Strengthening the Regional Integration in Central and Eastern Europe through Cohesion Policy Instruments and Cooperation among Stock Exchanges

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Abstract

The research paper is focused on the analysis of two ways of strengthening the regional integration in the Central and Eastern Europe – through the Cohesion policy instruments and cooperation among stock exchanges. Substantial benefits from the regional integration through cohesion policy include economic and social prosperity, political understanding. It should be further intensified, as it contributes to reduce regional disparities, exchange knowledge and best practices, ensure economic development. On the other hand, the deepening intra-regional cooperation among CEE stock exchanges leads to quantitative and qualitative changes in the course of their consolidation. Some assumptions are reached regarding expected changes on the Bulgarian capital market in the course of intensifying its intra-regional integrational links to CEE capital markets in conformity with set strategic priorities.

Keywords: *cohesion policy instruments, cross-border programmes, regional financial integration, capital markets*

JEL Classification: *O,P, R10.*

1. Introduction

The European territorial cooperation – objective 3 of the EU Cohesion policy in the current programming period 2007-2013 – financed by the European Regional Development Fund (ERDF) is aimed at achieving the harmonious and balanced integration at the territory of the EU through supporting the cooperation in the fields that are of importance for the Union at the cross-border, transnational and interregional levels. For the development of the regional integration Instrument for pre-accession assistance and European Neighbourhood and Partnership Instrument are also used for candidate or potential candidate countries.

2. Strengthening the regional integration of the Central and Eastern European countries through the EU Cohesion policy instruments

2.1 Regional cooperation in the Central and Eastern Europe through interregional, transnational and cross-border programmes

Extended regional cooperation in the Central and Eastern Europe is very important, in spite of the stage of integration of the different countries. The EU fosters activities to promote regional cooperation. Considerable benefits of closer regional integration include political understanding, economic and social prosperity which is also of great interest to the EU.

Countries from the Central and Eastern Europe should benefit from multilateral programmes especially because of the exchange of knowledge and best practices from “older” EU member countries and countries from the European Economic Area. INTERREG IVC is targeted at improving the effectiveness of regional policies and instruments, the areas of support including innovation and the knowledge economy, environment and risk prevention (ERDF contribution is 321 million euro). The URBACT II programme encourages cooperation between local and regional level actors to exchange experience on urban policy themes (ERDF contribution is 53 million euro). Jointly with the URBACT II programme, the INTERREG IVC programme is the main vehicle for the EU initiative ‘Regions for Economic Change’ which supports regional and urban networks in developing and spreading best practice in economic modernisation. ESPON provides scientific information for the development of regions and larger territories through applied research, analysis and tools – the ERDF contribution is 34 million euro (28, http://ec.europa.eu/regional_policy/cooperate/cooperation/ index_en.cfm).

Among transnational programmes – the South East Europe programme has its significance. It regroups 16 countries (8 EU member countries) aims at improving integration and competitiveness in a very complex and diverse field. Priority areas of the programme comprise Innovation, Environment, Accessibility, and Sustainable growth which are in compliance with Europe 2020 objectives and contribute to the process of integration of the non-member countries as well.

As the European Commissioner for Regional Policy stated at the beginning of the programme: "The South-East Europe programme is of particular importance for Europe (...) There are challenges in this part of Europe which exist nowhere else on our continent and this makes it all the more important that you can work together effectively in this transnational programme." The South-East Europe is an area in which there are significant regional disparities in terms of economy, innovation, competitiveness. In addition, South East Europe is a bridge between North, South, East and West Europe. Trans-European Networks and Pan-European transport corridors in the area and need further development. The total public contribution amounts to 245 million euro. Black Sea Basin Joint Operational Programme is a multilateral programme financed by European Neighbourhood and Partnership Instrument and its objective is to contribute to the extended and sustainable economic development of the Black sea region.

Among the 10 participant countries there are EU member countries, candidate countries and neighbourhood policy countries. Its budget amounts to 28 million euro and its objectives are to promote the economic and social development of the border regions, cooperate for tackling common challenges, and encourage local cooperation with people-to-people actions.

