

THE EVOLUTION OF THE CAPITAL MARKET IN ROMANIA IN THE CONTEXT OF THE COVID-19 PANDEMIC

Cătălin Drob

*“Vasile Alecsandri” University of Bacău, Calea Mărășești 156, Bacău,
600115, Romania
catad@ub.ro*

Valentin Zichil

*“Vasile Alecsandri” University of Bacău, Calea Mărășești 156, Bacău,
600115, Romania
valentinz@ub.ro*

Cosmin Grigoraș

*“Vasile Alecsandri” University of Bacău, Calea Mărășești 156, Bacău,
600115, Romania
cosmin.grigoras@ub.ro*

Vlad Ciubotariu

*“Vasile Alecsandri” University of Bacău, Calea Mărășești 156, Bacău,
600115, Romania
vlad.ciubotariu@ub.ro*

Andreea Feraru

*“Vasile Alecsandri” University of Bacău, Calea Mărășești 156, Bacău,
600115, Romania
andreea_feraru26@yahoo.com*

Abstract

The purpose of this study is to emphasize the main aspects regarding the evolution of the capital market in Romania in the context of the COVID-19 pandemic. This study tries to present the main aspects which marked the evolution of the national capital market in the last period. The domestic capital market went through a delicate period during the beginning of 2020, since in times of crisis the stock markets react emotionally and thus, are recorded relatively important fluctuations. Although the COVID-19 pandemic created a lot of uncertainty in the capital market, the end of 2020 brought back optimism among investors. In 2021, the domestic capital market recovered all the decreases registered in 2020 and ended this year with very good results.

Keywords

capital market, Bucharest Stock Exchange, stock market indices, COVID-19 pandemic

JEL Classification

D53; D73; H12; H57; E44

INTRODUCTION

The financial market consists of all the relationships and mechanisms through which the creation and trading of financial assets, such as shares, bonds, derivative financial instruments, currencies, etc. are performed.

There are several ways to classify the financial market, but if we consider only the lifetime of financial assets (securities), we distinguish two components of the financial market, namely: the money market and the capital market. The money market is a short-term and very short-term financial market (less than a year) where the demand and

supply of money (*financial* assets) are confronted, which is adjusted to a certain specific price (interest rate). The capital market is that component of the financial market on which the demand and supply of capital, materialized in securities with a maturity of more than one year, is confronted.

In turn, the capital market is divided into primary market and secondary market.

The primary market is the market where new issues of securities are negotiated for the first time. Once securities are put in circulation in the primary market, they are subject to secondary market transactions. The effective functioning of the secondary market is realized through negotiations markets or organized markets such as the Stock Exchange. (Drob, 2014).

ROMANIAN CAPITAL MARKET

In Romania, the capital market has had a discontinuous evolution. Founded in 1881 and officially opened on December 1st, 1882, the Bucharest Stock Exchange created the premise for the development of the domestic capital market. This development has been accentuated by the creation of an appropriate legislative framework. With the establishment of the communist regime in Romania after the Second World War and the start of the process of nationalization of the national economy, the Bucharest Stock Exchange lost its object of activity and closed in July 1948. After 1989, with the change of the communist regime in Romania and the transition to a market economy, the premises for the reopening of the Bucharest Stock Exchange were created. This resumed operations on April 1st, 1995.

Currently, on the Bucharest Stock Exchange, domestic companies can be admitted on the main market (regulated market) or the AeRO market (BVB's Alternative Trading System). The main market is dedicated to joint-stock companies with equity of more than EUR 1 million and which are at least 3 years old. The AeRO market has been operating since 2015 and is dedicated to younger companies (or those who do not meet the conditions for admission to the main market) and SMEs. Shares and bonds can be issued on both the main market and the AeRO market (www.bvb.ro 10.01.2022). In addition to the two markets for domestic companies, within BVB also operates a market dedicated to international companies, called SMT Intl.

Each stock exchange has its system of stock market indicators that express the performance of that stock exchange. The main stock market indices with which BVB operates are:

- the BET (Bucharest Exchange Trading) index, which reflects the overall trend of the prices of the most liquid shares traded on BVB. The number of companies included in the calculation of the BET index is variable, with a minimum of 10 and a maximum of 20 companies;
- the BET-C index, which reflects the overall price trend of all shares traded on the BVB;
- the BET-FI index, which reflects the evolution (the price changes) of the SIFs (financial investment companies) listed on the BVB;
- the BET-TR index, which reflects both the evolution of the prices of the most liquid companies (excluding SIFs) and the dividends paid by them.
- the BET-XT index, which reflects the change of the prices of the 25 most traded companies on the BVB regulated market, including SIFs.
- the BET-NG index, which reflects the evolution of the share prices of companies operating in the energy field, etc.

