

ROMANIAN DEMOGRAPHIC FACTORS AND THE INVESTMENTS ON CAPITAL MARKET

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The growing interest for investments in capital markets creates the need for studies focused on monitoring and analysing demographic environment in which the investors operate. Its analysis may represent a starting point for finding out opportunities and threats brought by environment for the evolution of Financial Investment Services Companies in Romania. Our paper starts from the assumption that the behaviour of the investor in financial services is influenced by the demographic factors. We focus on some of them, in a descriptive manner. Specifically, they are: monthly net average incomes, gender, age, employment rate and education level of the population. This study also presents a short case of a Financial Investment Services Company named Target Capital.

Keywords: demographic environment, capital market, Financial Investments Company

JEL classification: G23

Capital market in Romania

At the present moment there are two market operators, authorized by the National Securities Commission in Romania: 1. the Bucharest Stock Exchange (BSE, www.bvb.ro) and Sibiu Monetary Financial and Commodities Exchange (Sibex; www.sibex.ro). The Bucharest Stock Exchange was re-established in 1995, with the state support, going through several transformations. It represents the platform of the regular market (issuers present on it are taken in account by Bloomberg in computing the Romanian stock market capitalization), regular market for the derivatives and Rasdaq market. There are 99 companies listed on the regular market and 1.447 companies on Rasdaq (Analysis report, Listing Sibex, 2010). Sibex was founded in 1994, based upon exclusively private initiative, as the most important regular market of financial derivative instruments (options, futures and CFD's). Starting with January 2010, Sibex operates as a regular market for the spot transactions, as well.

Based upon the regulations provided by Law 297 /2004, Financial Investment Services Companies were created, playing the intermediary role. At this moment, there are 69 of intermediaries in Romania, out of which 3 have their headquarters abroad (see <http://www.bvb.ro/intermediaries/ssifuri.aspx>).

If between 1995-1998, the number of intermediaries has increased, after 1998, market concentration took place, leading to a reduction in their number. Certainly, the number of intermediaries grows in the growing phases of business cycle, as the number of new companies listed on the stock market increase and decreases along with new law constraints regulating the capital market and the descending phases of business cycle.

Intermediaries that functioned until 2001, focused especially on selling stocks received by population through the mass privatization process. Now, their main operations concern the transaction on Bucharest Stock Exchange, and on Sibiu Monetary Financial and Commodities Exchange.

Trends in Romanian demographic environment

Capital market investments reflect the propensity of individuals/households towards saving. As known, saving behaviour changes during the life cycle of an individual. Typically, young people are incited towards consuming their income and investing especially in the development of human capital. The medium-aged have a saving and investment based behaviour (material goods, shares). The elder, usually, do not save nor invest after retirement. Exemption from this pattern is the people who

accumulated considerable incomes, are familiar with financial investments and benefit from a secure retirement.

According to the data provided by the National Statistics Institute, at July 1st 2008, the Romanian population was 21,504,442, out of which 10,5 mil. (48,7%) male and 11,0 mil. (51,3%) female. Between 2005-2008, negative growth and population migration caused the decrease of population by almost 119,4 thousand. The age-structure of the population shows a specific demographic ageing process. reflected, especially by the decrease of birth rate. This led to an absolute and relative decrease of the young population (aged 0-14) and an increase of the elder population (60+). Compared to July 1st 2005, in 2008 the young population decreased from 15,6% to 15,2%, and the old population increased from 19,2% to 19,6%. Compared to the mid 2005, the adult population (aged 15-59) represents 65,2%, decreased by 52,1 thousand persons.

In the adult population, the age group 30-34 and 50-59 increased while the age groups 15-19, 25-29, 45-49 decreased. These evolutions outline the age and gender disproportions in the population structure. As a result, the main trend in Romanian population is ageing. (Romania in cifre, 2009)

For the Romanian stock market operators, the most interesting segment is the over 18 - employed one. Two are the main reasons: 1. The Romanian legislation doesn't allow people under 18 to trade shares on the market (than through a legal representative), 2. The elementary logic shows that if one doesn't earn money, cannot invest. Assuming the employed population remained constant since 2007 (when it was 9,353,000), the number of investors on the stock market represents only 1,01% (94,511 accounts, according to the Investor Compensation Fund). A study performed by The Money Channel (Frenciu, 2007) concluded that the Romanian Stock market had a huge potential, because the investors in this market represented only 0,5% out of the entire population. This potential would be bigger if the stock market would consider not only the threats but also the opportunities brought by the changes in the population structure. Mainly it is about the fact that the elder consume less and, at least in Romania, try to leave an inheritance (why not, in shares) to the descendants. Of course there are other demographic trends, with potential effects on the stock market (increase of the education or women employment rate).