Different types of eligible projects which are integrated projects with activities in several countries to achieve a common goal, symmetrical projects with same activities in each of the participant countries and single projects implemented in a partner country but having transnational significance will contribute to strengthening regional cooperation.

Cross-border cooperation includes various issues – improvement of the joint management of natural resources; encouragement of entrepreneurship; support of links between urban and rural areas; development of infrastructure; improvement of access to transport and communication networks, etc.

Through joint management of programmes and projects, mutual trust and understanding are strengthened and the cooperation process is enhanced.

The development of regional cooperation is crucial for the Balkan countries – candidates for the EU – it is a key factor for establishing political stability, security and economic prosperity. Economic development is a very important issue if they want to make progress towards European integration.

In many areas, such as trade, energy and transport, because of the fragmentation of the economic space in the region, the most effective way is to intensify regional cooperation. Through regional cooperation, favourable business environment will be created in the Balkan candidate and potential candidate countries that will provide for foreign and domestic direct investments and create jobs, encourage individual initiative and as a result increase living standards of the population.

Beyond the intra-regional challenges, the ultimate goal is to reconnect the western Balkan countries with their neighbours, EU Member States and candidate countries. Infrastructure development is of importance for the development of the economies and increase in economic growth. But reforms are necessary for strengthening institutions so as to promote sound economic policies and social cohesion, regional and crossborder integration.

Table 1: Allocation of funds for Candidate and potential candidate Balkan countries under the Instrument for pre-accession assistance (in euro)

Country	2010	2011	2012
Croatia	16,216,542	16,540,872	16,871,690
Serbia	12,493,321	12,743,190	12,998,052
Macedonia	5,682,932	5,796,590	5,912,521
Albania	10,488,579	10,698,350	10 912 317
B&H	5,311,901	5,418,139	5,526,501
Montenegro	4,761,177	4,856,401	4,953,529

Source: A short survey on EU funding programs and instruments in the countries of the Western Balkans, (Prepared by: Serdon - Sirakov A., Delchev P.), Sofia, Bulgaria, 2011

There are several programmes of each of the EU member countries at the Balkans – Greece, Romania and Bulgaria with their neighbouring countries – EU members, candidates and potential candidates for EU membership.

2.2 Participation of Bulgaria in the cross-border programmes with its neighbouring countries

Bulgaria participates actively in the cross-border programmes with neighbouring countries co-financed by the ERDF and Instrument for pre-accession assistance – with Serbia, Macedonia, Turkey and of course, with Greece and Romania.

Results of these programmes are oriented to the enhancement of the cooperation in the cross-border region, improvement of the quality of life, environment, infrastructure, and social-economic development of these regions – activities which encompass to the great extent the principles and spirit of the EU.

Main activities of the projects are aimed at diversifying economic activities and enhancing the living standards in the cross-border region, improving infrastructure, encouraging entrepreneurship, cooperating in the research, investing in human capital, cultural exchange, creating networks, supporting tourism, protecting environment etc.

Table 2: Cross-border programmes EU-External borders with Bulgarian participation for 2007-2013

Cross-border programmes	Total budget (EU and national co-financing)
Bulgaria-Serbia	36 905 807 euro
Bulgaria-Macedonia	21 063 157 euro
Bulgaria-Turkey	32 084 823 euro

Source: Territorial Cooperation Programmes, Bulgaria 2007–2013

In spite of the progress in implementation of the programmes, there are problems at the partner and project levels, shortage of financing from the beneficiaries, difficulties in subcontracting, delay in implementation of activities, insufficient administrative capacity. Providing support for beneficiaries with trainings and consultancy will contribute to the better realization of the activities. More efforts should be done on bilateral and multilateral level for achieving higher effectiveness. Enhancing cooperation between partner countries will have a positive influence on the economic development of the region. Moreover, sound economic policies are needed to the countries for providing the necessary co-financing for the programmes.

For the new programming period it will be appropriate that one third of the financial resources be allocated for strategic projects of great importance for the region which are considered the most effective and sustainable projects.

