

ROMANIAN CAPITAL MARKET – PEST AND SWOT ANALYSES

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Abstract: the objective of this paper is a complete analysis of the Romanian Capital Market. In this respect we choose the “PEST” and the “SWOT” Analyses, which give the possibility of a complete overview from the perspective of the Political, Economic, Social and Technological factors, which are classified as Strengths, Weaknesses, Opportunities and Threats in a SWOT Analysis. The result of the analyses certifies that since the beginning of 2004 the Romanian Capital Market registered a sustained positive evolution. The main cause of this evolution was the acceleration of the liberalisation process of the whole Romanian market. The European Legislation introduces new rules in order to protect investors, safeguard market integrity by establishing harmonised requirements governing the activities of authorised intermediaries and promote fair, transparent, efficient and integrated financial markets, factors which will have a further positive impact on the capital market.

Key Words: Romanian Capital Market, PEST Analysis, SWOT Analysis

JEL Classification: E22

Introduction

The “PEST” Analysis of Romanian Capital Market evaluates the external macro-environment of this market from the point of view of the **Political, Economic, Social and Technological** factors who can give us the possibility to understand market grow or decline, potential and direction for operations. These factors affect all firms belonging to the analyzed market, factors which usually are beyond the firm's control and sometimes present themselves as threats, but however, changes in the external environment also create new opportunities. The PEST factors are classified as Strengths, Weaknesses, Opportunities and Threats in a SWOT Analysis.

The SWOT Analysis is a strategic planning tool used to evaluate the **Strengths, Weaknesses, Opportunities, and Threats** involved in a project or in market. This analysis is credited to Albert Humphrey, who led a research project at Stanford University in the 1960s and 1970s.

The “PEST” analysis takes into consideration the following factors:

- a) **Political Factors:** Current legislation of the market, European legislation, regulatory bodies and processes, government policies, trading policies.
- b) **Economic Factors:** Romanian economy situation, economy trends, general taxation issues, taxation specific to product/services, market and trade cycles.
- c) **Social Factors:** Number of inhabitants, consumer attitudes and opinions, media views, law changes affecting social factors, buying access and trends, advertising and publicity.
- d) **Technological Factors:** Information and communications, mechanisms/technology, innovation potential, global communications.

Conclusions of the analyses

The conclusions of the “PEST” analysis of the Romanian Capital Market from the point of view of the **Political, Economical, Social and Technological Factors** are spitted in the four categories of a SWOT analysis: strengths, weaknesses, opportunities, and threats. The scope of using both of analyses is to analyze from all the aspects the Romanian Capital Market and to identify which are the strengths, weaknesses, opportunities, and threats on this market.

