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# Activation of attraction processes of investments into national economy through capital market

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**Abstract**— The globalization of the world economy and the integration of the Republic of Moldova into the European Community will require the state to create conditions for sustainable economic development, which is impossible without intensifying investment activity. The problem of attracting massive foreign investment requires improving the capital market in the country. The most important direction in solving this problem is the development of the internal stock market as the most efficient mechanism for redistributing financial resources. Therefore, the stock exchange should contribute at activation of attraction processes of investments in the national economy as a stimulus for future investment activity.

**Keywords** — sustainable development, financial sustainability, stock exchange.

## I. INTRODUCTION

The growth and economic development of a country are linked to the available funding opportunities of that society. These financial means can be secured both through the banking system and especially through the capital market, which is now a key element in attracting available capital. It is even appreciated that the modern stock exchange, as a result of having managed to substantially reduce the cost of operations, and as a result of carrying out transaction orders and providing real-time information, will soon overtake the banking system in terms of the ability to provide capital.

The attractiveness of a capital market in formation, such as that of the Republic of Moldova, is primarily due to the existence of solid economic foundations. A capital market cannot be analyzed separately from its national economy. The stock exchange cannot develop better than the real economy, after all, one of the functions of the stock exchange is precisely that of a barometer of the economic state of a country. Gaining credibility for these

market economy institutions can only be done by creating an appropriate legal framework and regulating the activity [1].

Secondly, is assumed a state support for the development of the capital market, in a global assessment, the main mission of the state to support the development of the capital market is to support the development of the national economy. A convincing argument to invest in the capital markets in formation (the capital market of the Republic of Moldova) also depends on the performance of the economy, materialized in the growth rate. The link between stock market development and economic growth is strong. The economic growth rate should be the first criterion for assessing the performance of the capital market. So economic development can also entail the development of the capital market.

## II. CONTENT

In the Republic of Moldova, the capital market is incipient, in formation, with little involvement in the real economy, that has been in evolution for a long time. As such, it has the characteristics of a non-performing emerging market: that it is a small market with low capitalization, illiquid market, with an attractiveness, efficiency, profitability and stability relatively low [2]. With the outbreak of the pandemic crisis COVID-19 in the spring 2020, which led to the imposition of restrictive measures and the reduction of economic activity by temporarily suspending or even closing the activity of some companies, dismissal of employees or sending them into technical unemployment, reduction of private consumption, restrictions on persons movement and goods transport, as well as disruptions in supply and distribution chains, as a result of the pandemic crisis exposed the primary market segment of the moldovan capital market to severe effects.

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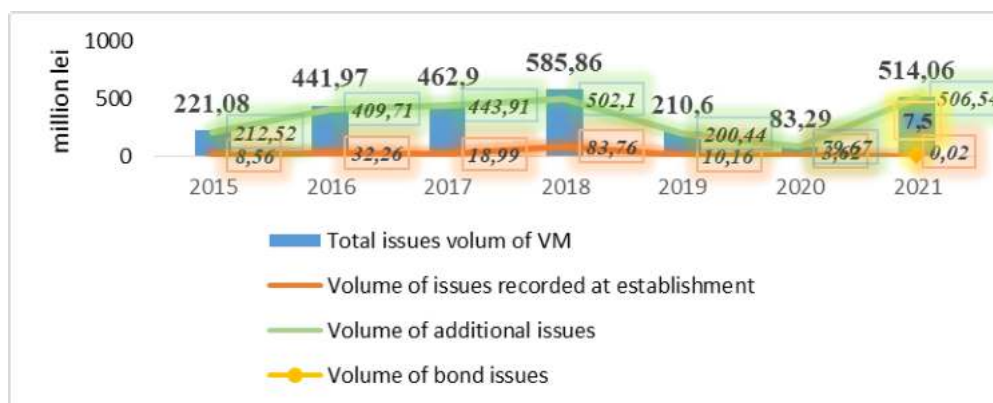


Figure 1. Volume of securities issues 2015-2021, Source: Developed by the authors based on the data from the BVM newsletters [3]

Viewed from the perspective of the issuers' capitalization of capital market instruments, it is noted that the years 2019-2021 were not exceptional, nor in these years these issuers, in order to ensure the production with new capital injections, they did not use capital market mechanisms to attract investment through public securities offerings. Thus, the shares were the only securities in circulation on the corporate capital market, the placements that were carried out exclusively in a limited circle of persons, through closed issues.

