

ROMANIAN STOCK MARKET AND THE LAUNCH OF THE FIRST INDEX FOR THE AeRO MARKET

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Abstract: *The stock market plays a very important role in an economy through the efficient, safe and operative transfer of the available capitals from those who saved to businesses. The global economic shock caused by the COVID-19 pandemic has accentuated long-term structural challenges in the corporate sector and on the stock market, and Romania needs a strong stock market that can finance the development needs of Romanian companies. The Bucharest Stock Exchange is the main pillar of the Romanian stock market that offers an alternative financing to mature companies, which can attract capital on the Main Market, as well as to start-ups and SMEs for which the AeRO market was created. On October 11, 2021, BVB launched BET AeRO (BUCHAREST EXCHANGE TRADING AeRO INDEX), the first index of the AeRO market that reflects the evolution of the representative companies on the AeRO market selected according to liquidity and free-float capitalization criteria.*

Keywords: *stock market, liquidity, stock indices, AeRO market*

J.E.L. classification: G12

Introduction

A healthy capital market is just as important to an economy as the banking system. However, although the latter's importance is recognized, the impact of the capital market is less obvious. Each offers different but equally important services for accumulating capital and increasing productivity. Therefore, the credit market is not, as it is believed, a substitute for the financial securities market, but banks and the capital market have complementary roles in a developing economy.

The stock market is closely linked to the market economy, but the existence of the market economy is only one of the necessary conditions for the development of stock markets. Besides this, a well-developed banking structure, a stronger national economy and a modern communications system are also needed. [Badea, 2000]

The economy of a country is influenced by the size and efficiency of the domestic capital market, but mainly it can affect the economic activity by creating liquidity. Many profitable investments require a long-term capital lock-in, but investors are skeptical about giving up capital control over long periods of time.

Literature review

The capital market in a European context (Anghelache, 2009) is a reference work in capital market analysis. Prunea (2007) argues that the stock market phenomenon is attached to the term "fascinating" and is invoked especially by those who remain with a gain after unknown causes print surprising, interpretable or inexplicable oscillations in the prices of listed securities.

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Radu (2015) investigates the evolution of the financial market in general and the capital market in particular, at the Romanian level and the countries of Central and Eastern Europe, in the conditions of manifesting the processes of deregulation and globalization.

In the paper it is approached, in a unitary and complex manner, the capital market, considered part of the central component of the financial market, with a role, a place and a specific purpose in the functioning mechanism of the modern economy.

Anghelache (2017) made a complex analysis of the Romanian economy, paying attention to the capital market as well. Article written by Anghelache and Anghel (2015) aims to use the existing statistical-econometric tool to perform a complex analysis of the evolution of the Romanian capital market as well as to identify certain econometric models able to reflect the correlation between the main indicators and, mainly, to identify some general trends regarding their further evolution.

Savor and Wilson (2013) tried to identify the extent to which investors take macroeconomic risk into account. Anghel (2014) applied the regression model for the study of the Romanian capital market.

The evolution of the Romanian capital market

From a conceptual point of view, the capital market is defined as „the meeting place of the financial resources needs of entrepreneurs with cash belonging to the population or other economic agents” (Drobotă, 1999), its main role consisting of "ensuring the harmonization between the demand and supply of financial resources" (Dragotă, 2003).

The capital market represents the set of relationships and mechanisms through which the funds are transferred from those who have a surplus of capital - investors - to those who need capital - issuers of securities - with the help of specific instruments (issued securities) and through specific operators (financial investment services companies).

The existence of the capital market is determined by the capital demand for current treasury needs and for investments and, at the same time, it is conditioned by a real saving process as a foundation of the capital supply. (Anghelache, 2009).

The capital market has existed in Romania, in its incipient forms for a very long time. The first Romanian stock exchange was opened in Bucharest in 1882 and operated until 1948, with the only interruption during the First World War (1914-1918).

In 1948, almost the entire private property was nationalized by the communist system, leading to the disappearance of stock products. After 1989, the year of the anti-communist revolution, in Romania, economic reforms were launched for the transition to a market economy and concerns about the establishment of the capital market were resumed.

As part of these reforms, since 1992, efforts have been made to rebuild the capital market, which led to the adoption of Law no. 52/1994 on securities and stock exchanges. This Law provided a basis for the creation of the main institutions of the Romanian capital market.