Bulgaria also participates actively in the cross-border programmes EU-internal borders with Romania and Greece. The total budget of the programme Romania-Bulgaria 2007-2013 is about 262 million euro and Greece-Bulgaria – about 138 million euro. Activities in the field of economic and social development, environment, accessibility and others are envisaged and their implementation is progressing.

In the frames of their preparation towards joining the euro zone, new member states of the EU from Central and Eastern Europe should benefit from the cohesion policy funds on their way to achieving real convergence in the medium and in the long run. The most important is not only to use the funds but also to do that effectively and with added value.

For the new programming period 2014-2020 the Common Strategic Framework will be applied for the European Social fund, European Regional Development fund, Cohesion fund, European Agricultural Fund for Rural Development, European Maritime and Fisheries Fund (20, Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the ERDF, the ESF, the CF, the EAFRD and the EMFF covered by the Common Strategic Framework). Member states could design programmes financed by several funds with a view to achieving best results. Focusing on the results and applying an integrated approach and common strategies with other EU policies and financial instruments will contribute to the increase in effectiveness and efficiency of the funds. The projects under these funds should be linked with the objectives of Europe 2020.

Moreover, a link between European economic governance and financing of cohesion policy will be established, which is new. At present such conditions exist only towards the Cohesion fund. The new element will ensure that the effectiveness of expenses in the framework of the funds is based on the sound economic policy.

Cohesion policy is very important for ensuring better budgetary discipline and incentive for reforms in key economic sectors of the countries. It contributes to a great extent to the strengthening of the regional integration of the member states in Central and Eastern Europe and candidate countries by reducing regional disparities, enhancing cooperation, exchanging knowledge and best practices, ensuring economic development. Because of its added value, regional integration of the Central and Eastern European countries should be further developed.

3. Main tendencies in consolidation processes among EU stock exchanges

Stock exchanges are significant part of the financial system since they improve distribution of risks among economic agents and give an impetus to economic growth. Consolidation among stock exchanges on EU level is mainly effected through mergers at regional level among cash and derivative markets. Concrete examples in this direction include the evolution of Euronext, the mergers in the Scandinavian and Baltic regions and that of London Stock Exchange and Borsa Italiana. The three largest platforms for trades in equities at EU level are Deutsche Boerse Group (market capitalization EUR 9,5 trillion by 2011), NYSE Euronext Group (market capitalization EUR 5,5 trillion by 2011) and London Stock Exchange Group (market capitalization EUR 3 trillion by 2011), which generate over 80% of the total turnover volumes of EU stock exchanges.

Mergers allow stock exchanges to combine efforts and resources in the implementation of single trade platforms thus significantly to squeeze technological expenses. The benefits for economic effectiveness arising from integration prove to be positive (19, London School of Economics (2002). The intensifying consolidation processes among capital market participants on EU level are explained by such factors as increasing demand for investment possibilities within the European financial area (15, Hristova - Balkanska, I. (2002). The main consolidation models followed by market participants on EU capital markets include: *vertical consolidation and horizontal consolidation.* Vertical consolidation involves combination of diverse activities along the securities trade execution chain from integration of trade and clearing to securities settlement activities within a single entity or between two or more entities. Such consolidation model in EU is followed by Deutsche Boerse (Germany), Borsa Italiana (Italy) and Bolsas y Mercados Espanoles Group (Spain). These consolidation structures may result in establishing dominant position, creation of barriers for entry and may limit the transparency levels in pricing of services along the trade execution and post-trade cycle. On the other hand, horizontal consolidation assumes entering into various strategic alliances agreements or implicit coordinated mergers among systems operators providing the same types of services. Such consolidation model is followed by NYSE EURONEXT Group that is also the owner of London Futures Exchange. Another such example in the sphere of settlement activities is Euroclear Group as a merger among the national central securities depositories of Belgium, France, the Netherlands and Great Britain.

Irrespective of significant consolidation processes on the capital markets there continue to exist various barriers in front of the clearing and settlement infrastructure in EU. The advantages from consolidation and integration processes point to decrease in securities trade costs and rising liquidity volumes on EU capital markets. At the background of these advantages one has to evaluate such shortcomings as decrease in competition and the monopolization of stock exchanges. This leaves open the question what the mechanism for preservation of competition will be and how traditional market participants will compete with the alternative/multifunctional securities trade facilities.

