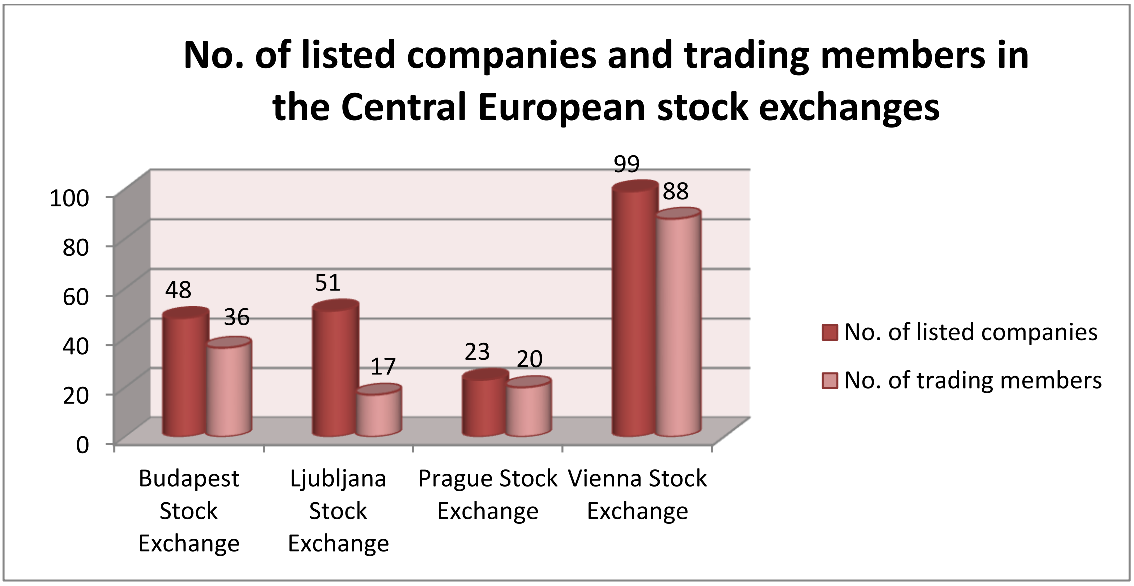
Ministry
For National Economy

In 2015, the leading index of Budapest Stock Exchange, which again has a Hungarian owner, gained 40 percent

In 2015, the leading index of the Budapest Stock Exchange, the BUX, climbed 40 percent and thus it ranks among the global top five best-performing exchanges in terms of the share price increase of listed companies. Among BSE blue chips, in the observed period share prices increased by some 50 percent at the largest Hungarian bank, OTP, by 25 percent at oil producer MOL, by 20 percent at pharmaceuticals company Richter and by some 21 percent at leading telecom services provider Magyar Telekom.

In nominal terms, this impressive growth means that the BUX index rose from 15 600 in mid-January to above 23 500 by the end of April. The increase was attributable to various factors. Rising share prices reflect first of all the substantial improvement of Hungarian economic outlook (higher GDP estimates, significant drop in CDS and interest rate premia, upgrade to positive credit rating outlook) as well as the expected upgrade to investment category at the beginning of next year. Share price increases, however, are not likely to be over yet, as the BUX reached a peak of more than 30 000 points at the end of 2008. Moreover, in case the BUX is compared to the leading German stock exchange index, the DAX, in Euro terms (BUX/DAX relative strength), in line with the upward trend patterns of international capital markets – as the DAX rose from 5000 points in mid-2011 to the current 11 500 points or the S&P climbed from 1200 points to 2100 points in the same period – the current level of BUX should be around 44 000 point. Accordingly, further significant growth is a realistic scenario and there is still ample room from share price increases, not only concerning companies already listed on the bourse, but also for the listing of new companies. This, in turn, would add massive impetus to the capitalization growth of the capital market.

The below figure shows the sizes of some Central European stock markets and accordingly indicates the growth potential of various capital markets. As far as the Budapest Stock Exchange is concerned, it may be a positive factor that in the previous month it got into the hands of a new owner that is fervently committed to developing the Hungarian capital market. The National Bank of Hungary (MNB) wants to significantly increase the number of listed companies through engaging domestic large enterprises, SMEs as well as large state-owned companies, while it also hopes to create more demand through investment incentives for domestic investment funds and retail investors in order to channel more resources to the stock exchange. The ultimate goal is to diversify the funding options of the domestic financial sector and enterprises, replacing the credit market as the sole – and sometimes quite volatile – source of funding. In addition, these measures will also pave the way to a smooth transition and provide an exit strategy for SMEs facing generation change.



