

CAPITAL Market

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There are few profitable securities. Who should push market on?



There are few profitable securities on the capital market of the Republic of Moldova, based on which one can make profit from dividends or speculative sales. Only the banks own such shares. This happens at a time when the majority shareholders of companies working in the real sector of the economy aim to strengthen the majority holding.

“Practically all the share issues in the Republic of Moldova are closed, distributed among a limited number of persons. The shares are issued not within the stock exchange and this limits the participation of potential investors. For example, the number of share issues in the first quarter of 2013 rose by 63% compared with the corresponding period last year, while the 16 additional share issues totaled 551 million lei. This shows yet that resources are attracted from the capital market”, said Corneliu Dodu, president of the Moldova Stock Exchange.

He stated that the main aspect of the Moldovan capital market, which shows that the companies do not want to make open share issues, is the fact that they are controlled by shareholders that own the majority holdings and that do not want to lose or to reduce participation. Surely, the attraction of resources from the capital market is cheaper, but the mentality of the majority shareholders should change for this method to be applied. The issuing of preferential shares, without the right to vote, is an alternative. The truth is that there are regulations that limit this thing. The preferential shares must not exceed 5% of the company’s registered capital, while the bonds – 100%. At the same time, an important aspect is the simplification of the procedure for registering the share issues of companies and their costs.

“There are now profitable securi-

ties on the market and profits can be made from dividends and from the difference in the exchange rate. First of all, these are the shares of banks that are popular with private individuals and legal entities. For example, if the nominal price of a bank share is 200 lei, the earnings from dividends represent 75%, while from bank deposits – 12%. At the same time, the market price of the bank shares is five times higher than the nominal price. This is true about a number of categories of shares. However, in the Republic of Moldova there are not enough such shares, but profit most often is made from bank dividends”, said Corneliu Dodu.

SIMULTANEOUS ACTIVATION OF TWO CAPITAL LAWS WILL BRING ONLY ANXIETY ON MARKET

Now that a new law on the capital market was adopted, the market players hope that many things will change as the old regulations limited the development of the market and imposed barriers on the market intermediaries and on the issuers of securities”. I hope that from this September, when the new law on the capital market takes effect, things will improve. But I cannot say this for sure. I would rather compare the new law with very good, but inapplicable traffic rules. If they go by bad cars on very narrow and damaged roads, nothing good will happen. Moreover, the simultaneous activation of two capital laws (the old law and the new one) during

a year and a half will bring only anxiety on the market. In the period, the regulator will work out new normative documents that will refer to the new law. Thus, the law will take effect, but the rules of the game will not be clear for the participants. This will not stimulate the development of the capital market. Therefore, clear rules should be formulated within a short period of time. The regulator must know what impact the measures will have before they are implemented. The main rule is not to cause harm to the market”, stated Corneliu Dodu.

The president of the Moldova Stock Exchange also said that it is very hard to forecast the developments on the capital market of the Republic of Moldova given that many experts assert that the evolution of the capital market depends on the political developments at internal and foreign levels”. The Stock Exchange aims to develop the capital market and is ready to take definite steps in this respect”, added Corneliu Dodu.

INVESTMENTS IN SECURITIES ARE BEING WAITED FOR

Though in other countries the investments of private individuals in securities represent some of the most profitable financial instruments, in the Republic of Moldova it is the bank deposits that are the most profitable and safest”. For investments to be made in securities, we must wait for a year to see, for example, if the securities from a bank are bought, if this bank pays dividends. On the other hand, the bank deposits opened for any period of time ensure safe income. Furthermore, taxes on the given interest are not paid, while on dividends are paid”, said Nina Dosca, director of the General Securities Supervision Division of the Na-

tional Financial Market Commission (CNPF).

She considers that the financial sector with bank deposits is currently a very great competitor for investments in securities, while the strategic investors will surely purchase securities in order to diversify the portfolio and to own majority holdings in a number of companies. Thus, they pursue different goals. A private individual disappointed with the privatization program of the 1990s will surely not risk investing in securities.

