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CURRENT STATE AND PROBLEMS OF FUNCTIONING OF THE STOCK EXCHANGE IN BULGARIA

Seysebayeva N.H., Fedorets A.O.

Zaporizhzhia National University

Ukraine, 69600, Zaporizhzhia, 66 Zhukovsky St.

ngs19570104@gmail.com, alina.fedorets72@gmail.com

ORCID: 0000-0002-6496-2554

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The article is devoted to the study of the peculiarities of the stock exchange in Bulgaria, the actual issue of the stock exchange development in the context of the global crisis and the war between Ukraine and Russia. The stock market is an integral and important component of the financial system of the modern market economy. The most important prerequisite for its sustainable development and effective functioning is a favorable economic situation in the country, an extensive network of stock exchanges and a high degree of confidence in exchange instruments on the part of companies and the population. The article investigates and analyzes the current trends of the stock exchange in Bulgaria, as well as its further development and prospects. Securities trading in Bulgaria is a relatively young sphere and the number of market participants is still growing. Therefore, it is quite appropriate and relevant to consider the problems and prospects for the development of this type of trade in Bulgaria. The article defines the turnover of the markets organized by the Bulgarian Stock Exchange, their features and the number of users. The essence of the concept of "Regulated Market" and the history of its origin in Bulgaria are considered. The main indices on the Bulgarian Stock Exchange and the functions of the regulated market in the country are indicated. The main problems of securities trading are identified, including the war in Ukraine, supply chain problems caused by the COVID-19 pandemic. The movement of indices in the analyzed period is determined and substantiated. The vector of development and further actions of the Bulgarian Stock Exchange are indicated. Conclusions are drawn on the existence of a regulated market in Bulgaria, on trends in securities trading in 2022.

СУЧАСНИЙ СТАН ТА ПРОБЛЕМИ ФУНКЦІОНУВАННЯ ФОНДОВОЇ БІРЖІ В БОЛГАРІЇ

Сейсебасва Н.Г., Федорець А.О.

Запорізький національний університет

Україна, 69600, м. Запоріжжя, вул. Жуковського, 66

Ключові слова:

фондова біржа, Болгарія, індекс, регульований ринок, тенденції, ринок капіталу

Стаття присвячена дослідженню особливостей біржі в Болгарії, актуальному питанню розвитку фондової біржі в умовах світової кризи та війни України з Росією. Фондовий ринок є невід'ємною та важливою складовою фінансової системи сучасної ринкової економіки. Найважливішою передумовою його сталого розвитку та ефективного функціонування є сприятлива економічна ситуація в країні, розгалужена мережа фондових бірж та високий ступінь довіри до біржових інструментів з боку компаній та населення. В статті досліджено та проаналізовано сучасні тенденції фондової біржі в Болгарії, а також її подальший розвиток та перспективи. Торгівля цінними паперами в Болгарії відносно молода сфера та кількість учасників ринку, ще буде зростати. Тому досить доцільно та актуально розглянути проблеми та перспективи розвитку такого виду торгівлі в Болгарії. В статті визначено оборот ринків, організованих Болгарською Фондовою Біржею, їх особливості та кількість користувачів. Розглянуто сутність поняття "Регульованого ринку" та історію його виникнення в Болгарії. Зазначені основні індекси на Болгарській фондовій біржі та функції регульованого ринку в країні. Виявлено основні проблеми торгівлі цінними паперами, серед яких війна в Україні, проблеми з ланцюгами постачання, спричинені пандемією

COVID-19. Визначено та обґрунтовано рух індексів в аналізованій період. Зазначено вектор розвитку та подальші дії Болгарської Фондової Біржі. Зроблено висновки щодо існування регульованого ринку в Болгарії, про тенденції торгівлі цінними паперами в 2022 році.

Problem formulation

The stock market is an integral and important element of the financial system of a modern market economy. The main prerequisite for its sustainable development and effective functioning is a favorable economic situation in the country, a widespread network of stock exchanges, and a high level of confidence of enterprises and the population in stock market instruments. However, nowadays in Bulgaria, as well as in the whole world, the financial market is functioning in an unstable condition due to financial and political factors, the war in Ukraine, as well as low activity of market participants.