Strengths			Weaknesses		
1. Political Factors			1. Political Factors		
<p>1. The situation of the Romanian capital market begins to become more stable through implementation of the European directives. The scope of the European Legislation is to protect investors, safeguard market integrity by establishing harmonised requirements governing the activities of authorized intermediaries and to promote fair, transparent, efficient and integrated financial markets.</p> <p>2. Following the evolution of the stock exchange indexes on the Romanian capital market and of the evolution of the competition on the capital market, it can be easily noticed that beginning with the year 2004, the whole market has a substantial ascending evolution.</p> <p>The cause of this conjuncture was the liberalisation process of the market.</p> <p>The Romanian government published the stages of the liberalization process and the characteristics of the market open to competition:</p>			<p>1. The Romanian political situation is very tense.</p> <p>2. Reject of the fusion between the Bucharest Stock Exchange (BSE) and the Sibiu Monetary-Financial and Commodities Exchange (BMFMS). The fusion between these Stock Exchanges, which was on discussion a long time, was rejected 2006 by the shareholders of the Bucharest Stock Exchange. Under these circumstances, BSE announced the launch in the near future of its own platform for trading the derivatives⁴⁶, platform which will use the Bucharest Compensation House (CCB).</p> <p>As a consequence the BMFMS will also launch its own platform for trading stocks.</p> <p>3. The country rating for Romania is staying at A4 also at the beginning of 2008 according to the Rating Agency Coface, although Fitch Ratings lowered in January 2008 its credit rating outlook from stable to negative for Romania, citing deteriorating economic imbalances.</p>		
			2. Economical Factors		
			<p>1. Even if the main macroeconomics indicators registered in the last years a positive evolution, they have not already reached a stable point.</p> <p>The analysis of the main macroeconomics indicators (GDP, real GDP per capita, inflation rate, unemployment rate etc.) in comparison to the indicators of other countries from EU shows a big negative difference. Romania started the process of catching-up the other countries, but this process will last for a long period of time.</p> <p>2. Dependence of Romania on the foreign capital is growing.</p> <p>3. The growing interest rate for credits and the depreciation of the local currency (RON) will</p>		
<u>1st Stage (before 2003)</u>	<u>2nd Stage (2003-2004)</u>	<u>3rd Stage (2004-2005)</u>	<u>4th Stage (2005-2006)</u>	<u>5th Stage (2006-2007)</u>	<u>6th Stage (2007-2008)</u>
Exclusive rights	Beginning of the liberalisation	Acceleration of the liberalisation process	Stabilization	Acceleration of the liberalization process	Dependence of Romania on the foreign capital is growing
-partial liberalisation	-liberalisation of each segment of the market	-strong competition	-strong competition	-strong competition	-strong competition
-few diversified offers	-new competitors on the market	-diversification offers	-diversification offers	-diversification offers	-diversification offers
-high costs	-big competition	-lower rates	-lower rates	-lower rates	-lower rates
	-lower rates	-changes of whole market	-changes of whole market	-changes of whole market	-changes of whole market
		-accent on high	-accent on high	-accent on high	-accent on high

		quality innovation competitive advantages	<p>and affect the budget of companies and of households, because their debts will be denominated in foreign currency.</p> <p>4. The number of companies listed at BSE is low enough, 2007 being 59 companies.</p>
<p>2. Economical Factors</p> <p>1. The main macroeconomic indicators registered a positive evolution in the last years, which will also have a positive impact on the capital market.</p> <p>2. During the last years, the main stock exchange indexes on the Romanian capital market had a positive evolution.</p> <p>The yearly performance of the BET Index remains stable in the last years in comparison to the medium interest rate for deposits on the Romanian market, being about 3 times more than this interest rate for deposits in the years 2006 and 2007.</p> <p>The increase by 22% of the BET index in the year 2006 is its most reduced yearly increase in the last six years. The composite index of the Bucharest Stock Exchange, BET-C registered an increase by 28,49% in the year 2006.</p> <p>The value of the transactions with shares listed on the Bucharest Stock Exchange increased 2006 only by 27% in comparison to the raise by 223% in the year 2005 and by 140% in the year 2004.</p>			<p>3. Social Factors</p> <p>1. The Investors' access on the Romanian capital market became easier during the last years, but the transaction fees applied to the investors by the Brokerage and Financial Investment Companies are furthermore high.</p> <p>The same thing can be observed in the financial institutions which operate in Romania. Even if the number of these financial institutions rose in the last years, the charges billed, the services and the products offered to clients are far below the level of those offered in a developed country.</p> <p>More than this, the Brokerage and Financial Investment Companies which are a part of a bank group don't offer the possibility to credit automatically the investment account by the bank giro account of the same person, both of the accounts being opened at institutions from the same group.</p> <p>2. There are information sources on the Romanian capital market, but they are not as detailed as in the developed countries.</p> <p>Only a few Brokerage and Financial Investment Companies offer analyses of the Romanian capital market and of the companies listed at BSE.</p> <p>3. The attitude of the most investors is a speculative one. They want to obtain big profits in a short time. The raises and drops of the stock prices of a company listed on BSE</p>
Year	Evolution of the BET index	(ROBID)	
2003	28 %	16,33 %	

