

**THE COVID 19 CRISIS: SYMPTOMS ON THE ROMANIAN  
CAPITAL MARKET  
HOW THE COVID 19 PANDEMIC AFFECTED THE FINANCIAL  
PERFORMANCE OF COMPANIES LISTED ON BUCHAREST  
STOCK EXCHANGE**

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***Abstract***

*Beginning in the first days of 2020 the COVID pandemic spread rapidly worldwide, severely contaminating all areas. Among the first affected were the world capital markets. This paper analyses the way the COVID generated crisis has affected financial performance of companies listed on Bucharest Stock Exchange, main market, during the first pandemic year.*

***Keywords:*** *Financial performance, Bucharest Stock Exchange*

***JEL classification:*** *G01, G10*

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**1. Introduction**

According to the International Monetary Fund, the crisis generated by COVID-19 was estimated to have a more severe impact than estimated in April 2020, when the expected growth of more than 3 percent globally has shifted to a sharp contraction of 3 percent, a stronger impact than that of global financial crisis 2008-2009. Global growth was projected in June 2020, at 1.9 percentage points below the April 2020 World Economic Outlook (IMF 2020) forecast. According to World Bank projections the COVID-19 global recession will be the fourth deepest since 1870 and the most severe since the end of World War I (World Bank 2020).

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Among the first affected were the world capital markets. Financial markets had been extremely volatile, reflecting exceptionally high uncertainty and the worsening outlook. Stock markets record the fastest decline in history. America's S&P500 Index dropped by 11 percent, and S&P 500 by 8.6 percent. In Europa, during February 2020, DAX Index in Germany fell by 10.2 percent, CAC 40 Index, in France went down by 11.2 percent, FTSE 100 Index in UK tumbled 12.7%. (bvb)

Early global studies, usually covering the 1<sup>st</sup> quarter of 2020, have shown that in 100 days, almost 30% of wealth has eroded off stock markets globally (Moshin, 2020). COVID-19 pandemic has been shown to have a significant impact on financial markets in the USA and China, with a positive significant relationship between the COVID - 19 confirmed cases and all the financial markets (Sansa 2020). During the 1<sup>st</sup> quarter of 2020, all the main indices of the stock markets within the European Union went into the red, as the coronavirus pandemic spreads, leading to slowdowns or shutdowns in most areas and countries. By the end of March 2020, the main indices mentioned above registered decreases higher than in February: -25% for DAX (Germany), -26% for CAC 40 (France), -27% for FTSE MIB (Italy), -29% for IBEX 35 (Spain). Central and Eastern European markets went down by 28% in Hungary, by 30% in Poland and by 23.6% in Romania. (bvb)

The Romanian stock market started 2020 with a slight at the end January 2020, as the BET index, after fluctuated around the 10,000-point mark, traded half-percentage point higher, the highest level in the last 12 years (bvb). Despite these positive developments, the effect COVID-19 crisis has made the BET index to drop by 23.6% at the end of the first quarter. (bvb)

Along with the quarantine measures, stimulus package and supporting economic measures were introduced in all most affected areas, both nationally and worldwide. However, volatility in financial markets remained high, most of the main indices of the EU stock exchanges remained into the red in the first half of the 2020. Considering the evolution of the main indices at the end of the first semester, Romania's BET index rank 9<sup>th</sup> within the EU, amounted to 8,659 points (-13.21%). (bvb)

After the problems faced in the first half of 2020 due to COVID crises, the companies listed on BVB had slowly recovered. Starting with September 21, Romania was promoted to the status of Emerging Market according to the classification of the global index provider FTSE Russell, which had immediate effects on the Bucharest Stock Exchange, the average

daily liquidity increasing by 3.5 times in September 2020, compared to the values of August 2020 or September 2019. (bvb)

The positive trend continued in the first half of 2021, in the first six months being listed at Bucharest Stock Exchange shares and bonds with a total value of over EUR 700 million. In June, BET index reached an all-time high of 11,967 points, and the BET-TR index a historical record of 20,784 points. All Bucharest Stock Exchange indices ended the first half of 2021 with positive values.