Source: ceeseg.com

Budapest Stock Exchange once again at a Hungarian owner

On 20 November, the MNB announced that it had purchased 68.8 percent of the Budapest Stock Exchange. As MNB Deputy President Márton Nagy had said, the transaction required the consent of the Hungarian Competition Authority. The permit was issued on 3 December and that has removed the last obstacle in the way of implementing the new development strategy of the stock exchange. The share price determined by international experts was HUF 3350 per share, while the MNB paid HUF 13.2bn for the ownership package of Austrian investors. This puts the total value of BSE at HUF 19.170bn. The market capitalization of BSE accounts for 18 percent of Hungary's GDP, behind the corresponding data of the Czech Republic or Poland. New companies have over the past years scarcely made it to the trading floor, although several enterprises have reached a size that would have made them eligible for listing. In the past two years, turnover of the stock exchange has halved, partly because of the insufficient flow of domestic household savings. These factors have prompted interference by the state and the MNB.

It is quite justified to view the inadequate market development and the poor performance of the BSE over the past 5-10 years as a market failure, because it has resulted in an underdeveloped stock exchange. As we stated above, unsatisfactory stock market development and the ensuing market deficiencies have made state interference inevitable and the successful implementation of a new strategy for developing the stock exchange could not take place without change in the ownership of BSE. There are several good examples, both on a global and regional scale, when – having recognized the importance of capital markets -- the state has assumed an active role in the development of a stock exchange. The reason for it is that a properly functioning stock exchange with the proper economic weight acts as a stabilizing factor as well as the source of other positive externalities. It can contribute to the transparent operation of companies and facilitate efficient management at listed enterprises. The stimulating role of the state on capital markets is often coupled with a higher number of partial IPOs of state-owned companies, as a result of which the state budget receives extra revenues while state influence is still retained. Market control mechanisms also improve the management of partially listed state enterprises. Thanks to its expert networks, financial background and professional experience, the MNB – as the majority owner of the BSE – will be a competent supporter of the new strategy for market development.

The new BSE strategy must focus on the decade-old problems of the Hungarian bourse so that the stock market shall fulfil its basic economic role as the forum where domestic enterprises can actively obtain capital. The current weak turnover and low capitalization of the stock exchange stem from the unused financing potential of the capital market, that is, eventually from demand-side issues. The ownership structure of shares indicates that the demand side is characterized – besides weak domestic demand – by the large weight of foreign institutional investors.

In order to encourage the domestic capital market to play a more effective role as financial mediator, the entire demand side in general and domestic demand in particular must be stimulated. Regulations must be reformed so that they can provide proper incentives for stock market aspirants and investors. Basically, three factors may increase the number of IPOs: the market listing of state companies, large domestic privately owned enterprises and SMEs which are fit for public trade. All three sectors require new stimulus measures, such as new services and the rethinking of market structure. On the demand side, domestic private and institutional investors must be addressed and incentivized to invest more in the domestic real economy. The involvement of economic stake holders with an interest in stock market development in the setting out of the new strategy is pivotal for the success of the project.

The new owner, the National Bank of Hungary, is committed to add extra impetus to the capital market through a new strategy after it has purchased the BSE. The MNB as a state institution, which expects former owners to actively participate in the development project, considers the stock exchange to be an economic development tool and instead of short-term profit considerations it is aiming to optimize costs and revenues in light of complex aspects, from the aspect of the national economy. As a result, a sounder, more diversified financial system is expected to be created which can serve economic growth in a sustainable manner.

In the past decades, the BSE saw two similar rallies: the first was between the EU accession in 2004 and 2007, when the BUX index rose from around 10 000 points to more than 30 000 points, and the second in the recovery period following the 2008/2009 crisis, when in April 2009 the index started from 13 500 points and the capitalization of the Hungarian stock market almost doubled in the course of ten months. In both periods, however, there was a clearly discernible trend: comparing the BUX with the DAX the Hungarian stock market performed better. As it seems, the current rally has still a long way to go until it can close the gap with the German market.