RECENT EVOLUTION OF THE CAPITAL MARKET IN ROMANIA

After the reopening of the Bucharest Stock Exchange in 1995, were recorded increases in the capital market until 1997, followed by a significant decline of the Romanian companies shares traded on BVB, both in value and duration.

The end of the year 2000 is the moment when the reversal of the trend of the evolution of the stock market was realized. Since then, the evolution of this market has been a positive one until the beginning of the economic-financial crisis of 2008. The year 2008 was one of the most difficult years on the capital market in Romania. Thus, the official index of the Bucharest Stock Exchange, BET, lost 70.5% of its value in 2008.

The capital market recorded a significant recovery in 2009 and stagnation in 2010. Since 2010, the evolution of the value of the share transactions on the regulated market of the BVB recorded an increase till 2014 and a decrease in 2015, followed by a new increase until 2017 and a decrease in 2018 and especially in 2019.

Synthetically, the evolution of the value of the share transactions and the stock market capitalization, on the regulated market of the BVB, from 2010 to 2019, is presented in the followings table and graphs:

Table 1. The evolution of the value of the share transactions and the stock market capitalization at BVB, on the regulated market of the BVB, from 2010 to 2019

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Share transactions value (billion Euros)	1,3	2,3	1,7	2,5	2,9	2	2,1	2,6	2,5	2
Stock market capitalization (billion Euros)	23,9	16,4	22,1	30	29	32,2	32,3	35,3	30,7	37,8

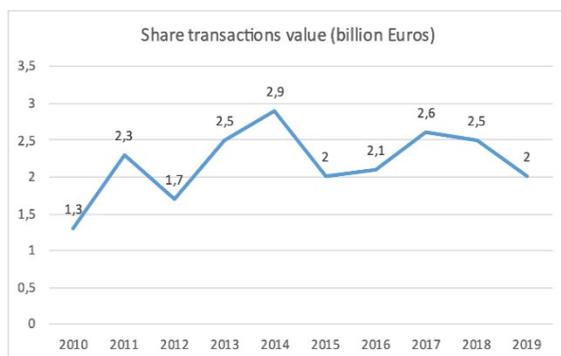


Fig. 1. The evolution of the value of the share transactions on the regulated market of the BVB, from 2010 to 2019



Fig. 2. The evolution of the value the stock market capitalization at BVB, from 2010 to 2019

The year 2020 was a difficult year for Romania from an economic point of view due to the negative economic effects generated by the COVID-19 pandemic. This pandemic broke out in late 2019 in China and has since spread rapidly around the world. In Romania, the first person infected with the SARS-VOC-2 virus was detected on February 26th, 2020.

The COVID-19 pandemic had a strong impact on the evolution of the capital market at the beginning, due to investors' fears about the evolution of the pandemic, especially at the pandemic beginning. It is well known that market uncertainty leads to the volatility of the financial instruments with which the market operates. With the appearance of the news about the new coronavirus, the Bucharest Stock Exchange lost in the first three months of 2020, 13 billion euros from the capitalization, registering at the same time depreciation of the traded shares. Also in the first quarter of 2020, BVB's stock market indices depreciated massively compared to the level recorded at the end of 2019, the

most important stock market index of BVB decreasing by 23,6%, in tune with the decreases recorded in other international stock exchanges.

European Union stock market indices also ended the first half of 2020 below pre-pandemic levels, with two exceptions (Denmark and Latvia). Regarding BVB, in the first half of 2020, the stock market indices were below the level registered in December 2019, because of the reduction of economic activity in many sectors of activity. However, since April 2020, there has been recorded a growing trend in the value of these indices, amid measures to support the economy announced by the government and investor confidence in the rapid revitalization of the national economy deeply affected by the Covid pandemic (Joldeş C., 2020).

For the Romanian capital market, the date of September 21st, 2020, meant a very important moment because, on that day, Romania was promoted to the status of Emerging Market. This moment had a very positive impact on BVB. Thus, in September 2020, transactions with the shares of companies listed on the BSE exceeded by more than 260% the value of transactions recorded in August 2020, while the average daily liquidity increased in September 2020 by about 3.5 times compared to the value recorded in August 2020.