Trading was resumed on 20 November 1995, and after the completion of the mass privatization process in 1996, an electronic OTC market was opened to ensure the institutional trading framework of a very large number of shares (from over 5,000 companies) widely distributed to the public (approximately 16 million individuals, approximately 70% of Romania's total population).

This market, similar to the US NASDAQ, called RASDAQ, was officially opened in September 1996.

The main market operator in Romania is the Bucharest Stock Exchange (BVB) which is a medium-sized stock exchange in the region and which has the role of providing an organized market for asset trading, to help increase asset liquidity by concentrating as much financial assets as possible on the market.

The Bucharest Stock Exchange experienced an ascending course in the almost 26 years since its establishment, registering a qualitative leap after Romania's accession to the European Union. This was an important moment in the evolution of the capital market, both in terms of openness to foreign

investors, and especially through the application of European standards by all market-specific regulated entities.

The evolution of the stock market registered performances clearly superior to those of the previous years, evolution that can be observed also from the analysis of the main stock market index, the BET index (Graphic no. 1), this being the first index launched by the Bucharest Stock Exchange in 1997.



Graphic no. 1-Evolution of the BET index during 1997-2021

Source: <https://tradingeconomics.com/romania/stock-market>

The evolution of the capital market is determined by legislative changes that can be considered as a continuous process of adaptation to the requirements of the European single market, as well as by the diversification of financial products, types of operations, number of investors and issuers, value of transactions and ways to access the market.

The Romanian capital market must soon become the main source of financing for Romanian companies but also for large infrastructure projects.

AeRO market and the first index launched on this market

The Bucharest Stock Exchange is the main pillar of the Romanian capital market that offers a financing alternative both to mature companies, which can attract capital on the Main Market, as well as to start-ups and SMEs for which the AeRO market was created in february 2015.

AeRO or Alternative exchange in Romania is the stock market segment of the Alternative Trading System (ATS) from BVB. The AeRO market is designed to list start-up companies, such as start-ups and SMEs that want to finance their projects, increase their visibility and contribute to the development of the business environment.

AeRO is a stock market managed by the Bucharest Stock Exchange, dedicated to financing, growing and promoting small and medium enterprises and startups, which do not meet the criteria for admission to the main market, but also to any company that considers that this market is suitable for it.

AeRO follows the successful model already established at the level of the world's major stock exchanges and brings to Romania one of the most innovative and offering models of financing and growth through the capital market.

The AeRO market provides investors new opportunities to discover companies with growth potential, in the early stages of development and differs from the main market by low listing rates and simpler procedures harmonized with the prospects of financial markets in the European Union.

The financial sustainability of small and medium-sized companies has a direct and significant influence on the development and growth of the economy where they are located. This is extremely important in the EU, since the European economies are characterized by the overwhelming predominance of small and medium-sized companies. In Romania, the share of small and medium-sized enterprises is 99.7% of the total companies in the non-financial sector, generating 53.2% of the total added value and having almost 65.8% of the total employees in the non-financial business sector of the country. (Sabau-Popa, 2020)

More than six years after its launch, the AeRO market of the Bucharest Stock Exchange came to compare, in terms of listings, with the model after which it was created, namely the New Connect market of the Warsaw Stock Exchange.

During January-July of the year 2021, fourteen companies were listed on AeRO, with only two less than those listed in Poland, by far the best evolution in the history of the market for financing and growing small and medium enterprises in our country. This evolution is all the more spectacular as, in similar markets in Hungary and the Czech Republic (Xtend Market and Start Market), systems that are actually younger than AeRO, there has been no listing of shares so far in 2021.

While in Poland, out of the sixteen companies coming to New Connect this year, ten are from the video game industry, a very important sector for the Warsaw Stock Exchange, on AeRO the fields of new entrants are more varied, including IT companies, retailers, dairy producers, companies operating in the real estate area etc.

