

EVOLUTIONS ON THE ROMANIAN CAPITAL MARKET, FROM THE VIEW OF THE ACCESSION TO THE EUROPEAN UNION

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In the last few years financial experts demonstrated the very close relationship between the evolution of the capital market and the economic growth level in different countries.

In the present context of Romania's EU accession, we expect a continuous trend of economic growth as a consequence of EU funds absorption for rehabilitating the economic and business infrastructure.

The aim of our study is to examine the main events on the Romanian capital market and to present an accurate picture of its evolution before and after the EU accession, in order to prove the strong relationship between economic growth and capital market evolution.

Keywords: capital market, EU accession, IFRS

1. Capital markets – a possibility for investing cash surplus or for financing treasury deficits

The market economy, marked by the existence of a powerful competition environment, generates the need for companies' development and coping with environmental pressures. Where the internal financing sources are not sufficient in comparison to the company's needs, it becomes necessary to attract foreign sources.

In the present context of EU accession, private companies can use various ways for attracting financing sources: share issue, bondholders, bank loans, European non-reimbursable structural funds, etc.

In a stronger competitive environment and under the pressure of the globalization of the financial markets, companies perceive becoming an open company as a way to survive, but also for improving the company's competitiveness. This process presumes a punctual preparation and the quantification of risks and advantages resulted from listing the company on capital markets.

From the company's point of view, the most important benefit of being listed on capital markets consists in the access to foreign alternative financing sources, absolutely necessary at a certain development level, provided that capital costs are acceptable in comparison to bank financing costs.

The possibility of being financed through the issue of securities attracts efficient companies on capital markets, resulting automatically in continuous transactions with the issuers' securities. In order to materialize the two most important advantages of companies' listing, capital markets should achieve their two functions: permanent valorisation of securities at a stock market price based on the issuers' actual performances and financing the listed companies' most profitable investment projects.

Although seeming very simple, the relationships between listed companies and capital markets are complex from the view of achieving the markets' two functions and fulfilling certain performance criteria by the issuers.

On the other hand, capital markets also offer the opportunity to invest cash surplus in different investments with a superior profitability than those offered by bank deposits.

As a conclusion, economies have two attracting, propagating and stimulating channels: the bank system and the capital markets system. At the beginning of the competition, capital markets have been very unstable.

The bank system continues to be attractive for investors even if interests are lower than the winning possibilities on capital markets. The bank system and the Treasury attracted most of the available savings, re-allocating them by means of consumer loans or imports of goods for resale. Under these circumstances, most of the money did not return into the actual economy by means of loans, but indirectly, by means of each company's added value. Another share of the money attracted into the bank system was used for covering the companies' current cash needs by means of short-term loans. In a developed economy, long and medium-term available funds actually insure the general economic development. Companies can access these available funds both through the bank system and through the primary capital markets.

The main difficulties in developing the Romanian capital markets were the following: reduced liquidity and lack of a complex range of financial instruments, financial indiscipline on the capital markets, prevailing position of certain financial mediators, avoidance of large companies and corporations, withdrawal of some companies due to their takeover.

2. History of capital markets

The Romanian securities market has been structured from the beginning into two different elements: Bucharest Stock Exchange (BSE) and RASDAQ (Electronic Stock Exchange RASDAQ). Subsequently, these two units merged into a single market, BSE absorbing RASDAQ.

Presently, BSE functions as a joint-stock company. It was set up based on Decision no. 20/1995 of the National Commission for Marketable Securities (CNVM). Its set up was requested by 24 financial investment companies (marketable securities companies at that time), founders of the Stock Exchange Association. The National Market for Marketable Securities RASDAQ was launched on 26 October 1996, as a result of the need for an institutional and technical frame for the transaction of all securities distributed within the Privatisation Programme. RASDAQ is the direct result of the Romanian-American co-operation, enacted through the Memorandum concluded in 1994 between the Romanian and American Governments.

As noticed, the two markets had a similar evolution, being strongly influenced by the period's domestic economic and political events. After an excellent start, overlapped by a high level political change (1996), it reached the top in the summer of 1997, with a maximum of transacted securities and value quotations. Afterwards, the Romanian securities market experienced a major decline, both in value and duration. The descendant evolution had many reasons, the most important being the following: "overheating" of the market (1997) due to massive securities acquisitions based on speculative funds, not achieving the political objectives set during the elections (which became obvious at the end of 1997), non-implication of capital markets in the privatisation process, mistrust of state owned financial institutions in the Romanian capital market, the monetary policy dictated by NBR and the Finance Ministry, which cancelled any chance of the Romanian financial market (highest interests for the most secure financial instruments – titles issued by the state), the slow general evolution of the Romanian economy.