2004	71 %	17,9 %	don't reflect in the most cases the real state of that company.																																																												
2005	46 %	6,57 %																																																													
2006	22 %	7,50 %																																																													
2007	23 %	6,84 %																																																													
<p>3. The unique income tax rate by 16% (this rate is equally applied to income tax and to corporate income tax) since January 1st, 2005 is lower compared to other countries.</p>			<p>4. Investors' lack of basic know-how and of experience on the capital market.</p> <p style="text-align: center;">4. Technological Factors</p> <p>1. There is no system on the BSE which could permit to route automatically the orders, so that the order via internet is automatically introduced in the trade system after its specifications were verified (market, quotes, price, pieces, validity date, if there are really the shares were are to be sold, enough money on the investment account in order to buy the shares). The systems presented as an on line trading system are only systems which can take over the orders on-line.</p>																																																												
<p>Opportunities</p> <p style="text-align: center;">1. Political Factors</p> <p>1.The country rating for Romania is staying at A4 also at the beginning of 2008 according to the Rating Agency Coface. The country rating made by Coface shows the capacity of companies from a country to make the payments in due time. A4 corresponds to the Investment Grad and symbolize a low risk and a stable payment history.</p> <p>Country Rating</p> <table border="1"> <thead> <tr> <th>Countries</th> <th>Jan 02</th> <th>Jan 03</th> <th>Jan 04</th> <th>Jan 05</th> <th>Jan 06</th> <th>Jan 07</th> <th>Jan 08</th> </tr> </thead> <tbody> <tr> <td>Romania</td> <td>B</td> <td>B</td> <td>B</td> <td>B+</td> <td>A4</td> <td>A4</td> <td>A4</td> </tr> <tr> <td>Czech Republik</td> <td>A3</td> <td>A3</td> <td>A2</td> <td>A2</td> <td>A2</td> <td>A2</td> <td>A2</td> </tr> <tr> <td>Hungary</td> <td>A2</td> <td>A2</td> <td>A2</td> <td>A2</td> <td>A2-</td> <td>A3</td> <td>A3</td> </tr> <tr> <td>Poland</td> <td>A4-</td> <td>A4-</td> <td>A4</td> <td>A3</td> <td>A3</td> <td>A3</td> <td>A3</td> </tr> <tr> <td>Slovakia</td> <td>B</td> <td>A4-</td> <td>A3</td> <td>A3</td> <td>A3</td> <td>A3</td> <td>A3</td> </tr> <tr> <td>Bulgaria</td> <td>B</td> <td>B</td> <td>B</td> <td>B+</td> <td>B+</td> <td>A4</td> <td>A4</td> </tr> </tbody> </table>			Countries	Jan 02	Jan 03	Jan 04	Jan 05	Jan 06	Jan 07	Jan 08	Romania	B	B	B	B+	A4	A4	A4	Czech Republik	A3	A3	A2	A2	A2	A2	A2	Hungary	A2	A2	A2	A2	A2-	A3	A3	Poland	A4-	A4-	A4	A3	A3	A3	A3	Slovakia	B	A4-	A3	A3	A3	A3	A3	Bulgaria	B	B	B	B+	B+	A4	A4	<p>Threats</p> <p style="text-align: center;">1. Economical Factors</p> <p>1. Romania's economic growth reached ia high level of (8,4%) in 2004 and 7,7% in 2006 as an effect of the effort made by Romania to be accepted in the European Union, but after the EU accession its level began to be lower (estimation for 2007 is 5,8% and forecast for 2008 is 5,2%).</p> <p>2.The Government Budget Expenditures will grow this year because 2008 is an electoral year.</p> <p>3. Fitch Ratings lowered in January 2008 its credit rating outlook from stable to negative for Romania.</p> <p>The main factors for this downgrade are:</p> <ul style="list-style-type: none"> - increase of the negative balance of current account, - requirements regarding the external financing, - rapid increase of the government 				
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Turkey	C	C	B	B+	B+	B	B															