Analysing the performance achieved by BVB throughout the year 2020 reveals both negative and positive aspects. The negative aspects concern the decline in BVB's main stock market indices and market capitalization (from 37.8 billion Euros to 31.7 billion Euros) compared to the levels recorded at the end of 2019. The positive aspects aim at reaching absolute BVB records in 2020 in terms of trading value on the main segment (3.77 billion) and average daily liquidity, with all types of financial instruments (over EUR 15 million).

In summary, the evolution of the main stock market indices of BVB in 2020 is presented in the following table:

Table 2. The evolution of the BVB indices, from December 2019 to December 2020

BVB indices [mil. Euro]	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
BET	7.273	7.312	6.603 ,7	5.50 6,2	5.74 1,4	6.26 0,7	6.23 1,1	6.04 1,8	6.47 6,7	6.44 4,7	6.08 3,6	6.63 9,2	7.01 1,5
BET-FI	21.590 ,2	23.28 0,1	20.55 0	17.7 38,8	18.1 15,7	19.7 57,5	19.1 99	18.9 30,6	18.7 81,1	18.7 40,7	17.3 99,8	17.4 96,4	19.1 85,2
BET-TR	15.043 ,1	15.12 3,9	13.65 7,1	11.3 88,6	11.8 75,3	13.1 69,5	13.3 53,5	13.0 16,8	13.9 48,6	13.8 73,8	13.2 17,1	14.4 32,7	15.2 53,7
BET-XT	662,5	670,2	600,5	503, 7	524, 8	571, 5	564, 1	548, 2	581, 8	575, 9	541	584, 2	619, 1
BET-NG	569,7	544,4	487,5	416, 7	443, 3	491, 3	474, 6	454, 7	494, 7	468, 2	446, 7	485, 2	492, 9

The first quarter of 2021 was a very favourable one for BVB. BET, BET-TR and BET-XT stock market indices exceeded the values recorded at the end of 2019 and the market capitalization of 36.4 billion Euros, well above the value recorded at the end of 2020 (31.7 billion Euros) was close to the value pre-pandemic (€ 37.8 billion), at the end of this quarter.

Also, the second quarter of 2021 was very good for BVB. At the end of this quarter, all BVB stock indices exceeded pre-pandemic values and the market value of local companies listed on BVB's main market exceeded the level reached before the onset of the coronavirus pandemic.

In the second semester of 2021, the BVB stock market indices continued their upward trends, amid the economic recovery after the shock generated by the onset of the COVID pandemic in Romania in early 2020.

At the end of 2021, we can say that BVB had a very good year, the value of the main stock market index (BET) registering an increase of over 30% compared to the value recorded at the end of 2020 and over 25% compared to the value recorded at the end of 2019. The other stock market indices of BVB also recorded values higher than both the values recorded at the end of 2019 and the values recorded at the end of 2020.