The end of 2000 could be considered a milestone, which marked the inversion of the evolution on the securities market. The main cause, which stopped the decline could be considered the reaching of certain incredible minimum transaction levels for a normal stock exchange market (for example, SIF shares were transacted at prices, which determined the capitalisation of issuers exceeding 50% out of their liquidities – bank deposits and government stock). Also, the end of the financial crisis from 1999, as well as the political changes in 2000, quickened the general evolution of stock markets.

In the summer of 2001, the stock markets entered an ascending trend. Meanwhile, bank interests decreased especially due to the future predictability of this phenomenon (confirmed in the next years). The fiscal policy for sustaining the Romanian exports (by applying a decreased profit tax rate for these operations) had also an important role in improving the evolution of listed companies and by default, their attractiveness for investors.

The enactment of a better legislative frame during 2000 consecrated the stock exchange market as a viable alternative for investing funds, and meanwhile there was the hope that the Romanian capital market will be able to play its ultimately role in economy: facilitate the meeting between long and medium-term capital demand and offer. In this context, 2002 was a top year for the Romanian stock exchange market, both

related to the level of transacted values and stock exchange marks, but especially to the level of the public's perception of the stock exchange phenomenon.

A boom period followed. During 2003, 2004, 2005 and 2006, the stock exchange market overcame record after record and a scenario began to be respected every year: accelerated increases in the first months, spectacular adjustments in spring, a relaxation period followed by new increases with new historical maximums in the last part of the year. From the beginning of 2003 and until the end of last year, BET and BET-C indices increased up to 5 times. More and more foreign funds turned their eyes to Romania, encouraged by its EU accession, by the economic development of many large companies (increasing financial results), privatisations, development of certain PAS associations, etc. Meanwhile there was an increase in domestic investments, number of transactions, number of opened bank accounts, stock exchange turnover, and market capitalization. Developing fast during a couple of years, the capital market became again attractive and visible in the same time, as the inhibition generated by past events decreased and bank interests became less and less satisfactory.

A common element for the period 2003-2004 consisted in the repeated withdrawal of companies from the stock exchange. The legislation in force at that time committed the shareholders, who overran the level of 90%, to launch the public takeover bid in order to withdraw the company, so that many shareholders initiated such bids. Companies like Arctic Găești, Dacia Pitești and, subsequently, Terapia Cluj Napoca, are only the largest withdrawn companies, which at that time had a significant weight in market capitalization. There were significant losses for the market, especially because after the withdrawal the three companies experienced spectacular evolutions in respect to their financial results.

An interesting event, which could significantly influence the development of the stock exchange market, is the set up of the "Proprietatea Fund", whose aim is to compensate the owners dispossessed by the communist regime and whose confiscated properties can no longer be given back. The fund functions as a legal person since the end of 2005 and holds a portfolio of shares in 114 state owned companies. Its equity amounts to approximately EUR 3.9 billion. However, currently there are some problems related to the fund's stock exchange listing (without this the compensation process would be practically impossible). Probably the main problem consists in the compulsoriness that all companies within the fund's portfolio are to be listed.

In the last years, another series of events influenced the capital markets. We briefly mention some of them: Petrom's privatisation (the largest company in Romania) through the acquisition of the controlling interests by OMV Austria, the merger of the two stock exchanges, the Electronic Stock Exchange Rasdaq being absorbed by the Bucharest Stock Exchange, the Romanian Commercial Bank's privatisation (not listed, but SIFs own 6% each, thus with impact on the SIF segment) and last but not least, Romania's accession to the European Union (although the market reacted long before the actual accession on 1 January 2007).

In comparison to the withdrawals from 2001-2003, last year Transelectrica has been listed on the stock exchange. The company represents the state monopoly in electric energy transport. The Romanian State announced few years ago its intention to list large companies in its portfolio, like Romgaz, Transgaz, Electrica, the Constanța Harbour, Romtelecom, the Henri Coandă Airport, but so far only Transelectrica was listed. It was a great success. In a few months the shares doubled their value compared to the initial takeover bid, and in the first transaction day the value increased with over 35%. The Romanian State did not sell any shares and instead it doubled the value of the Transelectrica interests. At the end of the last year there was another IPO. This time a private company chose to get listed on the stock exchange - Alumil Rom Industry, part of the Greek industrial group Alumil. Under these circumstances, it is highly likely that there will be a new stage on the Romanian capital market, with a new wave of very necessary stock exchange listings.

3. Current situation

Presently capital markets have a new regulatory frame ("Law no. 297 regarding capital markets"), which includes provisions regarding: new market opportunities; highly transparent standards for issuers; ascertaining a high protection level for investors; implementation of the regulatory context necessary for the new transacting instruments and techniques.