As to the development of companies so that they sell their shares on the Stock Exchange, Nina Dosca said: “Practice shows that nothing is impossible. The authorities’ will is the only thing needed. The problem in the Republic of Moldova is that those who have controlling interest in a company will do not want to cede a part of their shares and to share the dividends with the smaller shareholders. Instead of attracting resources from the capital market, they decide to take out loans. When they cannot cope with the payments, the companies go bankrupt”. Practice showed that attracting financial resources by issuing securities is the best alternative for companies, but the company management in our country is at the level of the 1960s-1970s, when companies considered that the banks were the only solution for attracting financial resources.

“For example, in the developed countries, when a company is quoted on the stock exchange, there is a guarantee that it is are profitable and the investments will not disappear overnight. The situation in the Republic of Moldova is different. Eleven companies are now quoted on the Moldova Stock Exchange and they trade in shares once a month”, said Nina Dosca.

MOLDOVAN COMPANIES DO NOT ISSUE SHARES BECAUSE COUNTRY’S ECONOMY IS RATHER SMALL

Moldova’s economy is rather small and most of the companies are small, with most of them importing goods at a time remittances grow continuously. This does not mean that the companies should be obligatorily quoted on the Stock Exchange or that resources should be attracted from the capital market. The bank loan is the stake for them. But mainly companies from the real sector should list their shares on the stock exchange, as in the developed states. The real sector in the Republic of Moldova is poorly developed, while the companies quoted on the stock exchange are mainly commercial banks operating in Moldova.

“Our companies do not issue shares because the country’s economy is rather small and any business can be bought by a person or another. After the privatization period through which the Republic of Moldova went, the investors aimed only to strengthen their property. The capital market existed and exists, but I cannot say that it will surely develop. Given that the Republic of Moldova is coming closer to the European Union and the market will open, we can have more companies, but, on the other hand, we cannot expect the Moldovan capital market to develop considerably as the Republic of Moldova is a small country and we cannot compare the domestic capital market with the markets of the U.S. the UK or other developed countries”, considers Natan Garstea, director of the consultancy company Estimator – VM.

PLACEMENT OF SECURITIES ON THE STOCK EXCHANGE IS AN INSUFFICIENT PROMOTION INSTRUMENT

“One of the most important problems in the Republic of Moldova is that the placement of securities by companies is not a sufficiently promoted instrument. Somebody should

come and tell them how this is done. Not long ago, the loan was also a sophisticated instrument and the banks managed to promote it and pack it very well. The microfinance companies are now a model for promoting products. But their money is intended for consumption, not business. Those who are interested in promoting securities should do so. I do not mean the authorities that should provide the necessary support, but rather the professional market participants that will inform the companies that the securities are an alternative to the bank loan”, stated Alexandru Sava, expert in securities.

The second problem highlighted by expert Alexandru Sava is the barriers in the regulation of securities. It is rather complicated and costly to issue shares. And the calculations are in favor of the loan. If we speak about the price of the financial instruments, we can say that it is cheaper to get a loan than to issue shares.

“A large part of the capital market must be based on the money obtained from private individuals, as abroad. The collective organizations that collect money from private individuals are the largest investors abroad. Evidently, the sums are low, but cumulatively they are very large. Such a thing is missing in the Republic of Moldova. It should be promoted as the given investors will bring the private individuals a profit of 10-12% compared with the bank deposit. They invest in the capital market in our country, but the investment are rather portfolio ones. Those who purchase shares want to become involved in the administration of the company. But the capital market is formed of small holdings of persons who do not want to become involved in administration, but only to buy shares and then to sell them more expensively”, considers Sava.