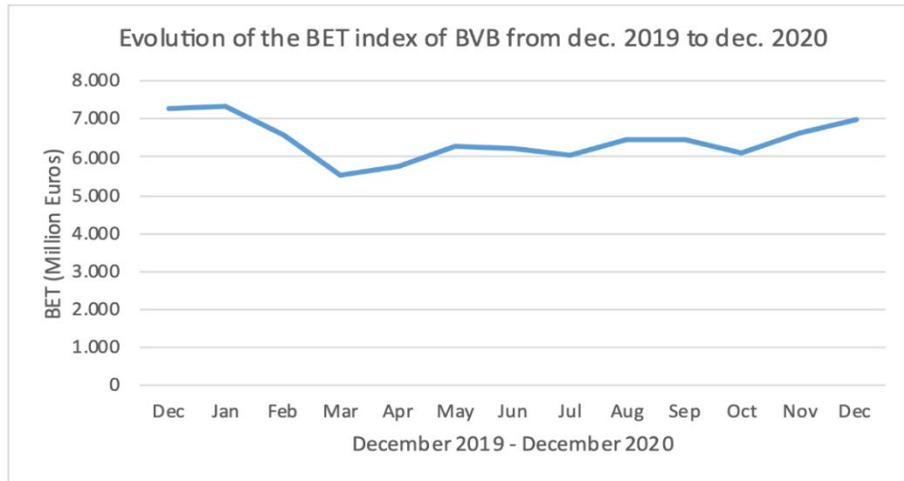


Fig. 3. The evolution of the BET index of BVB from dec. 2019 to dec. 2020

Table 3. The evolution of the BVB indices, from January to December 2021

BVB indices [mil. Euro]	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021
BET	7.362,3	7.287,2	7.910,7	8.019,1	8.090,1	8.391,1	8.385,6	8.592,9	8.868,5	8.580,2	9.190,4	22.85,3
BET-FI	20.078,3	20.689,7	21.407,8	21.343,7	21.359,9	23.204,6	22.853,3	22.637,6	23.356,3	22.462,1	22.467,7	22.858,3
BET-TR	16.016,1	15.855,7	17.217,2	17.453,2	17.952,5	18.830,4	18.891,8	19.524,7	20.354,5	20.275,5	22.467,7	21.014,7
BET-XT	650,7	648	695,7	705,5	707,7	738,4	735,5	751,5	782,1	782,4	752,8	798,6
BET-NG	538	538,5	564,9	573,4	555,4	551,4	542	549,2	588	625,8	566,7	627,7

Regarding the bond issues at BVB, in the 2 years after the outbreak of the COVID pandemic, we can say that they recorded record levels, well above the values recorded in previous years. Thus, in 2020, 6 issues of government securities and 11 issues of bonds took place at BVB, with a total value of about 1.1 billion euros and in 2021, the total value of both state and corporate bond issues exceeded 1.6 billion euros well above the value recorded in 2019 (417 million Euros). This highlights the fact that investors in BVB are no longer so much interested in the level of return on investment, but rather in the lower risk of the bonds.

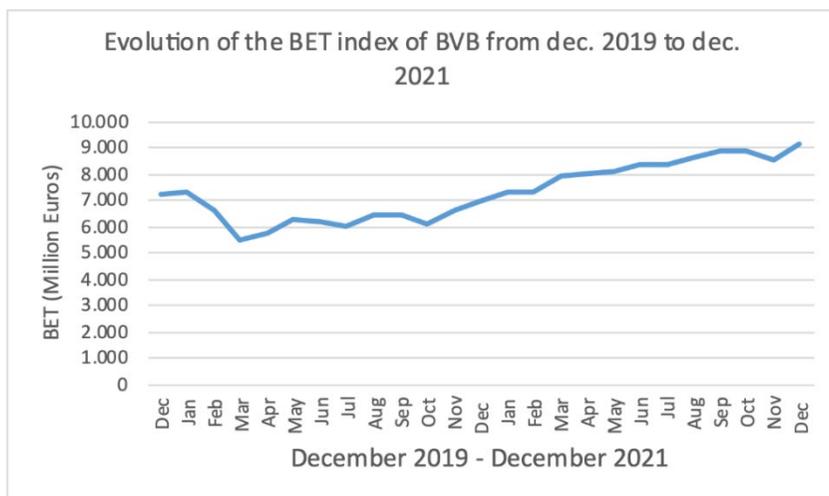


Fig. 4. The evolution of the BET index of BVB from dec. 2019 to dec. 2021

Synthetically, the evolution of the bond transactions and, on the regulated market of the BVB is presented in the following table and graph:

Table 4. The evolution of the bond transactions and, on the regulated market of the BVB, from 2010 to 2021

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<i>Bond transactions value (million Euros)</i>	620	128	321	314	216	645	301	342	469	417	1070	1635

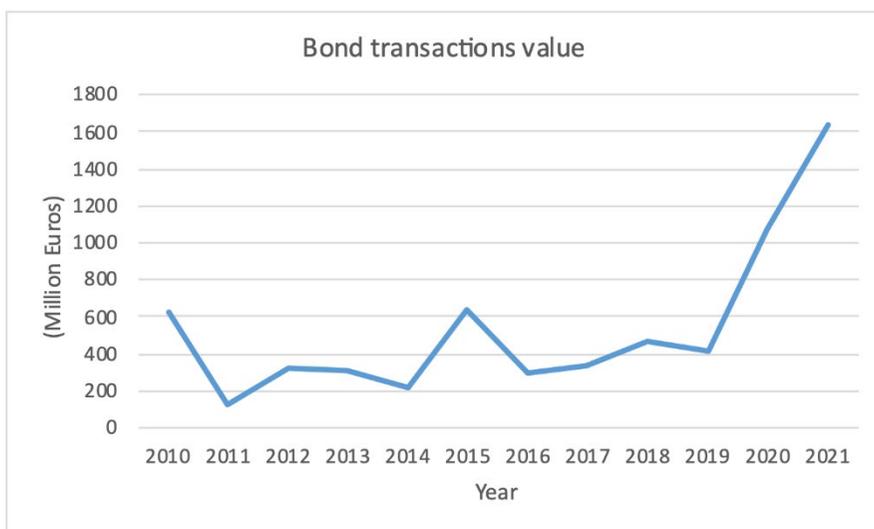


Fig. 5. The evolution of the bond transactions and, on the regulated market of the BVB, from 2010 to 2021