Theoretical approaches of the demographic environment impact on the stock market development

International field literature offers opinions on the way in which demographic factors affect the global economy (World Economic Outlook, 2004), and on wealth and gains from investments on capital market distribution (Gale/Pence, 2006).

The Romanian field literature rarely focuses on the impact of the demographic trends on the stock market, and when it does, it approaches these trends as a component of the consumer behaviour (Olteanu, Vlad, 2007).

This paper, from a descriptive perspective, we argue that consumer behaviour in financial investment is influenced by several demographic factors, such as: age group, gender, occupation, average monthly income.

Research methodology

In carrying out this work we used *secondary sources* of information: field books, articles published in newspapers and magazines, studies conducted by the National Institute of Statistics and data provided by Target Capital Investments Company. Should be mentioned the difficulties encountered due to the relatively small number of papers published on this subject, and constraints imposed by the owners of specific data (as, for instance, the value investors' portfolios.)

Preliminary findings

Table 1 data helps us understand that regions with a large number of Financial Investment Services Companies are characterized by higher monthly net average incomes. On the first place is Bucharest

and Ilfov county with 1670 and 1492 Lei/month average net income. Cluj county ranks 4 with an average income of 1365, the remaining counties having at least one head quarter of an investment company, are in the first part of the deck. According to National Institute of Statistics, population incomes increased steadily starting with 2003 until 2006, with permanent differences between those made by men (higher incomes) and women (see <http://www.insse.ro/cms/files/statistics/Statistics%202008/rom/21.htm> 20teritoriala%). This may be one explanation for the difference between accounts opened by men (56.56%) and, respectively, women (43.44%) in 2009 (according to Target Capital Investment Company).

Table 1. Top Romanian counties based on average monthly incomes (RON, 2006)

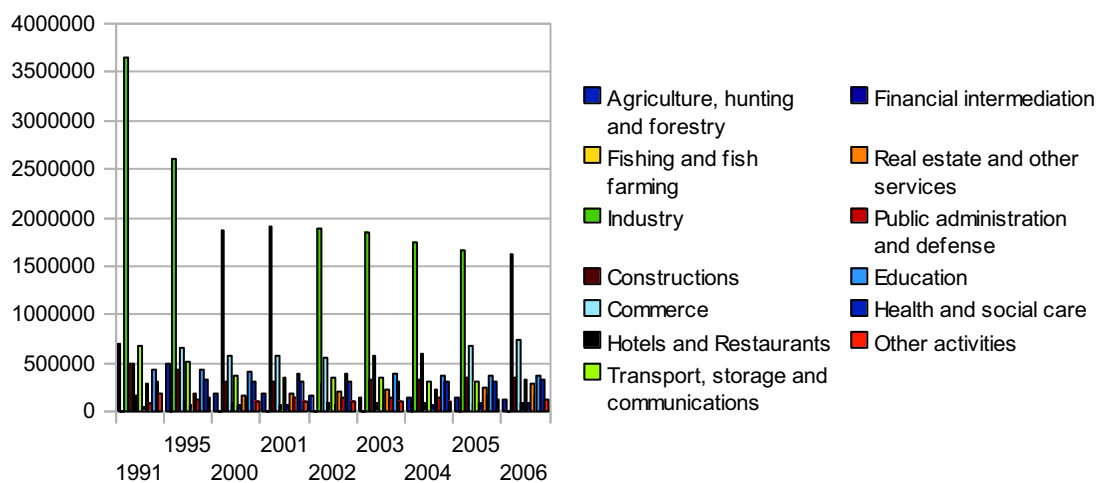
Crt. no.	Region	Average incomes	Crt. no.	Region	Average incomes	Crt. no.	Region	Average incomes
1	Bucuresti	1670	15	Prahova	1168	29	Braila	1002
2	Ilfov	1492	16	Galati	1156	30	Caras-Severin	1001
3	Sibiu	1365	17	Dolj	1156	31	Calarasi	1001
4	Cluj	1346	18	Buzau	1085	32	Ialomita	995
5	Gorj	1338	19	Tulcea	1076	33	Alba	995
6	Constanta	1224	20	Valcea	1057	34	Suceava	987
7	Iasi	1223	21	Bistrita-Nasaud	1055	35	Bihor	979
8	Timis	1222	22	Dambovita	1049	36	Vrancea	971
9	Olt	1218	23	Salaj	1046	37	Neamt	962
10	Mehedinti	1217	24	Arad	1037	38	Covasna	955
11	Brasov	1197	25	Hunedoara	1034	39	Maramures	926
12	Arges	1192	26	Mures	1023	40	Vaslui	925
13	Giurgiu	1185	27	Satu Mare	1014	41	Teleorman	917
14	Bacau	1185	28	Botosani	1003	42	Harghita	852