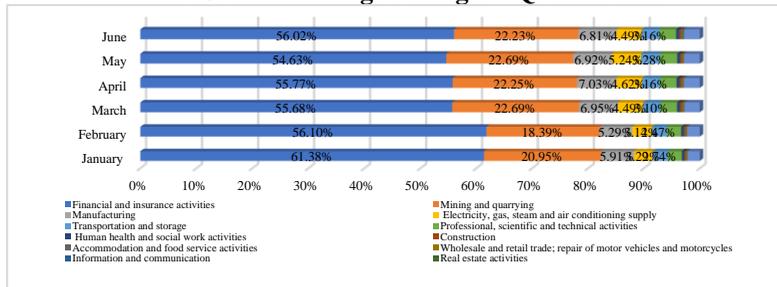
## **2. The financial performance of companies listed on Romanian Capital Market, during the COVID 19 pandemic**

On Bucharest Stock Exchange, companies are traded on two markets, the Main Market, for mature and strongest companies and AeRO, where start-ups and SMEs are traded. For the present study, only the companies traded on the main market were selected. Considering their activity fields, this companies are acting in the following domains: Financial and insurance activities, Mining and quarrying, Manufacturing, Electricity, gas, steam and air conditioning supply, Transportation and storage, Professional, scientific and technical activities, Human health and social work activities, Construction Accommodation and food service activities, Wholesale and retail trade; repair of motor vehicles and motorcycles, Real estate activities and Other.

In order to analyze the way the COVID-19 generated crisis affected the financial performance of the Romanian listed companies, the financial performance, registered at the level of the 2<sup>nd</sup> Quarter for the last 6 years was compared. The second Quarter was considered, as the first case of COVID-19 was reported in Romania at the end of February. Therefore, the impact of the health and economic crisis cannot be considered significant at the level of the financial reports related to the 1<sup>st</sup> Quarter 2020. Furthermore, the state of emergency and quarantine was instituted in Romania during March-May 2020, thus the significantly reduce of activity severely impacted the performance at the level of the second Quarter 2020.

In the first half of 2020, companies with activity in fields of Financial and insurance activities, Mining and quarrying and Manufacturing, represented, cumulatively, over 80% of the Bucharest Stock Exchange capitalization, thus being considered representative of the main sector of the BSE and chosen to be analysed.

**Figure 1: The share of each sector in the total stock market capitalization on Bucharest Stock Exchange during 2<sup>nd</sup> Quarter 2020**



Source: Own processing

Considering the heterogeneity of the activity fields of the analyzed companies, the financial performance was analysed for the companies with activity in the fields that represented, cumulatively, over 80% of the Bucharest Stock Exchange capitalization, taking in consideration the net result, registered in the 2<sup>nd</sup> Quarter of each year, during 2016-2021

Therefore, the analysed companies are presented in Table No.1. In Financial and insurance activities 13 companies are acting, together achieving over 55% of the Bucharest Stock Exchange capitalization during 2<sup>nd</sup> Quarter 2020. In Mining and quarrying domains are acting only 4 companies, but these together achieved over 20% of the Bucharest Stock Exchange capitalization during 2<sup>nd</sup> Quarter 2020. In Manufacturing domain are acting 40 companies, but these together achieved only 6% of the Bucharest Stock Exchange capitalization during 2<sup>nd</sup> Quarter 2020. Most of the analysed companies are part of the representative indices of Bucharest Stock Exchange, so their performance will significantly affect the performance of Bucharest Stock Exchange.

**Table 1: Companies listed and traded on Bucharest Stock Exchange, Main Market, acting in Financial and insurance activities and Mining and quarrying domains**