3.1 Main characteristics of stock exchanges in some CEE countries and directions of intra-regional cooperation among them

For the purposes of the present report the comparative analysis encompasses the capital markets of three countries from EU (namely Czech Republic, Hungary and Slovenia) due to the ongoing or forthcoming consolidation processes on these markets (see Appendix 1). The integration of the financial markets in the selected countries during the last two decades is mostly connected with significant inward foreign direct investments (the average annual incoming flows exceeding 5 % of GDP for the period 2000 – 2008), mostly along the lines of the establishment of foreign banks from Continental Europe in the financial sector of these countries. In the aftermath of the global financial and economic crisis and subsequently the European debt crisis these countries experienced massive outflows of capitals, fall in stock exchange turnover volumes and indices. The targeted countries are considered as being in transition from factor to innovative effectiveness with an average degree of financial development which points to the potential for deepening of regional cooperation among their capital markets (mainly through horizontal integrational forms).

The integrational model followed by the Central and East Europe Stock Exchanges Group (CEESEG AG) (see Appendix 1) includes horizontal form of consolidation of the stock exchanges of Vienna, Budapest, Ljubljana and Prague through the development of a parent holding company and regional subsidiary entities with independent management and establishment of high degree of harmonization of trade execution, clearing and settlement infrastructures. Among the important mid-term objectives of the Group is implementation of electronic trade platform XETRA on the subsidiaries stock exchanges and establishing cross-membership process among them. The long-term strategy of the Group envisages harmonization of market segments, the general business terms on regional scale, reaching high degree of interoperability in the clearing and settlement process and diversification of the financial instruments product range.

In 2011 the stock exchanges of the four countries generated over 60 % of turnover on CEE capital markets and raised over EUR 1.8 billion in IPOs (see Appendix 1). The common electronic trades' platform XETRA has already been implemented on the Vienna and Ljubljana stock exchanges and a process is underway for its implementation on the other two stock exchanges. Cross listings on the regional stock exchanges and the potential for their visibility on other markets in Europe is facilitated through a direct link of the CEESEG AG with the Frankfurt stock exchange operated by Deutsche Boerse.

On the one hand, by 2011 the main stock exchange index on the Budapest Stock Exchange BUX reached a downfall of 20 % as compared to 2010. The market capitalization came up to EUR 14.63 billion and the number of listed companies stood at 54 (7, CEESEG (2011). The trade turnover registered a fall by 27.5% as compared to 2010 while transactions on the cash market comprise about 60% of total exchange turnover. In the course of the continuing global financial and economic crisis trade in the derivative market registers a fall by about 34 %. A change in the investors' structure at Budapest Stock Exchange is observed with rising share of foreign investors (up to 45 %) as compared to local investors. The local institutional investors make up around 10 % of the total investors' base while local retail investors reach about 28 % by 2011. The international members show significant activities at the cash market, while the local members – on the cash and derivative market.

On the other hand, during 2011 the leading exchange index on the Ljubliana Stock Exchange (LjuSE) SBITOP dropped by about 30% as compared to 2010, total market capitalization reached EUR 4.8 billion. Trade in equities represents about 84 % from total trade at LjuSE (7, CEESEG (2011). An important element from the development of the exchange is the implementation of the common trading platform of CEESEG AG – Xetra and the attraction of 5 new remote access members who generated around 10 % of total trades' volume at LjuSE in 2011. A step toward deepening of regional cooperation of LjuSE is the cooperation agrements concluded with the stock exchanges of Belgrad, Skopie and Zagreb. Among the important strategic aims of LjuSE (8, CEE Stock Exchange Group (2010) are boosting the liquidity on the local market, increasing interoperability on regional scale and maintaining high quality level of market organization.