<p>Source: Rating Agency Coface</p> <p>2. Though the implementation of the European Legislation, the companies which action on the capital market has the right to action on the entire European market without being necessary to apply for a new authorisation.</p> <p>Other advantages offered by the European Directives are:</p> <ul style="list-style-type: none"> - Stability, - Fair, transparent, efficient and integrated financial markets. <p>3. Finalization 2006 of fusion between BSE and Rasdaq, which conducts to a better visibility both at regional and international level.</p> <p>4. 2006 was settled up the Central Depository which offers services as clearing, custody, depository and registry of titles traded on regulated markets and using the alternative traded systems, as well as any operations in accordance with the above mentioned services.</p> <p>5. Other factors which influenced the capital market starting 2004 and the positive evolution of the BSE Indexes were:</p> <ul style="list-style-type: none"> - beginning of the 3.nd stage of the liberalisation process, - the unique income tax rate is 16% (this rate is equally applied to income tax and to corporate income tax) since January 1st, 2005, - Presidential elections held in Romania on November 28, 2004 were won by Traian Basescu. <p style="text-align: center;">2. Economical Factors</p> <p>1. The unique income tax rate of 16% is an important opportunity for the capital market.</p> <p>2. The value of transactions with shares listed at BSE rose 2006 by about 30%, from 2.152 Mil EUR in 2005 to 2.801,7 Mil EUR and by about 48% in the year 2007, the reasons being these one which determine the evolutions of prices (lack of new companies listed at the stock exchange, reaching the correct prices for many companies listed at the stock exchange).</p>																						
<p style="text-align: right;">credits.</p> <p>4. The international financial crisis began to have also consequences on the Romanian market.</p> <p>5. The high oil price (forecast 150 EUR/barrel) will represent 2008 an important risk for the Romanian Economy.</p> <p>This increase will have an impact on the evolution of the fuel price and this will influence of course all the Romanian imports.</p> <p>6. The Stock Exchange Indexes had 2007 a positive evolution, but a decline can be observed starting with the end of 2007. This happened also to other European and American Stock Exchanges, the main reason being the real estate crisis on the American market which led to a liquidity crisis on this market.</p> <p>As an effect of the liquidity crisis, the banks could refinance under very difficult conditions and at a higher price as before (for example the refinancing costs before the financial crisis were ca. 0,2% over the Euribor interest rate and at the beginning of 2008 they reached values of 0,6% - 0,8%).</p> <p>7. The number of new companies listed at the BSE is very low, which can influence the volume of the transactions at the BSE.</p>																						
<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Year</th> <th style="width: 50%;">New companies listed at the BSE</th> </tr> </thead> <tbody> <tr> <td>1995</td> <td>9</td> </tr> <tr> <td>1996</td> <td>8</td> </tr> <tr> <td>1997</td> <td>59</td> </tr> <tr> <td>1998</td> <td>50</td> </tr> <tr> <td>1999</td> <td>15</td> </tr> <tr> <td>2000</td> <td>1</td> </tr> </tbody> </table>									Year	New companies listed at the BSE	1995	9	1996	8	1997	59	1998	50	1999	15	2000	1
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<p>3. The market capitalization had the same dynamics as the value of transactions, registering an increase of 39,6% in 2006 as compared to 2005, but the increase registered 2007 was only by 14,88%.</p> <p>3. Social Factors</p> <p>1. The Investors' access on the Romanian capital market is very easy; they must just choose a Brokerage and Financial Investment Company. The number of these companies is 73 companies in the year 2007, the bigger one being the companies which are part of a bank group.</p> <p>The more such companies are active on the market, the lower their fees will be.</p> <p>4. Technological Factors</p> <p>1. The fact that the investors can trade stocks and other titles via internet is a really important opportunity for the Romanian Capital Market. This is a common procedure in the developed countries.</p>	2001	3
	2002	1
	2003	0
	2004	3
	2005	5
	2006	2
	2007	3
	<p>The higher number of new companies listed at the BSE was registered between 1997 – 1999, the main reason being the new formation of the Bucharest Stock Exchange which happened 1995.</p>	

In summary, the Romanian capital market has good strengths and opportunities to record a medium- and long-term positive evolution. On the short term the capital market can be seen as less stable because of the causes described above.

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