Although the transacted values or the stock exchange capitalization are higher than in the previous years, they are still at low levels compared to the markets in the neighbouring countries. Generally speaking, emerging markets in Central and Eastern Europe were marked by similar elements, common to all shaping

markets. However, a detailed analysis shows that a series of particular features significantly difference their evolution compared to the Romanian stock exchange market from the perspective of the general context of stock exchange markets (national specific, rhythm of economic reforms, etc.). The main elements, which brought countries like Hungary, Poland or the Czech Republic at a higher level than ours, with regard to the development of stock exchange markets are the following: economic start advantages (superior economic performances and a certain level of opening of the respective economies); time advantages (these stock exchanges reopened before the Romanian one); a sustained privatisation rhythm, which ascertained the background for an efficient market economy and for a functional stock exchange market; earlier accession to the European Union.

The synthetic situation compared to the countries mentioned above (to which we currently compare ourselves) is presented in the table below:

Tara	Capitalizare (mil. USD)	Indice (nov.2006)	Variatie 2006	P/E	Capit. / PIB	Capit. / Activ bancar
Bulgaria	9439	SOFIX (1160,26)	+40,55%		~21%	32,2%
Polonia	210043	WIG20 (3217,41)	+21,14%	17,4	~34%	82,6%
Ungaria	38559	BUX (22880,67)	+10,08%	12	~32%	38%
Rep. Ceha	71381	PX (1570,6)	+6,63%	21,2	~46%	47,5%
Slovacia	5711	SAX (412,89)	-0,1%	10,4	~13%	10,8%
Romania	28456	BET (8047,98)	+22,2%		~17%	52,4%

4. Connecting the Romanian accountancy to the latest evolutions on the capital markets

The decision to make a certain investment is very difficult and it should consider the analysis of a number of agents like conjuncture, market features, financial benchmarks and last but not least, the investor's personality.

Nowadays, the existence and development of capital markets are inconceivable without the use and propagation of accounting information. An article of the prestigious British daily newspaper „The Economist” underlined that international capital markets have a very important role in improving the preparation and communication of accounting information at global level.

Considering these general trends, accountancy obtained the same valences like the capital markets, thus resulting the need for „governing” accountancy at global level.

The globalization of capital markets led to the imperative necessity for unitary information, for understanding and comparing the financial-accounting information in different corporations. A person active on the international capital market or another person involved in reporting financial information, working in a multinational or in a large company, which intends to get listed on foreign financial markets, have a very difficult mission in accomplishing their tasks. Only an employee with direct involvement in achieving these tasks realizes the benefits of an international unique accounting language, given this „Babel Tower” in which accountants live all over the world. However, they only apply the provisions of the various national accounting systems, which give different interpretations to the same events or transactions.

Besides these aspects, the extension of the financial relationships between companies, for instance the set up of subsidiaries or participations, brought the necessity of adjusting the accounting consolidation methods, in order to measure the global weight of the group made up of the subsidiaries, the participations and the mother company, and to facilitate comparisons between the financial situations obtained in different countries for getting listed on various stock exchange markets.

Under these circumstances we can highlight the increase of the accountancy's contribution on the international capital markets, especially related to the information of participants for preparing the decision taking process.

The company's listing on the stock exchange also significantly influences its accounting system (its financial reporting procedures). Generally, listed companies have hundreds or thousands of shareholders. Under these circumstances, the yearly financial statements become the main communication means between the company and its shareholders. Thus, the companies will disclose the balance sheet and income statement in the easiest way to be understood by the shareholders. The balance sheet and income statement will be accompanied by additional information presented in the statement of cash-flows, in the statement of changes in equity or in the notes to the financial statements, which aim to help the reader to understand as well as possible the company's results and performances.

In the context of a fantastic development of capital markets, the lack of a unitary accounting system represents a hold back for investments, because investors are not sure of the different accounting models used, being suspicious about them. The Asian crisis underlined the lack of transparency and the deficiencies of accounting systems in different countries, asserting once again the need for an international unitary accounting system.

In the context of Romania's accession to the European Union and its integration in the European Common Market, our country understood the necessity of complying with the accounting regulations applied in the Union and made efforts for adapting to these requirements. The Programme for development of the Romanian accounting system started in 1997.

In our opinion, the penultimate step started on 1 January 2006, with a new change in the Romanian accounting system: the adoption of the European Directives in the Romanian accountancy.

The adoption of the European accounting legislation will ease the information offer to the most favoured information users: the investors on the capital markets. The direct result of this change will consist in the development of the Romanian capital market and its integration in the European Common Market.

The next step at global level would consist in the adoption of a unique set of international accounting regulations in order to provide unitary information on the financial markets in whatever place of the world and regarding any company, regardless of the country in which it develops its activity. Significant efforts in this respect were made by issuing the International Financial Reporting Standards (IFRS), as a result of the convergence programme developed by the competent institutions in this field: IASB and FASB respectively.

In conclusion, we can say that Romania's accession offers great possibilities for the development of both the Romanian capital market and the Romanian companies, which due to their stock exchange listing could attract funds for financing future development investments.

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