An important challenge to the further integration of LjuSE shall be to reach an adequate degree of harmonization in the clearing and settlement cycle, initiation of cross-membership procedure, reform of the pension system and introduction of incentives for privations through launcing of IPOs. The introduction of innovative financial instruments as derivative contracts etc. requires further developments in the market infrastructure and eventual clearing through a central counterparty and heightening the supervisory framework.

In 2011 the main index on the **Prague Stock Exchange** (PSE) PX declined by about 26 % as compared to 2010 and there is a potential for further fall due to the significant share of banks' equities in the total number of shares' issues of public entities. The market capitalization reached EUR 29 billion and the total number of listed companies stood at 26. The PSE registered a rise in the diversification of traded securities and recorded one IPO for 2011 to the amount of EUR 7.9 million. The local members at PSE predominate in the total trades´ volume having a share of 99.5% and by the year under account the exchange attracted two new foreign members. By 2012-end PSE has scheduled to introduce the common trading platform Xetra, to offer possibilities for cross-membership status and a standardized clearing mechanism (7, CEESEG (2011).

The comparative analysis of the activities of the three stock exchanges operating within CEESEG AG Group leads to the following **main conclusions:**

- deepening of integration through conclusions of cooperation agreements with other regional stock exchanges outside the CEESEG AG Group (for example Belgrade, Skopie, Zagreb etc.);
- the central securities depositories of the countries under analysis undertake conclusion of agreements for establishment of direct crossborder links with other regional central depositories or with international central depositories (as Clearstream Banking Luxembourg & Frankfurt);
- implementation of unified trade rules (with the introduction of a common trading platform) in conformity with the EU legislative framework in the capital markets field;
- increasing the visibility of the respective markets and the degree of diversification of offered financial products (mainly along the lines of structured and derivative products) and providing possibilities for access to the capital markets to SMEs (by establishing niche specialized segments at the stock exchanges as at Prague and Budapest stock exchanges);
- within the CEESEG AG Group still the Ljubljana Stock Exchange remains "in the periphery" due to the low degree of development of the Slovenian capital market, significant share of state ownership in the capital of listed public entities, tax barriers, insufficiently well developed infrastructure for the supply of innovative products etc.

4. Conclusion

According to a report (24, The World Bank (2011) the Bulgarian legislation has achieved high degree of harmonization with the EU regulations and directives in the field of capital markets. In 2013 a process for implementation of the new EU legal framework is underway (regarding short sales, OTC derivaties, central counterparties and registers of transactions, alternative trade systems etc.) By 2012 the Bulgarian capital market remains limited in size and insufficiently well developed as compared to the Eurozone countries and the CEE countries – targeted in the research paper. A report (18, IMF Working Paper (WP 12/131) outlines the necessity to continue development of the capital market in Bulgaria in view of accelerating economic growth and productivity through further structural reforms. It should also be emphasized that while most of the CEE countries (especially Hungary and the Czech Republic) are undergoing an intensified convergence process toward the EU economic structures, the expectations for Bulgaria are divergences from the average EU indicators to remain significantly pointed (10, Economics Research Institute at The Bulgarian Academy of Sciences (2012).

A recent report (26, The World Economic Forum (2012) places Bulgaria at 62 position out of 144 countries in the world according to global competitiveness index and takes last position by this indicator from the targeted CEE countries in the present research. On the other hand according to financial development index the country ranks 80th followed only by Slovenia (128 rank) from the presently analysed CEE countries. The main problematic factors in front of competitiveness and financial development for Bulgaria remain the high corruption levels, the insufficient effectiveness of the institutional framework and the constrained access to financing.[1] The National Programme for development of the Republic of Bulgaria encourages overcoming these weaknesses by further optimization of the institutional capacities, active implementation of EU financial instruments for startup and growth-oriented SMEs and application of diverse policies to boost competitiveness in accordance with the principles for sustainable development.

In the wake of the global financial crisis by 2011 the market capitalization as a share of GDP started slightly to rise by and reached 16.13 % while for 2010 it stood at 15.6% (14, Financial Supervision Commission, 2012) yet it remains at considerably low level as compared to the Eurozone average. The low liquidity is the chief shortcoming of the capital market in Bulgaria. It is explained with the low volume of free float as well as the outflow of foreign investors from the Bulgarian capital market in the aftermath of the developments of the global financial and economic crisis.