The repercussions of the pandemic crisis and the completion of legal procedures for shareholder quality adequacy in financial and banking institutions, initiated in previous periods, have led to even more severe cuts in the secondary capital market segment. Thus, after a significant jump of all relevant indicators, reaching a total trading volume of approximative 4693,1 million lei in 2018 and a historical maximum value of 5250,4 million lei, recorded in 2019, in 2020 an aggressive downward trend of this indicator was registered, the summary volume of transactions indicating values of only 1669,9 million lei (descending by 3580,5 million lei or by 68,2 percent compared to 2019).

In 2021, 7784 transactions were made with corporate securities in the volume of 2061,03 million lei, reported to 67,1 million lei of security issues, which shows an increase of 391,16 million lei or by 23,42% compared to the same period of the previous year (Table 1). Thus, transactions with securities were carried out, mainly on the OTC (over-the-counter) segment of the market, these being directly registered with the entities that keep track of the holders of shares (1,6 billion lei or 94 percent of the total volume of transactions carried out on the secondary

market). At the same time, the most pronounced volume reductions occurred on the regulated segment of the secondary capital market, the summary volume recorded on this transactionary platform being 69,5 million lei. As a total volume of securities traded outside the regulated market and MTF (OTC market), in 2021 registers an increase of 29 percent compared to 2020, where in 2020 there is a slight decrease (by 20 percent), compared to 2019, however, compared to the previous periods of 2015-2019, this indicator has an impressive rise.

This development was implicitly determined by the revision of the regulatory acts of the CNPF, according to which, in line with international practices, was established the liberalization of prices of securities traded on the non-organized segment of the secondary market.

The surveillance activity of the secondary capital market also includes monitoring the transactions that are carried out outside the regulated market and MTF (OTC market), with transactions in this market segment being recorded by the parties of this transactions either directly with the registry companies or with the investment companies, which have the right to carry out custodial activities, or in the Record System of the Central Securities Depository (CSD), depending on the person who actually keeps track of the traded securities.

The year 2021 was one of the most difficult years, with the lowest trading volume since the creation of the regulated market and of MTF (Figure 3). The low interest of investors is due to the changes that took place in the political sphere, also during this period the regulator of the capital market, the CNPF remained without management from september to the end of the year.

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**Table 1. The evolution of stock market and over-the-counter market indicators, 2015-2021**

Period	Stock Market		The OTC (over-the-counter) market Transactions outside the regulated market and MTF		Total secondary market	
	No. of transactions (units)	Volume of transactions (million lei)	No. of transactions (units)	Volume of transactions (million lei)	No. of transactions (units)	Volume of transactions (million lei)
2015	261	<b>193,97</b>	14270	<b>454,50</b>	14531	<b>648,47</b>
2016	748	<b>351,93</b>	11293	<b>785,41</b>	12041	<b>1137,34</b>
2017	407	<b>102,72</b>	20386	<b>461,19</b>	201793	<b>563,91</b>
2018	379	<b>1977,52</b>	7016	<b>2715,55</b>	7395	<b>4693,07</b>
2019	248	<b>3279,71</b>	5523	<b>1970,72</b>	5771	<b>5250,43</b>
2020	293	<b>103,16</b>	4524	<b>1566,71</b>	4817	<b>1669,87</b>
2021	170	<b>34,04</b>	7614	<b>2026,99</b>	7784	<b>2061,03</b>

Source: Developed by the authors based on the data from the BVM newsletters [3]