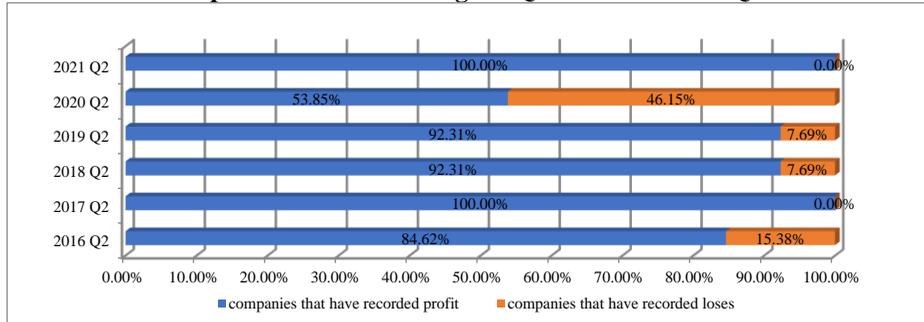
DOMAIN	COMPANIES
<b>Financial and insurance activities</b>	SSIF BRK FINANCIAL GROUP SA, ERSTE GROUP BANK AG, BRD GROUPE SOCIETE GENERALE S.A, BANCA TRANSILVANIA S.A., PATRIA BANK S.A., BURSA DE VALORI BUCURESTI SA, SIF BANAT CRISANA S.A., S.A., SIF TRANSILVANIA S.A., SIF MUNTENIA S.A., SIF OLTENIA S.A., FONDUL PROPRIETATEA

<b>Mining and quarrying</b>	ROMPETROL WELL SERVICES S.A., DAFORA SA, S.N.G.N. ROMGAZ S.A., OMV PETROM S.A.
<b>Manufacturing</b>	BERMAS S.A., CONTED SA, VRANCART SA, ROMPETROL RAFINARE S.A., SINTEZA S.A., ANTIBIOTICE S.A., BIOFARM S.A., ZENTIVA S.A., ARTEGO SA, TERAPLAST SA, ROMCARBON SA, PROMATERIS S.A., CEMACON SA, PREBET SA AIUD, PREFAB SA, COMCM SA CONSTANTA, CARBOCHIM S.A., COS TARGOVISTE S.A., ALRO S.A., VES SA, ELECTROMAGNETICA SA, MECANICA FINA SA, ELECTROPUTERE S.A., RETRASIB SA, GRUPUL INDUSTRIAL ELECTROCONTACT S.A., ELECTROAPARATAJ S.A., ROMCAB SA, ELECTROARGES SA, UCM RESITA S.A., ARMATURA S.A., MECANICA CEHLAU, COMELF S.A., UZTEL S.A., ALTUR S.A., COMPA S. A., UAMT S.A., SANTIERUL NAVAL ORSOVA S.A., AEROSTAR S.A., IAR SA BRASOV, TURBOMECANICA S.A.

The evolution of the net profit was analysed separately for each of the three domains, considering that, due to the specificity of their activities, the companies were affected differently by the COVID crisis.

The evolution of the net profit for Financial and insurance activities domain are presented in Figure no. 2.

**Figure 2: Financial and insurance activities. The evolution of the companies that recorded net profit and losses during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

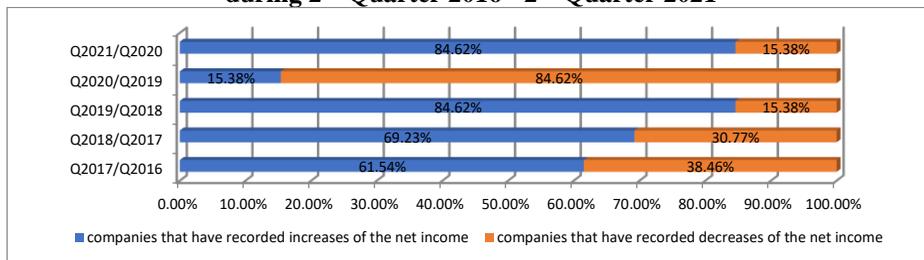


Source: Own processing

If before 2020 more than 85% of companies acting in financial and insurance activities field registered a profit in each 2<sup>nd</sup> Quarter before 2020, this share was reduced by half in 2<sup>nd</sup> Quarter 2020, only 53% of them managing to maintain their performance during COVID crises. Fortunately, after 2<sup>nd</sup> Quarter 2020, all the companies rebounded and recorded profit in 2<sup>nd</sup> Quarter 2021.

Regarding the level of profit, in Figure no.3 are presented the weights of the companies that managed to obtain a higher level of the net profit in each current period, compared to the previous period.