Regardless of the high degree of harmonization of the legislative framework and the market practices to EU levels the capital market in the country still faces a number of barriers hindering its effective functioning.

More specifically at microlevel can be outlined some of the following limitations: low quality of publicly listed companies taking the form in low levels of free float, low capitalization; the companies which achieve higher capitalization levels are leading players in their respective industries and sectors and are often targets of interest for large national or foreign institutional investors; low liquidity which leads to higher costs for execution of deals with predetermined volumes and rising price volatilities.

[1] In this regard it is pertinent to cite two statements uttered by John K.Galbraith (1955): “There is small probability to create healthy capital market in a weak economy,”, “Cause and effect run from the economy to the stock market: never the reverse.”

On the other hand at institutional level continue to exist limitations as: lack of established adequate clearing infrastructure which incapacitates the development of derivative market in Bulgaria; the deliberately retarded process for integration of the central securities depository to the European settlement infrastructures; the appreciable differences of the Bulgarian capital market as regards the developed European markets, the lack of political will for reforms of the capital market of Bulgaria etc.

The successful removal of these barriers is contingent on the leading role of market stimuli and forces through an adequate evaluation of expected costs and benefits. The institutional structures are called upon to eliminate the still remaining legal, tax, regulatory and other limitations in front of the capital market and to execute an ongoing monitoring over the market and its participants in view of preserving financial stability and prevention of systemic risks.

The status of a public entity of the Bulgarian Stok Exchange (BulSE) is part of the strategy of the exchange for its development, raising the transparency in its operation and last but not least for further provision of market liquidity. This process is in accord with the tendencies in Western Europe for transformation of stock exchanges in public shareholding entities mainly along the lines of their privatizations. The increased state share from 44 % to 50 % plus one share aims at blocking attempts from hostile takeover of the stock exchange. The public flotation of the shares of BulSE is driven by an incentive for raising transparency and enhancing liquidity of its own shares. The prospective strategic alliance of BulSE with foreign-owned stock exchange can be expected to lead to improved public wellbeing and raised consumer surplus in the long run in accordance with the public well-being theory.

The comparative economic analysis of some CEE stock exchanges undertaken in the report gives some grounds for assumptions about the attainment of the strategic priorities of the Bulgarian capital market.

The eventual merger of the BulSE into a leading exchange operator or exchange alliance presently would not be conductive to the achievement of full benefits from such consolidation given the outlined restrictions and barriers on micro- and institutional level above. A concrete example in this regard is the Ljubljana stock exchange (which is the most appropriate for comparative purposes with the BulSE as per market capitalization and level of capital market development). The Ljubljana stock exchange has been a subsidiary of CEESEG AG since 2008. For three years following its merger it has managed to attract five remote access members (who generate about 10 % from total turnovers trade) and to introduce the common electronic trade systems Xetra (which has been implemented at the Bulgarian capital market since 2008). Irrespective of the heightened visibility of the Slovenian capital market, it remains limited in size, insufficiently developed and diversified, without available IPOs and just one issue of structured products for 2011.

An indicative conclusion from the comparative analysis of the CEE stock exchanges is that Czech Republic and Hungary manage to derive significantly higher benefits from their integration into CEESEG AG due to the fact that they enter into the merger well-prepared, on the basis of established competitive advantages along product innovation and diversification line, similar level of financial development and gradual harmonization of trade infrastructures.

The successful attainment of the strategic objectives of the capital market of Bulgaria for deeper integration into EU capital markets requires introduction of innovative financial instruments in the short to medium term, boosting liquidity and improving the trade terms and the market infrastructures.

