

Investments – Fundamental Element for Economic Development of Republic of Moldova

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Abstract: Capital market represents a important element of the financial-economic system of any modern economy and they play an important role in the allocation of capital within the economy. The development of the capital market represents the essential component of the restructuring process of the economic system. The analysis of environmental, economic, political and legal factors represents a strategic step for the opportunity to invest in a particular country.

Keywords: economic system; capital market; investments; foreign investments; national economy; globalization

The current stage of development of national economy is characterized by increasing of role and significance of attracting investments in national economy.

After communist system falling and Soviet Union crumbling, Republic of Moldova suffered at the chapter named attraction of foreign investments. Only in 1995, with the foundation of Grand of Values of Republic of Moldova, it was observed the foreign investment flux in national economy. The entering of Russian company Lukoil on the free trade zone of Republic of Moldova in 1995 generated cash inflows of more important foreign investments. A huge lack of Republic of Moldova in initially period of transition was the deficiency of a strategy of attracting investments.

Nowadays, a considerable role in proceeding of attraction of investments in national economic has securities market (stock market).

In each economic free trade zone, stock market represents one of the main components. The stock market of RM appeared right after the obtaining of independence through making of societies on stock holding and making conditions for the circulation of securities.

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The efficiency of a capital market is determined by the capital request for present necessities and for investments, being at the same time conditioned by existence of a real action of economizing, as a fundament of proposal of capital.

The main function of capital market is the accrual of ability and transformation in investments: well organized stock market with a coordinated operation, is the basic tool, through which may be accumulated financial economies of the state, legal and natural person and use them for realization of effective investments ¹.

The effective functioning of the capital market assures correct reassign financial resources between investors which have economies and economic agencies which need investments. The effective functioning of free trade zone ensures the facility for investors to invest their ability and in this way to allow the companies to increase not only from their own sources but by attracting free resources from economy.

Economies are potential investments and investments - realized economies. In present conditions, the volume of investments is influenced a lot by development level and organization of financial market. A considerable part of investment resources is formed from population economies account, which represents the main source of accruals.

A fundamental role in economy reorganization and realization of development action has direct foreign investments, which represented for all the countries from Central and East Europe, a catalyst in passing to the free trade zone economy and increasing economies.

Foreign investments assure the circulation of capitals whose travel zone do not stop at national boundaries, becoming an international activity.

Therefore, investments represent the core of each country `s economic grow and decreasing of investment activity is considered a real danger for every country.

Beginning with 2010, in virtue of world economy refreshment, is observed the foreign investors' increasing, vis a vis of offered facilities by national economy, investment flux of foreign investors obtaining a considerable growing. Congruent results for 2011, the net flux of direct foreign investments in national economy constituted of 274 mil. dollars USA, which overdraw the level of 2010 with 38, 8% and represent the highest growth rate in last 4 years².

¹ Comisia de Stat pentru Piața Hîrtilor de Valoare (1996). *Piața hîrtilor de valoare în Republica Moldova/ State Commission for Securities Market, Securities Market in Moldova*, Chisinau: Tipografia Centrala/ Central Publishing House, p. 19.

² http://www.bnm.md/md/annual_report, p. 150.

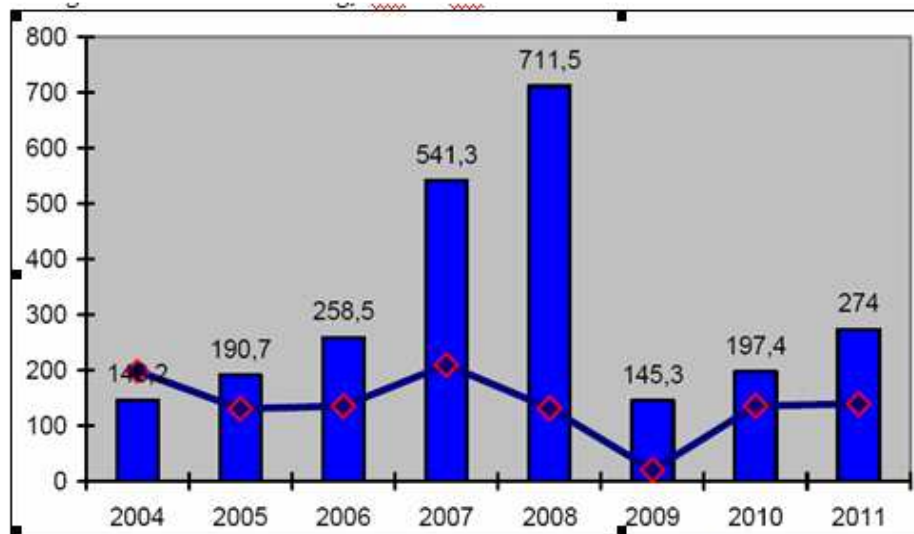


Figure 1. Net Inflow of Foreign Direct Investment in the National Economy, Million USD

Source: http://www.bnm.md/md/annual_report

As was mentioned before, the net flow of direct foreign investments in national economy in 2011 increased considerably, totalizing 274 mil. Dollars USA. If we'll analyze the foreign direct investment inflows in national economy, then in previously year the volume of them was evaluated at 431, 8 mil. Dollars USA, in growing with 19, 2%, relative with 2010.