**Figure 3: Financial and insurance activities. The evolution of the companies that recorded increases and decreases of the net income, during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

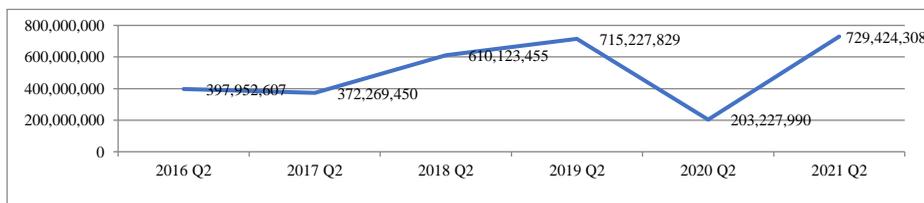


Source: Own processing

85% of analysed companies, acting in Financial and insurance activities domain, recorded decreases in net profit in 2<sup>nd</sup> Quarter 2020 compared to 2<sup>nd</sup> quarter 2019. This is unprecedented situation, considering the largest share of companies that recorded decreases in the current year, compared to the previous year. In the previous 4 years, this share was under 35%, and improving. In 2<sup>nd</sup> Quarter 2021, for this domain, the ability to make a profit higher than the previous year returned to the pre COVID crisis level.

The evolution of the average net profit, for Financial and insurance activities domain is presented in figures 4.

**Figure 4: Financial and insurance activities. The evolution of the average net result recorded during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

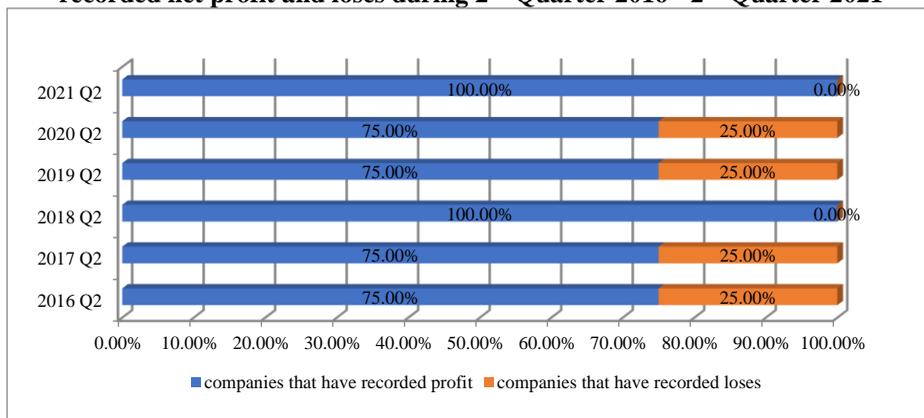


Source: Own processing

The average level of net profit recorded in 2<sup>nd</sup> Quarter 2020 was the lowest level of the 6 years analysed. The average net result level in 2<sup>nd</sup> Quarter 2020 is only 28% of the previous year. But in the following period, the average net profit registers a significant increase, of 3, 58 times.

The evolution of the net profit, for Mining and quarrying activities domain are presented in figures 5.

**Figure 5: Mining and quarrying activities. The evolution of the companies that recorded net profit and losses during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