The organization of cash market for innovative financial instruments points toward a potential for cooperation between BulSE and the Sofia Commodity Exchange (as in the case of the Budapest stock exchange) which can develop procedures for trade in financial instruments based on commodities. The clearing services for the cash market can be effected through updating the information systems of the central securities depository (or via the establishment of a clearing house as not-for-profit organization owned by the members of the two exchanges as is the general European practice, or eventually through outsourcing clearing services on the basis of a thorough cost-benefits analysis). The cash market should set capital requirements to the clearing members who will be guarantors that their customers will timely fulfill their settlement obligations, including through granting intra-day credit (in cash or securities). The clearing members should have possibilities to offer cash settlement on T+0 basis (at the value day of the respective transaction) or on the next day (T+1), which is important for raising liquidity.

A factor of paramount importance for the effective functioning of the capital market is raising liquidity, lowering transaction costs, stimulating trades through alternative trading systems and attraction of retail investors. Main customers of multifunctional alternative trade systems could be institutional investors, which are not directly allowed to trade on the exchange. The effectively functioning stock exchange can be considered as a public good. The stock exchange generates profits from increasing the volume of trades, which depends on the quality of offered services and the established exchange reputation.

The boost of liquidity on the primary market (where in 2011 there is not a single IPO) is crucially dependent on reviving of liquidity on the secondary market chiefly along the line of encouraging trade of retail and mutual funds. Market liquidity requires also increasing the percentage of free float and adjusting the levels of transaction fees according to the volume of executed transactions. It is also important to preserve the zero tax on capital gains arising from exchange trades and eventual possibilities for introducing other tax preferences for exchange trades.

An important aspect in attracting new issuers and investors is the scheduled placements of states shares for privatizations (for example through listing of residual shares of the electrical distribution companies) through the stock exchange. The activities of the pension funds in the country is also of importance since they are the only institutional investors given the low level of intensity of mutual funds on the capital market. Irrespective of the fact that the pension funds are predetermining investors on the capital market, their investment opportunities are limited due to the existence of legal restrictions. The share of their investments in equities declines while that of investments in benchmark foreign securities is on the rise. The only way to give an impetus to their activities on the capital market is through transforming the pension funds into public companies in order for them to act strategically for the development of the capital market in Bulgaria. An indicative is the example of the pension funds in Poland which invest on average over 30 % of their assets under management in shares at the Warsaw stock exchange.

The boost of investment interest into the Bulgarian capital market also requires an increase in the activities of the BulSE regarding organization of local and international roadshows, seeking the viewpoint of investors, providing regular for a for seminars, training courses to the members of the exchange and the investment community as per the examples of the Ljubljana stock exchanges.

Another possibility for attracting investors is the exchange to organize a niche market for trade in shares of innovative SMEs similar to the OTC START market maintained by the Prague stock exchange. A preliminary condition for this option is the country to encourage financing of SMEs through various venture capital forms. As a part of the common EU market Bulgaria is dependent on the ongoing processes of economic recovery as per Strategy “Europe 2020” through traditional and innovative forms of investments in venture capital. The complexity of the existing financial and economic conditions in the crisis and postcrisis periods has lead to a restricted access of SMEs to bank lending which presuppose evaluation of venture capital investments with the view of the further development of the capital market in Bulgaria.

Last but not least the attraction of foreign investment companies back to the Bulgarian capital market requires an entire improvement in the conditions of the business environment. This includes reducing the administrative burden and red tape, simplification the rules for acquisition of public companies etc. Such obstacles to economic activities sharply worsen the effectiveness of the capital market. An important indicator in this regard is the control over corruption. The high levels of corruption hamper private investors from exercising their rights through the court.

The potential model for the future development of the Bulgarian capital market passes along an evolutionary organic overcoming of its intrinsic limitations through various forms of regional integration (based on cooperation agreements for direct access to clearing and depository institutions) to subsequent merging into pan-european horizontal clearing and depository institutions. Main prerequisite for the success of such an integration model is the high degree of legislative harmonization of the EU member-states and the potential for implementation of unified market practices, exchange trade systems, quotation rules, clearing and settlement processes.

The expected positive external effects from these integration processes among CEE could be along the lines of economies of scales due to the links interoperability – compatibility – coordination, decrease in the market uncertainties, boost in liquidity and the depth of the capital markets. The development of future trans-european capital market would raise effectiveness of supervision and coordination for preservation of financial stability within EU and on a global scale.

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