At the beginning of November 2021 on the AeRO market were listed 282 companies (Figure no.1) on the 3 categories of the market: AeRO Standard, AeRO Premium and AeRO Basic, the number of companies in each category is shown in the following figure:

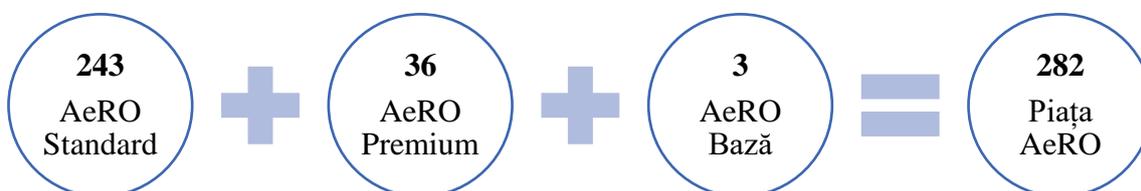


Figure no.1-Number of listed companies on the 3 categories of the AeRO market

Source: made by the author based on data retrieved from

<https://bvb.ro/FinancialInstruments/Markets/Shares> (accessed on 05.11.2021)

According to the site <https://www.profit.ro/> the capitalization of listed companies on the AeRO market exceeded 15 billion lei in 2021, an increase of 57% compared to last year. In the first 9 months of 2021, 17 new companies were listed on the AeRO market, with a cumulative capitalization of 1,3 billion lei.

At the moment we can say that the stock market is actually used by the private sector to attract funding, ie it fulfills its main role. This development has been marked by a multitude of factors, including the very good general context for capital markets, both domestic and international, given the evolution of stock exchanges after the Covid-19 shock in the first part of last year but also increasing the number of entrepreneurs who develop businesses and whoever wants to go out, or on the contrary, they want to attract additional funding to grow their business.

In order to respond to the increased interest of investors for growth companies opening to the market on the AeRO segment, the Bucharest Stock Exchange launched on October 11, 2021 the BET AeRO index, the first index related to this market.

The launch of BET AeRO, an index dedicated to Romanian companies listed on the AeRO market, is an important moment for the development of the capital market as a whole, answering in this way both investor demand and the transformation this market has gone through, especially since the beginning of this year.

The BET AeRO index includes representative companies on this market, with a variable number of constituents, from the moment of launch until 05.11.2021, including in its composition 20 companies, selected on the basis of quantitative criteria, criteria that are related of the company's liquidity and free-float capitalization.

The number of companies included in the index basket is variable, with no maximum limit, which means that the index will expand in the future, as there will be new companies that meet the admission criteria.

The share of companies in the index will take into account the free-float level of each company, and the maximum share of a company in the index basket will be 15%.

The companies included in the BET AeRO index at the time of launch represented approximately 40% of the capitalization of Romanian companies on the AeRO market and have generated during the last year over 85% of the liquidity on the secondary market of this segment.

The composition of the BET AeRO index at the time of launch is presented in the following table (table no.1):

Table no.1

The composition of the BET AeRO index on 11.10.2021

No.	Company name	Stock exchange symbol	Share in the BET AeRO structure (%)	No.	Company name	Stock exchange symbol	Share in the BET AeRO structure (%)
1.	CHIMCOMPLEX BORZESTI SA ONESTI	CHOB	14.97	11.	MACOFIL SA TG. JIU	MACO	4.05
2.	HOLDE AGRI INVEST S.A	HAI	12.17	12.	VISUAL FAN	ALW	3.94
3.	SAFETECH INNOVATIONS	SAFE	8.96	13.	MAMBRICOLAJ S.A.	MAM	3.17
4.	NOROFERT S.A.	NRF	8.93	14.	2PERFORMANT NETWORK	2P	2.47
5.	IHUNT TECHNOLOGY IMPORT-EXPORT S.A.	HUNT	6.45	15.	LCS IMOBILIAR SA CLUJ NAPOCA	LCSI	2.09
6.	SIMTEL TEAM	SMTL	5.95	16.	LIFE IS HARD S.A.	LIH	1.63
7.	ELECTROPRECIZIA SA	ELZY	5.87	17.	FIREBYTE GAMES	FRB	1.12
8.	AGROLAND BUSINESS SYSTEM	AG	5.87	18.	VIFRANA	BIOW	1.08
9.	AGROSERV MARIUTA	MILK	5.33	19.	AGROLAND AGRIBUSINESS	AAB	1.01
10.	ARCTIC STREAM	AST	4.30	20.	AIR CLAIM	CLAIM	0.65

Source: made by the author based on data retrieved from <https://www.bvb.ro/>

In the structure of the index there are 20 companies, respectively 4 companies have transferred from the old Rasdaq market, and 16 companies have been listed on AeRO in recent years.