Analysis of latest research and publications

The scientific sphere of interests of such Bulgarian economists as Y. Yordanov, S. Simeonov, B. Lomev, I. Ivanov, B. Bogdanova, and others is the study of the peculiarities of the formation, development, and functioning of the Bulgarian stock market. However, given the current state of the stock market in the world, the issues of assessing the current state and finding problems that hinder the functioning of the stock market and ways to solve them, taking into account the factors of the market environment, are relevant and require further research.

Goals formulation

The purpose of the article is to analyze the main trends in the development of the capital market and to study the main risks and uncertainties faced by the Exchange.

Outline of the main material of the research

The Bulgarian Stock Exchange (BSE) is a joint stock company licensed by the State Commission for Securities and Stock Market (currently these regulatory functions are under the jurisdiction of the Financial Supervision Commission) to operate a stock exchange in the country. The authorized capital of the company itself is BGN 6.5 million.

According to Bulgarian legislation, a Regulated Market is a multilateral system organized and/or operated by a market operator that satisfies or facilitates the interests of third parties in the purchase and sale of financial instruments through the system and by its non-discretionary rules in a manner that leads to the conclusion of a contract in respect of financial instruments admitted to trading under its rules and/or systems, licensed and operating regularly per the requirements of the law and regulations [5].

The Bulgarian capital market emerged at the beginning of the 20th century. The first Stock Exchange Act was adopted in 1907 and regulated the structure and activities of stock and commodity exchanges in the country. The Sofia Stock Exchange started its real activity in January 1918, initially trading shares of 21 companies. In 1947 the Sofia Stock Exchange was liquidated by law. The

Bulgarian capital market resumed its existence with the adoption of the Commercial Act in 1991. The Bulgarian Stock Exchange in its present form was established in 1995 after the merger of the Plovdiv Stock Exchange, the Black Sea Stock Exchange, the Danube Stock Exchange, and the Sever Stock Exchange with the First Bulgarian Stock Exchange (founded in 1991) [1].

Over the years, several indices have been created on the Bulgarian Stock Exchange, and today there are four of them:

- SOFIX – the first index on the BSE was launched in 2000 and reflects the current total capitalization of the listed companies compared to the previous day;
- BG40 – started to be tracked five years later and includes share issues of the 40 most traded companies on the BSE for the last six months;
- BGREIT – reflects the market capitalization of real estate companies;
- BGTR30 – includes shares of 30 companies and reflects their dynamics, while each of the represented companies has equal weight for the index.

The main aspiration of the BSE for investors is to ensure equal access to market information and equal conditions for participation in securities trading, and for Bulgarian businesses – to establish the stock exchange as a key instrument in the economy in search of sources of financing.

To invest in shares of a Bulgarian company, the latter must be listed on the BSE. Each stock exchange, including the BSE, has an administrative address, but today the markets are interconnected not by physical location, but by electronic networks that allow investors to conduct transactions entirely online, increasing the speed of trading and reducing the cost of buying and selling securities.

Demand and supply on the BSE, as on all stock exchanges, are formed under the influence of many different factors, which, as on all other free markets, affect the price of shares.

As a rule, not all transactions on the BSE necessarily take place on the exchange. Some trades take place on the so-called “over-the-counter market”, which is often used for registration of pre-arranged deals, tender offer deals, repo transactions, etc.

In any case, according to Bulgarian legislation, the regulated market must implement appropriate measures and procedures:

1. Identification, prevention, and termination of possible negative consequences for the regulated market or its members or participants arising from conflicts of interest and, in particular, when they may impede the proper performance of the regulated market functions on the one hand and the interests of the market operator, respectively the regulated market, on the other hand.

2. Management of risks related to the functioning of the regulated market, identification of significant risks

for the proper functioning of the regulated market, and mitigation of these risks.

3. Ensuring proper management of technical operations of the regulated market system, including taking effective measures to manage the risk of system failure.

4. Establishing transparent and non-discretionary rules to ensure fair and orderly trading and objective criteria for the efficient execution of orders to conclude transactions in financial instruments.

