

THE INVESTMENT ATTRACTIVENESS ANALYSIS OF JOINT STOCK COMPANIES IN THE REPUBLIC OF MOLDOVA

ANALIZA ATRACTIVITĂȚII INVESTIȚIONALE A SOCIETĂȚILOR PE ACȚIUNI DIN REPUBLICA MOLDOVA

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Abstract: Investițiile atrase, atât de pe piața locală, cât și din afara țării, sunt cea mai bună metodă de a dezvolta și a îmbogăți o țară. State ca Singapore, Coreea de Sud, Taiwan, Hong Kong, Polonia; au obținut un nivel uimitor de creștere economică datorită investițiilor, în special celor străine, și au reușit să se transforme din țări cu economii în tranziție, în țări foarte dezvoltate din punct de vedere economic, în decursul a câtorva decenii. Moldova ar putea urma calea statelor enumerate, creând condiții favorabile pentru atragerea investițiilor și obținând creșterea economică spre care aspirăm cu toții. Prin urmare, un mecanism concret de a atrage investiții este prin intermediul pieței de capital, și anume prin societățile pe acțiuni. Astfel, în lucrare vor fi analizate nivelul de dezvoltare și capacitatea de atragere a investițiilor pe piața de capital din Republica Moldova.

Cuvinte cheie: Investiții, Finanțare, Piață de capital, Societăți pe acțiuni, Burse de valori

JEL CLASSIFICATION:: G12, G21, G31

INTRODUCTION

Although it is easy and to some extent – trendy, to affirm that the Moldovan economy is compromised and as a country, our financial market is weak or does not even exist; the reality is not necessarily like that. It may surprise someone, but Moldova has all the institutions required for a capital market to function, has the relevant legal framework, and has more than 2000 joint stock companies, some of them eager for capital and debt funding. However, Moldova needs to improve its investment climate and attract more investments for rapid economic growth. Facilitating the financing of JSCs is an effective method of doing so. Therefore, it is important to analyze how attractive Moldovan JSCs are, especially for foreign investors, as it is known that they have more capital to spare. The main goal of this paper is to scrutinize the investment attractiveness of JSCs from Moldova. It will start with analyzing the investment climate of the country, then the local financial market will be examined for its potential of attracting investments, then some investment opportunities will be provided. The paper will finish with relevant conclusions regarding the topic.

MAIN CONTENT

As seen in recent years, perhaps the main concern of Moldovan society is the desire to increase the standard of living in the country. This desire is transposed as well in the way our citizens vote. Therefore, the demand of the population for higher wages, increased standard of living, better infrastructure, and many more; is pressing the past and present governments to accelerate the economic development of the country. Again, the fastest method of doing so is by attracting and placing investments in the economy. Specifically, investing in Moldovan JSCs through debt and equity financing is a great technique for reaching economic development in the long run. How exactly is this process done? It is simple: companies obtain more funds, they invest these funds in their operational activity, presumingly they acquire more profit, and pay more taxes to the local and state budget. Respectively, the state has more funds to finance its expenditures, for example: to build and repair more roads, hospitals, schools,

and kindergartens; to offer bigger pensions, stipends, and social allowances; to subsidize more products and activities; and many more.

By now, it has been made clear the connectivity between investments and economic development, and how investing in JSCs can facilitate this process. However, how attractive is Moldova for investments?

Strong Points	Weak Points
-skilled and low-cost labour; -privatizations of a number of companies underway; -investor-friendly taxes and duties; -agricultural potential (wine, dried fruits, vegetables, sunflower, wheat).	- high level of poverty; - an important size of its informal sector; - dependence on remittances from expatriate workers; - political instability and social tensions; - high level of corruption, weak governance and clientelism; - the secessionist aspirations of Transnistria.

