

DETERMINANT OF CAPITAL MARKET DEVELOPMENT

COJOCARU DANIELA

SUMMARY

The capital market is an essential component of the economy and can contribute to economic progress. The motivation for the research comes from the need to identify the factors that influence the development of capital markets, which in recent years have been marked by the emergence of significant events such as the COVID-19 pandemic and recent geopolitical conflicts, such as the one between Russia and Ukraine. The research includes data on 47 capital markets worldwide between 2008 and 2020 and a more in-depth analysis of 8 European exchanges between 2012-2022, showcasing the differences between large and small markets, with new perspectives on the macroeconomic and institutional determinants of capital market development. The study addresses the development of capital markets from the perspective of two indicators: stock market capitalization as a ratio to Gross Domestic Product and initial public offerings as a ratio in stock market capitalization, each with specific informational content. Due to the heterogeneous size of the analyzed stock exchanges, we separately analyzed the large exchanges (those with a level above the 65% threshold for stock market capitalization/GDP) and the small ones. Important factors contributing positively to the growth of stock market capitalization as a ratio to GDP are the perception of the regulatory framework, the perception of participation in governance and freedom of expression for markets with an indicator value below 65%, as well as the perception of political stability for markets with an indicator of stock market capitalization as a ratio to GDP above 65%. In the same direction, we observe a bidirectional link between local lending and stock market capitalization as a ratio to GDP for 8 European exchanges. As for the important factors that positively influence the value of IPOs in stock market capitalization, we mention the stock index variation, local bank credit, money supply, percentage growth in population savings, and interest rates. Inflation is the only factor that affects all aspects of capital market development analyzed, with a significant negative impact.