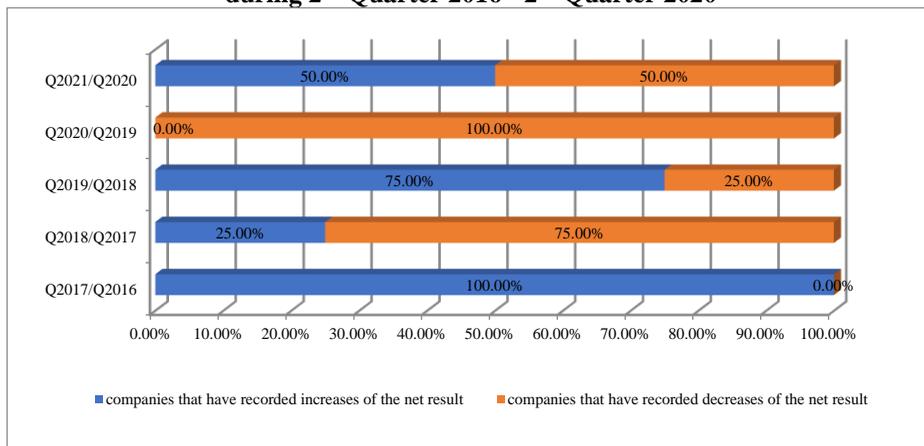


Source: Own processing

Before 2<sup>nd</sup> Quarter 2020, between 75% and 100% of companies acting in Mining and quarrying activities domain registered profit in each 2<sup>nd</sup> Quarter, with the largest share of these companies reached in 2<sup>nd</sup> Quarter 2018. This share wasn't significantly fall in 2<sup>nd</sup> Quarter 2020, only 75% of them managing to maintain their performance during COVID crises, at the same level as previous period. Fortunately, after one year, all the companies rebounded and made a profit in 2<sup>nd</sup> Quarter 2021.

Regarding the level of profit, in Figure no 6 are analysed the way the companies managed to obtain a higher level of the net profit in each current period, compared to the previous period.

**Figure 6: Mining and quarrying activities. The evolution of the companies that recorded increases and decreases of the net income, during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2020**

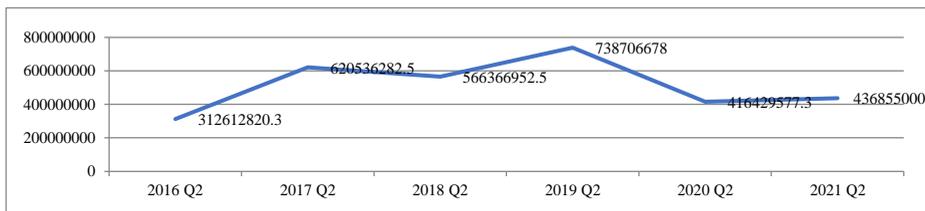


Source: Own processing

In the Mining and quarrying field, the situation is similar to the Financial and insurance activities, but in Mining and quarrying, all analysed companies, recorded decreases in net profit in 2<sup>nd</sup> Quarter 2020 compared to 2<sup>nd</sup> Quarter 2019. This situation has been encountered before, in 2<sup>nd</sup> Quarter 2018 compared to 2<sup>nd</sup> Quarter 2017, without being related to the COVID-19 crisis. In Mining and quarrying field, companies have production activity, which in 2<sup>nd</sup> Quarter 2020 was significantly affected by lockdown and quarantine, sanitary measures that had a strong impact on production and sales in 2<sup>nd</sup> quarter 2020, and furthermore, in profitability. In 2<sup>nd</sup> Quarter 2021, only half of the analysed companies managed to obtain a higher level of net profit than in the previous period, the activity being still affected by the limitation of physical activities, the quarantine settled in the 4<sup>th</sup> Quarter 2020 and the problems regarding transport and fuels.

The evolution of the average net result, for Mining and quarrying activities is presented in figures 7.

**Figure 7: Mining and quarrying activities. The evolution of the average net result recorded during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

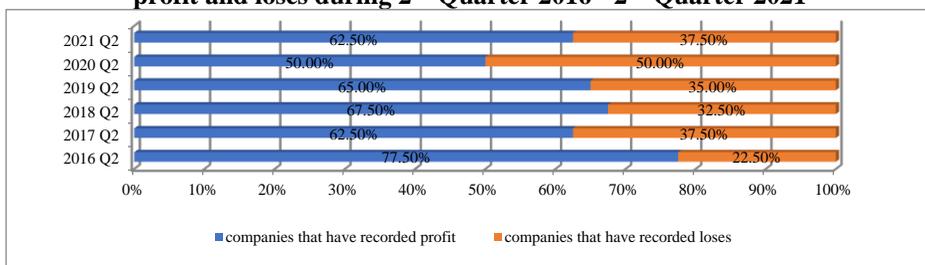


Source: Own processing

The average annual level of net profit recorded in 2<sup>nd</sup> Quarter 2020 represented the lowest level of the last 5 years, considering the value obtained in 2<sup>nd</sup> Quarter 2016 below this level. The decrease of the average net profit in Mining and quarrying domain was lower than in the financial field, the average net profit recorded in 2<sup>nd</sup> Quarter 2020 representing 56% from the level recorded in previous period. Also, the growth of average net profit recorded in 2<sup>nd</sup> Quarter 2021 was lower in Mining and quarrying domain than in the financial field, only 1.4 times

The evolution of the net profit, for Manufacturing domain is presented in figures 8.