Figure 1. Moldova's main strong and weak points in terms of attracting FDI

Source: elaborated by the author based on the data from the Lloyds Bank, available at:

<https://www.lloydsbanktrade.com/en/market-potential/moldova/investment>

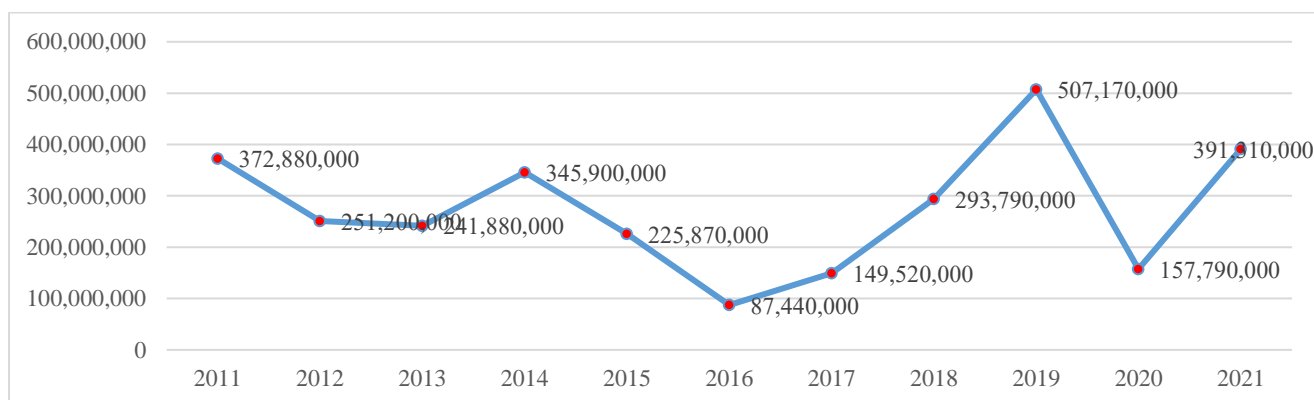


Figure 2. The net inflows of foreign direct investment attracted by Moldova, 2011 – 2021 (US\$)

Source: elaborated by the author based on the data from the World Bank, available at:

<https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=MD>

Although Moldova has a lot of considerable weak points when it comes to its attractiveness for investments, it is seen that the country has strong points as well. Perhaps the biggest historical causes for the lack of investments in the country were and still continue to be high levels of corruption, political uncertainty, weak purchasing power, and bad infrastructure. Recently, probably the biggest elephant in the room became the fact that Moldova has a war at its borders and no investor is interested in placing his or her money in the country, at least not until the war is over. However, Moldova is still capable of attracting investments, and the above figure shows that the state is collecting hundreds of millions of US\$ annually as FDI, reaching an all-time high level of 507mln. US\$ in 2019. The majority of the FDI comes from neighbouring European countries, with Romania being the largest contributor in 2020, accounting for 34.6% of the total foreign direct investment. Other significant sources include Cyprus, Russia, and Ukraine. The manufacturing, financial intermediation, and trade sectors are the main recipients of foreign direct investment, with growing interest in the country's IT sector. The country has the potential to be a bridge between Western and Eastern European markets, and foreign companies are granted national treatment in most sectors. Moldova is cost-competitive, offers tax incentives to investors, and has seven free economic zones[1]. It is important to underline that Moldova has relatively low income and dividend taxes. The income tax for individuals and legal entities is 12%, however, for companies registered in the IT park, this tax is only 7%. The dividend tax is 6%.

As expressed before, the Republic of Moldova has all the necessary infrastructure, legal and institutional, for a capital market to function. It has a stock exchange, a commission for the financial market, brokers, and listed joint stock companies. Although there are more than 2000 active JSCs in the

Republic of Moldova, only 38 are listed on the Moldova Stock Exchange. However, this number itself does not reflect the investment attractiveness of Moldovan JSCs. Instead, there are other indicators that are more representative for investors to make wise decisions. One of these indicators is obviously the profit. The net income is perhaps the most important indicator in the financial statements of a company, because it expresses how well this company is administered, and also, the dividends are paid off from the overall profit, and dividends are of paramount importance for investors as it is their direct revenue.