5. Ensuring efficient and timely settlement of transactions concluded on the regulated market.

6. Detection and prevention of manipulation of the financial instruments market [5].

For the period January 2022 – October 2022, the turnover of the Bulgarian Stock Exchange (BSE) increased by 75.84 percent compared to the same period in 2021 and reached BGN 754 million. The change in the number of transactions for the period from January 2022 to October 2022 compared to the same period of the previous year is an increase of almost 42 percent.

Having analyzed the 3rd quarter of 2022, we can note that the turnover of the markets organized by the BSE in the third quarter of 2022 amounted to BGN 177.001.948. This compares to BGN 141.449.233 in the third quarter of 2021, representing an increase of 25 %. This is mainly due to an increase in the turnover of the BSE by almost 19 times. An increase of 5 % was observed in the main market and a drop of 36 % in the alternative market. The lowest turnover was in September – BGN 55 million, and the highest – in July – BGN 66 million.

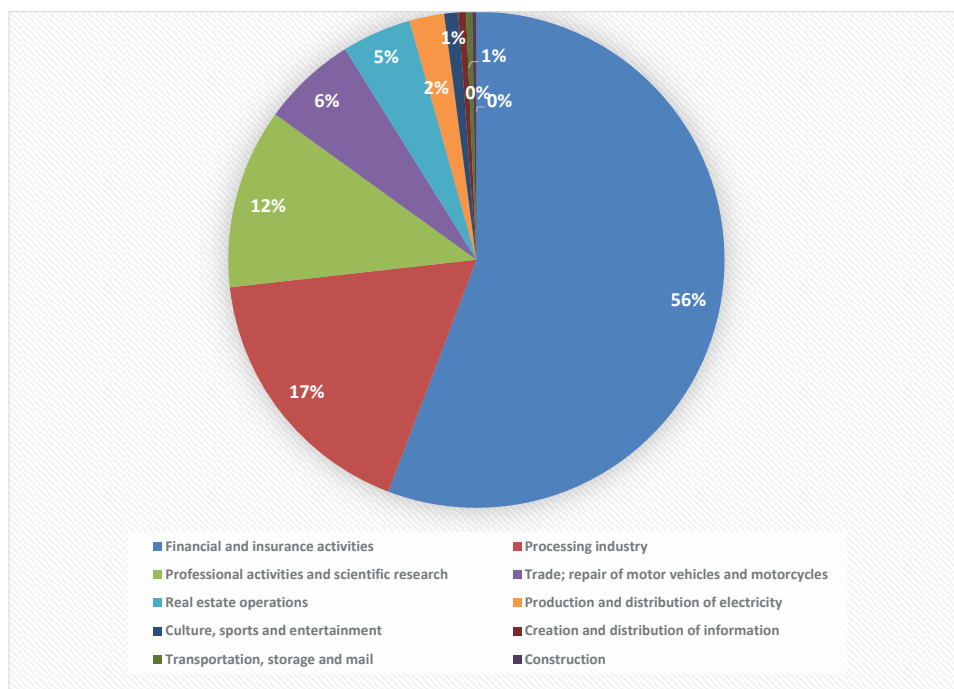
In the third quarter of 2022, the “Financial and insurance activities” sector traditionally ranks first in the ranking with BGN 63 million (in Q3 2021 – BGN 92 million) and accounts for 56 % of the total turnover. As can be seen from the table below, the ranking is followed by the “Manufacturing” sector with a share of 17 % and the “Professional activities and scientific research” sector with a share of 12 % of the total turnover for the quarter.

The sector “Trade; repair of motor vehicles and motorcycles” ranks fourth with a turnover of BGN 7 million and 6 % of the total turnover.