From the beginning of the year until 05.11.2021, over 274 thousand transactions were registered on the AeRO segment, an increase of over three times compared to the same period of the previous year, and the total value of transactions on the AeRO market for the same period exceeded 976 million lei.

The index had a starting value of 1,000 points and can be used as a benchmark for those who take exposure to companies listed in this category. In the chart below (graphic no.2) we have captured the evolution of the BET AeRO index from the listing until 05.11.2021, during which the index reached a maximum of 1,033.02 points on 04.11.2021 and a minimum of 975.79 points on 19.10.2021.



Graphic no.2-The evolution of the BET AeRO index during 11.10.2021-05.11.2021

Source: <https://www.bvb.ro/FinancialInstruments/Indices/IndicesProfiles>

On the first day after the launch, the index increased to 1.011,40 points, closing the day with an increase of 11,4% compared to the launch value, but in the next six days the index's evolution was decreasing, up to a minimum of 975,79 points registered on 19.10.2021.

The starting value of 1.000 points was reached again on 20.10.2021, although at the end of trading days the closing value was 988,94 points. Between 29.10.2021 - 04.11.2021 the index registered a general upward trend, up to a maximum of the period of 1.033,02 points recorded on 04.11.2021.

Regarding the events that affected the BET AeRO index in the analyzed period, we mention the price correction factor of 2Performant Network (2P) shares in the index starting with 27.10.2021 as a result of the increase of the share capital.

The Romanian capital market is on a good path, but there are two risks: on the one hand we must keep in mind that many of the companies listed on the AeRO market are small companies and may present certain vulnerabilities, a failure of a company shortly after listing can have a negative effect on investors' attitudes, and on the other hand a major importance is the international context.

Panic can set in in the stock market very quickly and if somewhere in the world a negative signal appears, then, regardless of the results of Romanian companies, the market will probably react quickly and violently and that could drive away investors.

In addition to the listings of private companies, the state can help develop our capital market, by listing shares of state-owned companies.

Conclusions

The establishment of a functional market economy in Romania, based on competitiveness, efficiency, transparency, productivity and ensuring equal conditions for all economic operators, regardless of the size and nature of capital, is conditioned by the development of the Romanian capital market.

The capital market is the backbone of any economy and it is the cheapest source of financing, both for companies, regardless of the nature of the capital (private or state) as well as for local and regional authorities, government organizations or even for the Government.

The main levers through which the capital market in our country can develop are:

- the significant increase of the number of individual investors on the Bucharest Stock Exchange, thus ensuring an increased liquidity and attractiveness of the Romanian capital market and the attraction of private issuers on the main market and on the AeRO market;

- educating and stimulating companies, including SMEs in order to list and use of financing solutions offered by the capital market, as a complementary solution to bank-type financing that has become problematic for economic agents;

- debureaucratization and simplification of intermediaries' operations from the capital market in order to digitize the operational processes and reduce their administrative costs; reforming the supervisory and control authority based on the model of countries with developed capital markets; significant increase in the number of intermediaries from the capital market thus ensuring easy, fast, friendly and non-discriminatory access of Romanian and foreign investors, both in case of investment and divestment;

- Share issues / sales of shares held by the state in large companies;

- Government bond issues on BVB.

Our capital market, although less developed than other important markets in the region, has progressed in recent years. According to the data of the *Investor Compensation Fund*, the number of investors from BVB amounts to 70.756 at the end of June 2021, with 17.200 more investors than at the end of 2019, at a time when the dynamics of the number of investors has been upward in all quarters.

In fact, the existence and increase of the number of investors it is essential for the development of the stock market because if there are investors, more companies will be listed on BVB.

Romania must make efforts to attract portfolio investments on the Bucharest Stock Exchange, by carrying out structural, legislative and economic reforms, by liberalizing capital control and by increasing investor protection on the capital market.

Romania cannot allow its capital market to be overlooked, and the political factor must stimulate capital investment through the capital market in order to sustain economic growth. The Romanian capital market currently has the greatest growth potential in Europe and even worldwide.

In the almost 26 years since its re-establishment, the Bucharest Stock Exchange has registered positive evolutions by diversifying the traded financial instruments, the types of operations, by attracting issuers with medium and long term development potential, by creating a flexible organizational structure including several market segments and types, by improving the trading system so that it becomes compatible with that of developed stock exchanges and offers foreign investors trading conditions similar to those in other markets.

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