order to insure that will have a major position in CEE in the next decade and will face the increasing competition?

The main question remains if Romania could afford two stock exchanges, both relatively small and almost with the same participants?

The Romanian capital market has still important resources for growth, being mainly domestic oriented and with no real regional visibility. One possible solution for external development could be to collaborate with the Moldavian Stock Exchange, where the recent European orientation could facilitate the process.

Conclusions

The architecture of the European capital market it is not yet completely "stabilised". The effervescency of the transformations it is encouraged by the organisation of stock exchanges, that, generally, in the last decade became public companies, sometimes even listed. In the following years, in the larger context of transformations determined by the integration of the European stock markets, we will see other profound changes, that will consolidate the regional influence of some stock markets, with benefits for all the market' actors. Smaller stock exchanges are condemned to remain local (national) and eventually a target for others that aspire to the statute of regional, European or world leaders. Being number one or at least in top, from the point of view of market capitalisation is one of the main stimuli for mergers, acquisitions or alliances, thus being able to gain, directly or indirectly, more money for their shareholders. The Romanian stock market remains, after two decades since the debut of the transition to the market economy, underdeveloped. Its future it is marked, probably, by the lack of governmental inspiration, when, several years ago, accepted to transform the state owned company in a public one and transfer free of charge the ownership to the financial intermediaries, instead of selling it (privatising) like most of the cases in the region and offering the best prerequisites for becoming part of an international exchange. Nowadays, the small group interests encumber its development and prefer to keep the control and also the profits not for the exchange itself, but indirectly to its owners (the financial intermediaries), that are protected somehow from the foreign competition and benefit from a framework where the interests of the intermediaries prevail and not of the entire market. Hopefully, over passing this period and being more open to international collaborations, Bucharest Stock Exchange will increase in the European rankings, according to the weight of the national economy.

References

- Anghelache, G., 2009, „Piața de capital în context european”, Editura Economică, București;
- Claessens, S.; Lee, R.; Zechner, J., 2003, „The Future of Stock Exchanges in European Union Accession Countries”, Corporation of London, Guildhall, London;
- Erkan H., 2008, „How Can We Increase the Attractiveness of the Region as an Area for Investment?”, Conference on the Prospects for Capital Markets in Southeast Europe, Sofia;
- Helmenstein, C. (editor), 1999, „Capital markets in Central and Eastern Europe”, Edgard Elgar, Cheltenham;
- Kawecki, A., 1990, „Emerging Stock Markets in Eastern Europe”, International Financial Law Review, November;
- Kazarian, E., 2006, „Integration of the Securities Market Infrastructure in the European Union: Policy and Regulatory Issues”, IMF Working Paper, WP/06/24, International Monetary Fund, October;
- Pohl, G., Jedrzejczak, G., Anderson, R., 1995, „Creating capital markets in Central and Eastern Europe”, World Bank Technical Paper no. 295, The World Bank, Washington;
- Schröder, M. (editor), 2001, „The new capital markets in Central and Eastern Europe”, Springer Verlag, Berlin;
- Seinfert, W.; Achleitner, A.K.; Mattern, F.; Streit, C.; Voth, H. J., 2000, „European Capital Markets”, Macmillan Business, Houndmills;
- Skeete, H., 2009, „The Future of the Financial Exchanges. Insights and Analysis from the Mondo Visione Exchange Forum”, Elsevier, Amsterdam;
- Stoica, O., 2003, „Integrare financiar-monetară europeană”, Editura Junimea, Iași;
- Syllignakis, M., Kouretas G., 2009, „German, US and Central and Eastern European Stock Market Integration”, Springer Science + Business Media, LLC;
- ***, 2010, „CEESEG Annual Report 2009”, Vienna;
- ***, 2000, „Emerging Stock Markets Factbook 2000”, Standard & Poor's, New York;
- <http://www.bmfms.ro>;
- <http://www.bvb.ro>;
- <http://www.cnvmr.ro>;
- <http://www.fese.be>;
- <http://www.fibv.org>;