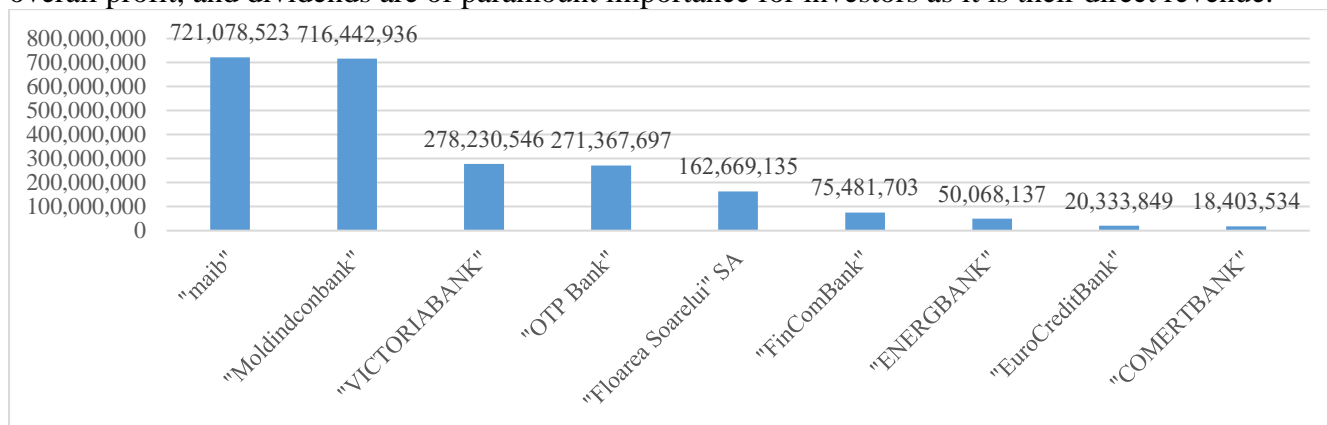


Figure 3. The most profitable JSCs listed on the Regulated Market of the Moldova Stock Exchange, 2021 (MDL)

Source: elaborated by the author based on the data from the Moldova Stock Exchange, available at:

http://www.bvm.md/en/Shares_PR

As shown in the graph, there are not many JSCs listed on the Regulated Market of the MSE that were able to reach considerable profit in 2021. Out of 15 companies listed on the Regulated Market, only 9 have been able to reach substantial profit; and out of these 9 companies, 8 of them are banks. Therefore, the conclusion that can be subtracted is that investing in Moldovan JSCs through MSE comes down to just buying shares of Moldova's biggest banks. Although the liquidity on the MSE is not that great as there are few transactions, banks like maib and Moldincombank are traded daily and perhaps it is easy for individuals and legal entities to invest in them.

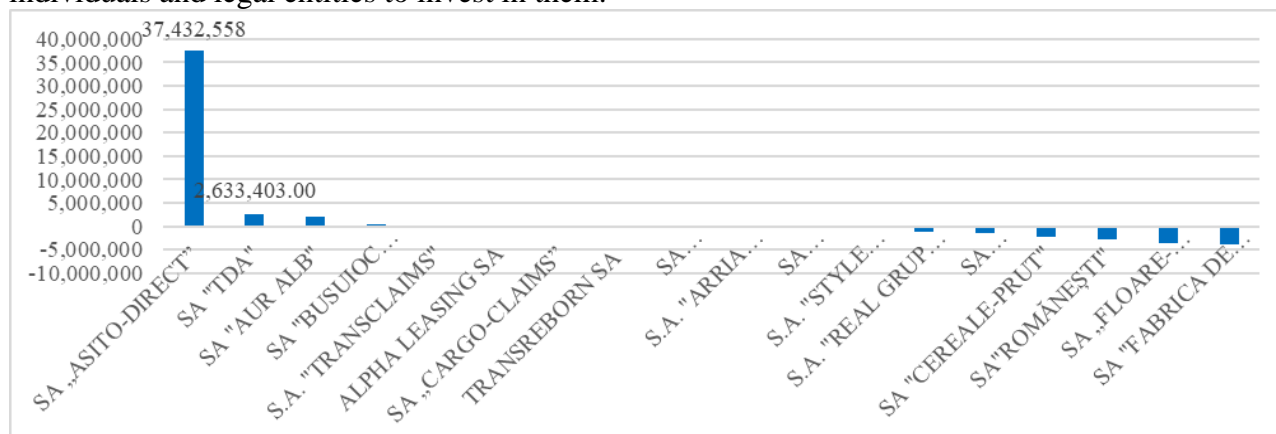


Figure 4. The profit of JSCs listed on the ATS of the Moldova Stock Exchange, 2021 (MDL)

Source: elaborated by the author based on the data from the Moldova Stock Exchange, available at:

http://www.bvm.md/en/Shares_MTF

Regarding the registered profit of the JSCs traded on the ATS, it is seen that only one entity, ASITO-DIRECT, was capable to obtain a considerable profit. However, it did not pay any dividends to its shareholders, the only entity that did that was TDA, but it was not able to register a huge net income to spare to its shareholders. Nevertheless, perhaps these are the companies that would benefit from equity and debt (obligations) financing, as it would allow them to scale their activity and get more revenue and net income.