Table 1

Sector	Make deals	Traded lots	Turnover (BGN)
Financial and insurance activities	9549	15 474 320	62 627 040
Processing industry	3258	3 595 388	19 586 493
Professional activities and scientific research	2572	2 241 773	13 179 254
Trade; repair of motor vehicles and motorcycles	825	1 671 715	6 917 782
Real estate operations	257	468 629	5 085 633
Production and distribution of electricity and thermal energy and gaseous fuels	41	1 125 923	2 542 148
Culture, sports and leisure	588	60 756	1 030 282
Creation and dissemination of information and creative products; telecommunications	38	256 098	559 594
Transportation, storage and mail	94	34 234	442 939
Construction	52	41 501	306 710

Source: [2]



Source: [2]

The fifth place in the ranking is occupied by the “Real estate operations” sector with a turnover of BGN 5 million and a share of 5 % of the total turnover.

Considering new issuers, retired issues, and capital increases, it can be noted that in Q3 2022 the number of new issues of financial instruments admitted to trading was 5, compared to 102 in the corresponding quarter of 2021 (due to the inclusion of BSE International). The new issues included one equity issue on the standard market, two bond issues, and one exchange-traded product issue.

Six issues were deregistered, including one bond issue, one government securities issue, two share issues on the Main Market, and two share issues on the BSE. This compares to 12 issues of financial instruments that were deregistered in the corresponding quarter of 2021. Four companies increased their capital in the reporting quarter.

However, the military conflict between Russia and Ukraine, which is causing turmoil in the world’s leading financial markets, and supply chain problems caused by the COVID-19 pandemic, are exacerbating the problem. Economic sanctions against the Russian Federation have been imposed by the European Union, the United States, and other countries. This conflict and related economic sanctions affect both the local economies of individual countries and the global economy, leading to a significant increase in oil, gas, and other raw materials prices, as well as increased inflation at the global level, which is undoubtedly reflected in the levels of indices.

The graphs below show that the movement of the indices was similar, only BGREIT changed in a different form due to the type of companies that make up the index.

The BGBX40 decreased the most in percentage terms – by 4.95 % (7.13 points). BGTR30 decreased by 3.93 % (29.08 points), and the value of the SOFIX index decreased by 4.14 % (25.35 points). The BGREIT index decreased by 0.99 % (1.78 points) during this period.

Despite these upheavals, we can note that the Bulgarian Stock Exchange (BSE) in autumn announced a partnership with one of the world’s leading providers of data and infrastructure for financial markets – Refinitiv, a member of the London Stock Exchange group. Refinitiv will manage and provide data on the sustainable performance of Bulgarian public companies. This data, in the form of ratings, will be used to select companies for inclusion in the future BSE ESG Index, the methodology of which is to be adopted by the end of 2022.

BSE also allows Bulgarian public companies to provide their ESG data through Oxygen, a dedicated digital platform recently introduced by Financial Market Services, a subsidiary of the Exchange.

In 2020, Refinitiv will debut Fund ESG Scores to help drive the industry’s transition to sustainable investing. The Refinitiv Deals Intelligence Sustainable Finance League Table Rankings is the first and only ranking to combine both sustainable products