**Figure 8: Manufacturing. The evolution of the companies that recorded net profit and losses during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**



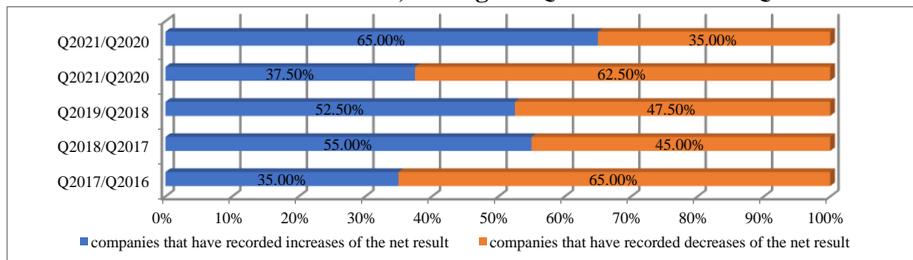
Source: Own processing

Before 2<sup>nd</sup> Quarter 2020, between 62% and 77% of companies acting in Manufacturing domain registered profit in each 2<sup>nd</sup> Quarter, the lowest weight so far. This share fall in 2<sup>nd</sup> Quarter 2020 to 50%, the lowest level in

the last 6 years. In 2<sup>nd</sup> Quarter 2021, the share of companies that made a profit returned to the pre- COVID crisis level, but at a lowest value.

The evolution of the companies that recorded increases and decreases of the net income in each current period, compared to the previous period is presented in Figure no 9.

**Figure 9: Manufacturing. The evolution of the companies that recorded increases and decreases of the net income, during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**

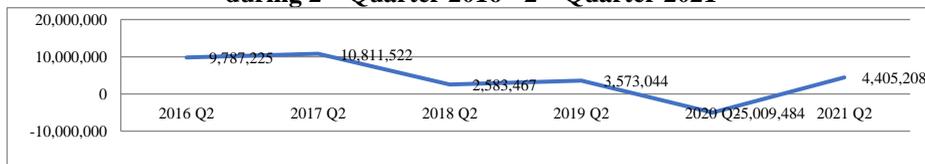


Source: Own processing

62,5% of analysed companies, acting in Manufacturing domain, recorded decreases in net profit in 2<sup>nd</sup> Quarter 2020 compared to 2<sup>nd</sup> quarter 2019. This situation has been encountered before, in 2<sup>nd</sup> quarter 2017 compared to 2<sup>nd</sup> quarter 2016, without being related to the COVID-19 crisis. In 2<sup>nd</sup> Quarter 2021, for this domain, the ability to make a profit higher than the previous year returned to the pre COVID crisis level. This time, was recorded the largest share of companies that managed to obtain a higher level of net profit, compared to the previous year level.

The evolution of the average net result, for manufacturing domain is presented in figures 10.

**Figure 10: Manufacturing. The evolution of the average net result recorded during 2<sup>nd</sup> Quarter 2016 - 2<sup>nd</sup> Quarter 2021**



Source: Own processing

The average level of net profit recorded in 2<sup>nd</sup> Quarter 2020 represented the lowest level of the last 6 years. It was the first time when the average result was a loss, not a profit, and the only analysed domain where this happened. The situation improved 2<sup>nd</sup> Quarter 2020, but the average result did not record the high levels of previous periods.

### **3. Conclusions**

In all the analysed domains, there were reductions in profitability in the 2<sup>nd</sup> quarter 2020, both in terms of the average level of net result, and the ability to obtain a higher profit, compared to previous periods. Since the analysed companies represent over 80% of the Bucharest Stock Exchange Main Market capitalization, this phenomenon can be considered as characteristic for how the COVID 19 pandemic affected the financial performance of companies listed on Bucharest Stock Exchange. The strongest impact of the COVID crisis was in the domains where activity was stopped during the quarantine in May-June. The improvement in profitability was recorded next year in all areas, but not at the same levels.

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