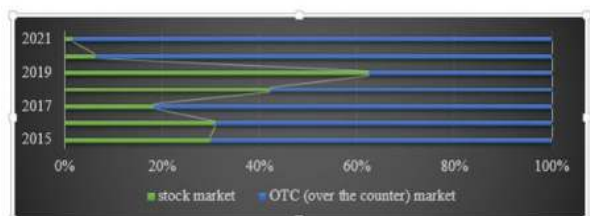


Figure 2. Volume of transactions on the stock and OTC market, million lei, Source: Developed by the authors based on the data from the BVM newsletters [3]



Figure 3. Evolution of BVM indicators, years 2015-2021, Source: Developed by the authors based on the data from the BVM newsletters [3]

It is worth noting that for the first time since the Exchange obtained the license of market operator, during the year of 2021 there were no transactions on the regulated market for a month, which led to equalizing the number of transactions on the regulated market (86 transactions) And in MTF (84 transactions). Transactions on PR took place between the period of January - April 2021, and may - November 2021, the volume of transactions had dropped sharply. The revival of the market begins in December 2021. On the other hand, the reverse is recorded in the MTF, where in the second half of 2021 takes place the market recovery, with registered transactions under the MTF of shares of issuers. Thus, the year 2021 was distinguished by diametrically opposed conjunctions for PR and MTF.

Analyzing the stock exchange structure for the last seven years, and despite the positive trend of volume growth within MTF in 2021, however, the volume recorded on PR remains to prevail. As a result of the activation of MTF transactions with securities that were not attractive in previous years, in 2021 we notice that over 30% of the total volume of exchange transactions is related to the MTF card. Public interest issuers are listed on PR and the frequency of market transactions is determined by the structure of the owners. Comparing the results of trading volumes on the stock and OTC market for issuers listed on PR, we note with regret the recording of significant volumes on the OTC market, on the background of a general decrease in the volume of transactions in 2021. However, at the end of 2021, a large-scale transaction was recorded on the OTC market, which led to the establishment of a historical maximum.

Finally, it is evident that there are positive moments on the stock market that inspire optimism for 2022, especially the trading of municipal bonds, which were admitted to trading under MTF in September 2021. It becomes an alternative to high-interest bank loans and intensifies securities transactions to issuers in other sectors of the economy, apart from those of the banking sector. The Moldovan capital market, viewed from this perspective, is full of contrasts. Market capitalization is high compared to the volume of transactions, market liquidity that is alarmingly low and volatility high. Although the capital market in Moldova is thirty years old, international standards remain a desideratum, a theoretical model, at least for now.

### III. CONCLUSIONS

The low level of development of the national securities market is determined by the following factors: lack of public issues and liquid financial instruments, absence of institutional investors, insufficient application of advanced information technologies, low degree of confidence in investing in financial instruments and in the development of corporate relations. The normal functioning and development of the capital market ensure the reorientation and restructuring of the activity of companies according to market requirements, offer much faster financing methods both to the state, in the person of central and local public authorities, as well as to commercial companies. In this context, we can consider that the capital market must be not just a mere component of the market economy, but a barometer of the activity of each issuer and of the economy as a whole. As the capital market faces a number of described problems and

impediments, the most suitable solutions for reanimating this sector need to be quantified for the coming years, including: stimulating the attractiveness of the capital market. In order to encourage investors and issuers of securities, fiscal measures are needed to redirect capital toward long-term investments in various attractive areas, stimulating public offerings; developing the bond market by: intensifying dialog with the institutions responsible for issuing state financial instruments, in particular bonds with a circulation term of more than one year, in order to admit them for trading on the regulated market; reviewing the regulatory framework for the development of the organized market (PR and MTF).

Considering that globally organized markets provide adequate protection for consumers involved in financial services through the creation of investment guarantee schemes, it becomes possible to develop this market segment through activities aimed for stimulating the attraction on the regulated market of large companies with significant trading values by highlighting the advantages of the presence on this segment compared to traditional financing methods.

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