If we compare the evolution of the capital market since the onset of the COVID pandemic and so far with the evolution of the number of daily cases of people infected with the SARS-CoV-2 virus in Romania (chart no. 6), no causal relationship can be identified. If the evolution of the number of daily cases of people infected with the SARS-CoV-2 virus in Romania, so far, has been characterized by an oscillating evolution, with 4 large peaks (waves), the evolution of the capital market in Romania, after the onset of the COVID pandemic it was a steep downward trend until the beginning of the second quarter of 2020, after which the capital market entered an upward trend, timid at the beginning and stronger at the end of 2021.

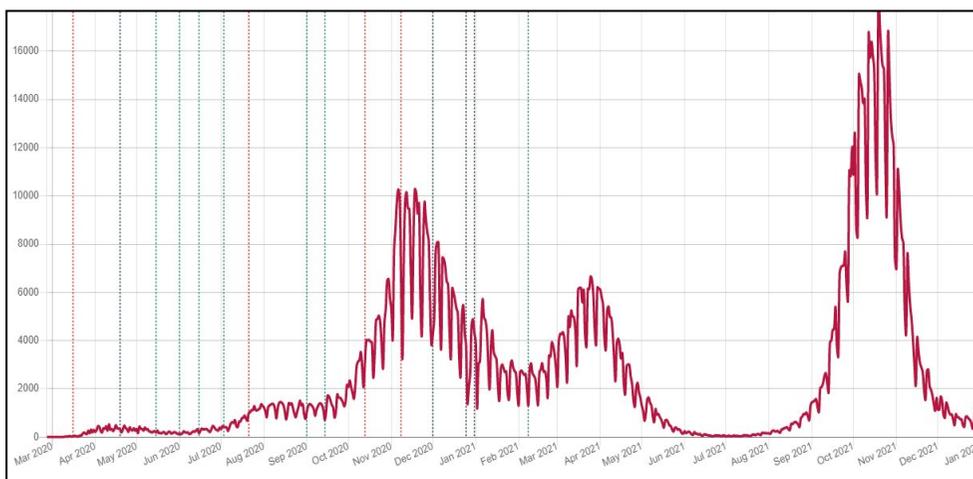


Fig. 6. Total cases per day (<https://covid19.geo-spatial.org/statistici/statistici-generale?chart=cazuri-pe-zile> (12.01.2022))

CONCLUSIONS

The evolution of the Romanian capital market in the context of the COVID-19 pandemic was marked by a sharp decrease of the BVB's stock indices, at the beginning of 2020 amid uncertainties regarding the evolution of this pandemic worldwide and nationally. With the announcement and implementation of the first measures to recover the economy severely affected by the lockdown imposed by the national authorities, the Romanian capital market gradually recovered, recovering the losses recorded at the beginning of 2020. By the end of 2021, all BVB's indices recorded values much higher than the values recorded before the COVID pandemic broke out.

Romania's promotion to the status of an emerging market, in 2020, was a big step forward for the domestic capital market. This statute created the premises for attracting new investors to the Romanian capital market and the favourable conditions that would lead to the further development of this market.

References

Drob, C., "Recent evolution of the capital markets in Romania", *Studii și Cercetări Științifice, seria Științe Economice*, Facultatea de Științe Economice, Universitatea "Vasile Alecsandri" din Bacău, No. 20 / 2014, pp. 122-127

Joldeș C. C., Impactul COVID -19 asupra pieței de capital din România: o evaluare a indicelui BET și a acțiunilor BRD, SNP, TLV, FP & SNP, Revista de Studii Financiare, Vol. V, Nr. 9, Nov. 2020, pp. 109-131.

<https://covid19.geo-spatial.org/statistici/statistici-generale?chart=cazuri-pe-zile>
(12.01.2022)

OECD (2021), OECD Capital Market Review of Romania 2021: Mapping Report, OECD Capital Market Series.

<http://www.oecd.org/corporate/OECD-Capital-Market-Review-Romania.htm>
(10.01.2022)

www.bvb.ro (10.01.2022)