Note: Based on data provided by http://www.infoportal.ro/informatii_universitati.html

Most Financial Investment Services Companies headquarters are located in Bucharest (56.5%), Cluj - Napoca (7.25%), Ploiesti and Craiova (each with 4.35%), Targu Mures and Brasov (both 2.9%) and Arad, Constanta, Focsani, Galati, Miercurea Ciuc, Ramnicu Valcea, Satu Mare, Sibiu, Suceava and Timisoara (with 1.45% each; see <http://www.bvb.ro/Intermediaries/SSIFuri.aspx>).

Occupation rate of active population is another demographic factor influencing the volume and dynamics of capital market investments. The data on which we built Graph 1 allows us to conclude that along with increasing the employment rate in financial intermediaries and banking, increased the number of Financial Investment Services Companies, too.

Graph 1. Employed Civilian population, by sectors of national economy



Note: Based on data provided by INSSE ([http://www.Insse.ro/cms/files/statistics/statistics% 202008/rom/13.htm](http://www.Insse.ro/cms/files/statistics/statistics%202008/rom/13.htm) 20teritoriala%)

The data in Table 2 shows that in Romania 24 cities have universities, most of which are in Bucharest (36), followed by Iasi (10), Timisoara (9) and Cluj Napoca (4). Comparing this data with those representing the Financial Investment Services Companies numbers, we notice that 9 in the first 12 university centres have also investment intermediaries' headquarters, meaning that the education level is another factor that may influence the stock market.

Table 2. Academic centres in Romania

Cities	No. Of Universities	Cities	No. Of Universities
Bucuresti	36	Bacau	2
Iasi	10	Galati	2
Timisoara	9	Pitesti	2
Cluj-Napoca	8	Alba Iulia	1
Sibiu	5	Deva	1
Oradea	4	Petrosani	1
Targu-Mures	4	Ploiesti	1
Baia Mare	3	Resita	1
Brasov	3	Roman	1
Constanta	3	Suceava	1
Craiova	3	Targoviste	1
Arad	2	Targu Jiu	1

Note: According to data provided by http://www.infoportal.ro/informatii_universitati.html

Short case study

Target Capital is a financial investments company with Romanian capital. It has been established in 1995, under the name Aura S.A. Since 2003, this company works under the name Target Capital. On 11.05.2009 the share capital was RON 2.5 million divided into 250,000 shares with a nominal value of RON 10 each. The company provides brokerage and consulting services specialized in capital markets, with offices in two other cities outside of Cluj. In January 2010, we performed a study on demographic characteristics of investors who have an open account at Target Capital. Table 3 and Table 4 summarize the results of it.

Table 3: Investors gender (Target Capital Financial Investments Company)

	Stock market investors (%)	
	2007	2008
Women	45.06	44.64
	44.64	43.44
	43.44	
Men	54.94	55.36
	55.36	56.59
	56.59	

Note: After processing the existing data in Target Capital Financial Investments Company

Table 4: Investors demographic characteristics (Target Capital Financial Investments Company, 2009)

	Age groups (%)		
	< 35 years	35-60 years	> 60 years
Women	7.03	6.93	7.58
	24.84	24.82	24.43
	13.2	12.89	11.3
Men	11.04	12.41	14.02
	29.59	29.23	30.06
	14.34	13.72	12.48

Note: After processing the existing data in the Target Capital Financial Investments Company

A conclusion is that women were more influenced by the economic crisis started in 2007, in terms of capital market investment. Their share fell with 1.62% during 2007-2009. In 2009, most of the investors on the capital market in Romania were men, older than 60 years.

Conclusion

Demographic trends impact the capital market activity volume and dynamics. This is why the stock exchange companies should be interested, through their marketing departments, in discovering the opportunities, but also the treats brought by these trends. On this basis, they could alter their offer portfolio, so that the various changes in the demographics can be granted.

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