Nevertheless the index in question is much smaller than in 2008, when was registered the biggest volume of cash inflows of investors. (868, 28 mil. Dollars USA). The situation on flux net zones of direct foreign investments is different. Thereby, in banking zone, investments in social capital in 2011 was the most insignificant in last 5 years (7, 64 mil. Dollars USA). In other zones net fluxes of direct investments were much bigger and consisted 247, 75 mil. Dollars USA, growing in comparison with 2010 with 31, 8%.

Referring to the free trade zone securities, the activity of foreign investors on this segment of financial market in some periods is important, the same as their importance for national economy and aboriginal capital market.

The total volume of foreign investments attracted through primary securities market during 2011 was 760,1 million MDL, registering an increase by 299,3

million MDL or by 64,9 percent from the previous year indicator¹. The absolute majority of foreign investments were attracted through additional issues.

Comparative with 2010, when a distinguish interest for the investing of capital in securities on primary market manifested the investors from Romania, Austria, Germany and Russian Federation, in 2011 the most significant participation of foreign investors through issues of securities harked back to the investors from Holland, Belize Islands, Ukraine and Romania.

Companies of foreign investments didn't manifested till nowadays the distinguish interest for the participation at operations from Moldova as a professional participant or for participation at capital market infrastructure. Sole professional participants of securities capital market infrastructure with foreign capital are commercial banks in which shareholders are European financial institutions (for example Mobiasbanca-Groupe Societe Generale). Anyhow, it's obviously that the basic rationality at the effectuation of investments in aboriginal financial institutions wasn't the obtaining of access to the capital market of Republic of Moldova.

Thus, in 2011 as in 2010 the most attractive sector for foreign investors was the banking sector, where were registered 107 transactions in a volume of 890, 8 million MDL or 60, 95 percent of the total volume of transactions involving foreign investors².

The position comparative with the nearest neighbors in attraction of the flux of direct foreign investments is showed in diagram 2. The analyze is intended to emphasize the situation at this chapter, which exists between Moldova and its neighbors and to define the directions in which are still necessary efforts for more inexpedient placement in attracting foreign investors.

¹ Annual Report (2011). National Commission for Financial Markets' Activity and Non-Banking Financial Market Functioning: <http://www.cnpf.md/file/Publicatii/Document.pdf>, p. 216.

² Annual Report (2011). National Commission for Financial Markets' Activity and Non-Banking Financial Market Functioning: <http://www.cnpf.md/file/Publicatii/Document.pdf>, p. 216.

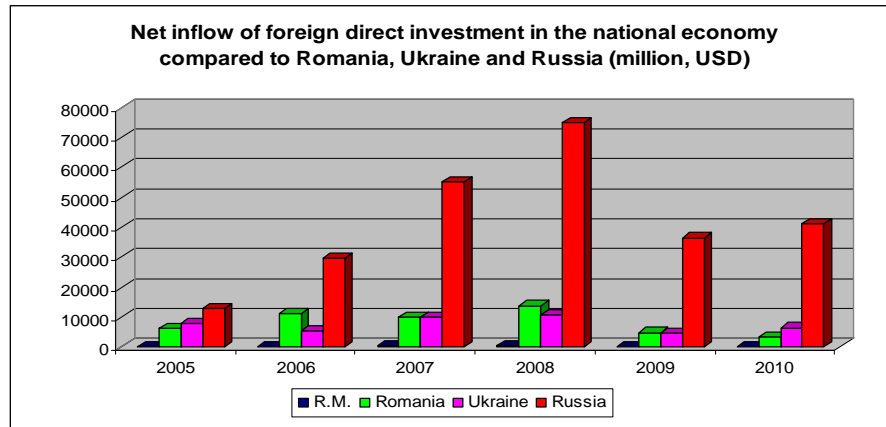


Figure 2. Net inflow of foreign direct investment in the national economy compared to Romania, Ukraine and Russia (million, USD)

Source: http://www.bnm.md/md/annual_report, World Investment Report 2011

According to the data below, we ascertain that at present, the aboriginal securities free trade zone is insufficiently used as a source of financing, the number of investors being limited and one of the acute problems of national securities free trade zone. The actual level of development of free trade zone reflects largely the existing difficulties of transition period and the economics of transition medium from Republic of Moldova. Today, securities free trade zone didn't become an efficient generator of formation and utilization of capital. The activity of grant market must become an efficient tool of formation and use of capital.

The reasons of stagnation of the investment activity in national economy may be:

1. Lack of attractive companies, from investment point of view for potential investors;
2. Crediting and financial mechanisms don't assure the transformation of national economies into investments;
3. Reduced standard of living of population and, following, the limited possibility of this to economize;
4. Political instability;
5. The state, in period of transition at the economy of the free trade zone, didn't determine necessary measures in securities market development.

We dignify that namely these problems stand at the base of the success of our country in investment sphere and just through resolving them is possible the improvement

so needful in this domain. In this context is necessary to adopt a new approach in investment politic and aboriginal securities market development.

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