Another indicator that shows how attractive the Moldovan JSCs are and how fast and easy is the process of buying and selling shares and bonds through the brokers that operate together with the MSE, is the traded value on the MSE in comparison with other stock exchanges from the region.

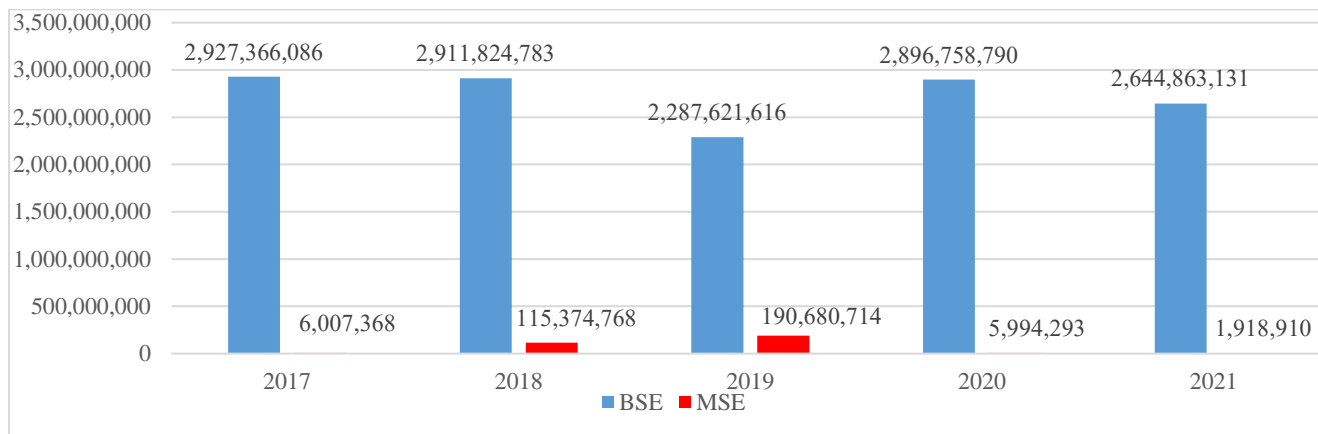


Figure 5. The comparison between the yearly traded value of stocks on the Bucharest Stock Exchange and on the Moldova Stock Exchange, 2017 – 2021 (US\$)

Source: elaborated by the author based on the data from the Bucharest Stock Exchange and Moldova Stock Exchange, available at: <https://bvb.ro/TradingAndStatistics/Statistics/GeneralStatistics>; http://www.bvm.md/ro/auction_year/

This graph is self-explanatory and shockingly sad. The difference in the traded value of stocks only, between BSE and MSE is extremely big. This shows that the Moldovan society and market are not familiar with the capital market. Although the GDP of Romania in 2021 was 21 times higher than Moldovan's GDP, the traded value of stocks on the BSE was a whopping 1378 times higher than the value traded on MSE. The Moldovan capital market is many times smaller than even the market of one of the poorest countries in the European Union. This also shows that the liquidity on MSE is weak and participants cannot fastly buy or sell stocks. This factor contributes negatively to Moldova's reputation as a country to invest in. In the author's opinion, there are two ways to bypass this impediment: whether Moldova shall prepare special laws and attract international-online brokers on the market, in order to incentivize people from around the world to trade stocks from this country, whether the Moldovan JSCs with high ambitions for equity and debt financing, shall list on foreign stock exchanges, but this is easily said than done.

CONCLUSION

Concluding, it can be said that only a few of the Moldovan JSCs are attractive for investments, specifically, the ones traded on the local stock exchange, that managed to reach high amounts of net income which can be paid off as dividends. It is easier for investors to buy shares in such companies, however, one can perform a more detailed analysis and try to invest in other, profitable JSCs which are not listed anywhere, but this process is more difficult, requires higher contributions and there is no guarantee that the company would accept the offer. Moreover, there are other entities where investors can put their money in. Recently, Moldova has seen the raise of some successful startups, and it is known that startups are eager for financing.

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