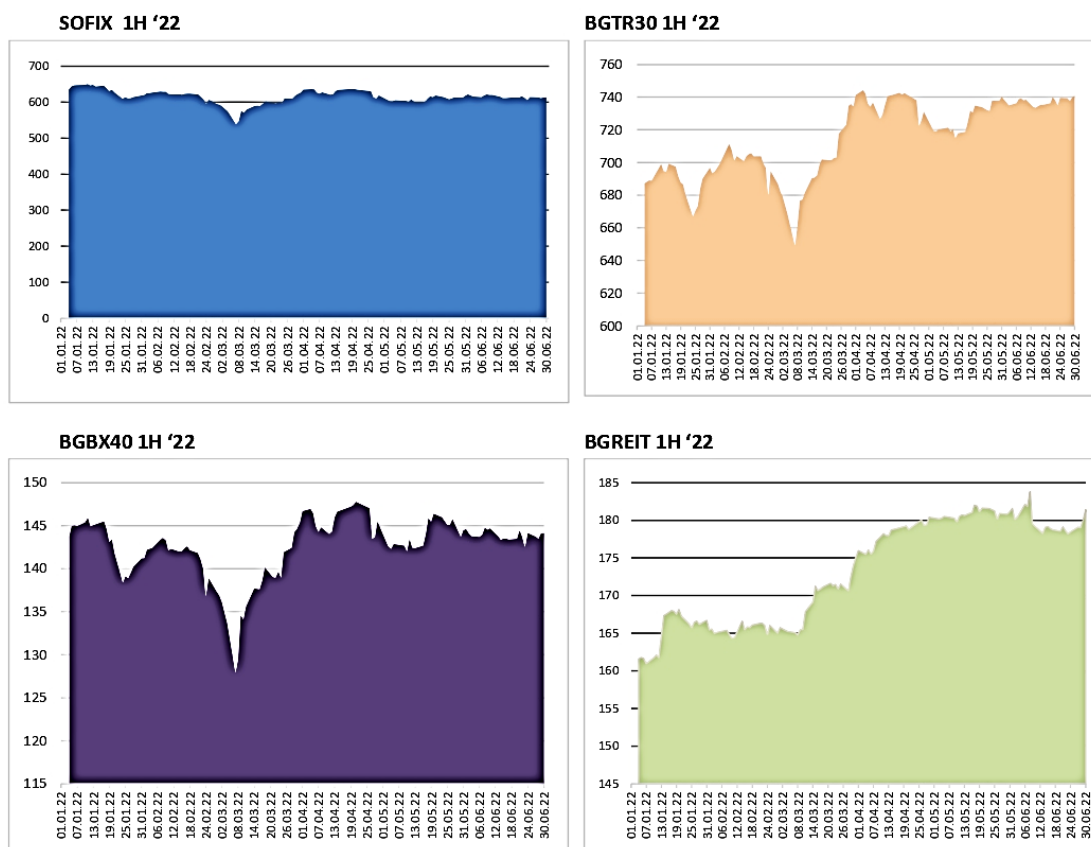


Fig. 1.

Source: [2]

and sustainable companies, resulting in the most comprehensive sustainability ranking known to the market. As a member of the United Nations Global Compact, Refinitiv is part of a community of more than 9.000 companies in 135 countries that are committed to responsible business practices.

This event is important in the Bulgarian stock market, as an important priority of the BSE is to expand international contacts and relations with other exchange institutions and organizations at regional, European and global levels. BSE is a full member of the Federation of European Stock Exchanges (FESE).

In November 2020, the Bulgarian Stock Exchange was admitted to the United Nations Sustainable Stock Exchanges Initiative (UN SSE). It is a United Nations partnership program organized by UNCTAD, the UN Global Compact, UNEP FI, and PRI. The vision of UN SSE is to provide a global platform for exploring how stock exchanges, in collaboration with investors, companies (issuers), regulators, policymakers, and relevant international organizations, can improve their ESG (environmental, social, and corporate governance) performance by promoting sustainable investment, including financing within the framework of the UN Sustainable Development Goals. The organization seeks to realize this vision through a comprehensive program of evidence-based policy analysis, managing a multi-stakeholder network and consensus-building forum, and providing technical assistance and advice.

Conclusions

In summary, the Bulgarian Stock Exchange – Sofia AD (BSE) is a public company that provides banks, investment intermediaries, management companies, pension, and insurance companies, and other companies or individual investors with the opportunity to buy or sell shares of listed joint stock companies, special purpose entities, investment funds, bonds, compensation instruments, and other less popular financial instruments. The main functions of the BSE are:

- Raising capital for business.
- Converting savings of the population into investments.
- Promoting business growth.
- Distribution of business profits.
- Improvement of corporate governance.
- Creating investment opportunities for small investors.
- Barometer of the economy.

In the structure of trading on the BSE, the largest share is occupied by the turnover of the Standard Equity segment – 49.11 % (BGN 30.91 million), followed by the share of turnover of the Alternative Market Equity segment – 20.44 % (BGN 12.87 million) and the MTF BSE International segment – 18.31 % (BGN 15.52 million).

In October, BSE indices showed mixed and weak changes compared to the previous month. The blue-chip indices SOFIX and BGTR30 were up 0.40 percent and 0.04 percent, respectively. The broad benchmark index BGBX40 and the sectoral index BGREIT were down 0.21 percent and 0.60 percent, respectively, year-on-year.

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