



Leonardo Badea

Deputy Governor,
National Bank of Romania

Continuing the development of capital markets in Romania

Unquestionably, modern capital markets have come a long way in Romania since their reopening during 1990s, their evolution being in close sync with the development of the market economy and the consolidation of the democratic society after the communist era. However, as it is often the case almost in all areas, this progress has not been linear and has not always been consistent. In financial markets, our most valuable asset is trust, that's why all the past major crises took their toll and caused important setbacks, as will certainly be the case with the one that we are fighting now.

Today, Romanian capital markets are mostly aligned with developed western European capital markets in terms of institutions, systems, technical capabilities and interconnections, regulation and best practices, thus are better equipped to go through bad times and to recover afterwards, although it will most probably not be an easy or fast recovery given the complexity of the crisis.

Of the two main sectors of the capital markets, the collective investment undertakings enjoyed a significant increase in assets during the last years, especially for the open-end fixed income funds, while the alternative investment funds remains an important segment (mainly former privatization funds - a particularity of the Romanian market). The structure of funds by risk categories is well diversified and the situation should further improve once the new law regarding the alternative investment funds is implemented.

The other main sector, the stock market, experienced a significant decline during the global financial crisis (both as a traded value and as a level of the stock indices) and was not able to recover in a consistent manner since then. Moreover, the term market for derivative financial contracts has gradually decreased until total termination of transactions in 2017. Although there are projects to restart it, they are largely dependent on the success of the current actions for the establishment of a local central counterparty. As a result, the market is currently mostly focused on stock transactions, and traded values are only slowly improving, being still below 2007-2008 levels, despite listings of major companies over the past two years. Also, the market capitalization related to GDP is rather low when comparing at regional level. In order to recover the gap compared to the European average, we need to continue the efforts for listing new companies, to stimulate the local corporate bond issuances and to restart the financial derivatives market.

Perhaps the most important recent progress was registered in September last year when the FTSE - Russell rating agency published the decision to promote the Bucharest Stock Exchange to the emerging secondary market status. Also, significant steps were made towards the setting up the local central counterparty and for resolving the situation of latent accounts of financial instruments (with the Central Depository), with the support of the EBRD. An optimal and rapid conclusion of these projects will certainly have benefits for the entire local financial markets. We are also currently working at a national strategy for developing the capital markets, with the help of World Bank, following similar examples in our region. ●