SERIOUS INTERMEDIARIES ARE NEEDED FOR INVESTMENTS IN THE CAPITAL MARKET

“The problem of purchases of significant holdings in companies in Moldova is related to the fiscal legislation and the authorities’ involvement in the work of companies. As a result, the economic entities, by different schemes, withdraw financial resources without making the profit public. The majority shareholders profit from this and nothing gets to the minority ones. Therefore, nobody is interested in purchasing securities for speculative purposes. Serious intermediaries are needed to invest in the capital market, in intermediation activities in the capital market. Currently, there are no such potential investors. We will see if this aspect is included in the conditions of the new capital law. At least several investors from the region expressed their readiness to invest, but they want to see first how the new law on the capital market works”, stated Alexandru Sava.

The capital market is greatly dependent on the real economy and the market economy, but in the Republic of Moldova it rather modest with some expectations that are concentrated in key areas of activity and they do not want to take part in the capital market. But the capital market implies the public aspect and the wish of as many investors as possible to invest their financial resources. In the Republic of Moldova the money is concentrated in the hands of several owners and they do not need investments.

As regards the new capital law, Alexandru Sava said that its effect depends on how the authorities implement the new law on the capital market and how they support the development of businesses without interfering in their work as it happened in the Republic of Moldova, when the police and even representatives of the Government and Parliament intervened in certain areas.

Victor URSU

Implementation of Bloomberg is rather a technical project

After the National Bank of Moldova (BNM) announced that it will implement the Bloomberg system for trading in state securities, the market brokers said the new system is rather a technical one and differs from Reuters by the fact that it is more expensive.

"The implementation of the Bloomberg system can be considered a technical project and is an important step towards developing the financial market of the Republic of Moldova and increasing transparency in dealing with state securities", considers Ghenadie Bacaliuc, director of Broker M-D.

On the other hand, the broker said they will be able to see what happens on the market, but cannot say how efficient it will be. From the Bloomberg system, we expect qualitative improvements of the situation. In fact, it does not change the method of trading in state securities", stated Ghenadie Bacaliuc.

However, Tatiana Colta, of Gest Capital, considers that the dealings in securities through the Bloomberg system will improve the work of the brokers that take part in the transactions with securities and of the issuers of securities.

"The given initiative does not change the procedure for trading in securities. It is only a switch to another informational platform, which is more efficient. It will enable the BNM to faster obtain the necessary data about the securities market. So, this can help the central bank to improve the activity of monitoring the securities market. I think the implementation of the given platform will lead to the further automation of the internal processes and will enable the central bank to more rapidly take certain monetary and currency policy decisions", said Nina Stepa-schenko, of BrokWest.

Roman Chirca, director of the Market Economy Institute, said: "It turned out that Bloomberg became more popular and is more widely



used on certain international markets than Reuters, which in the 1970s initiated a platform where there were posted the prices of metals and oil, while Bloomberg is a more modern and competitive system. Most of the international stock exchanges make reference to Bloomberg rather than to Reuters. Forex, the international foreign exchange system, was based on Reuters for many years, but now uses the information of Bloomberg, which is more diversified and provides more information, while the changes are done in real time. The foreign exchange reserve of the Republic of Moldova amounted to US\$2.519 billion, which means that the BNM needs more exact informa-

tion about different placements of securities, given that a large part of them are placed in securities of the issuing states".

According to the BNM, the Administration Board of the National Bank of Moldova and the Ministry of Finance adopted the regulations concerning the placement and redemption of state securities in the form of account records that came into force on July 1, 2013.

The given regulations were worked out with the aim of adjusting the normative framework concerning state securities to the conditions of implementing the common platform for trading in monetary-currency instruments designed in accordance

with the BNM's strategic plan for 2013-2017. Thus, the National Bank, as the state fiscal agent, will organize state securities placement operations through the agency of the information system Bloomberg.

The regulations substitute the instruction concerning the placement, circulation and redemption of state securities in the form of account records and ensure actualized adjustment with the best international practices in the field.

In this connection, the rise in the volume of offers satisfied at the auction in the competitive phase from 65% to 85% of the indicative volume of the issue, by diminishing the non-competitive ones from 35% to 15%,

will contribute to the improvement of the market price formation process.

Another modification provides for the elimination of the commission for determining the results of the auction and the establishment of a secured electronic way between the BNM and the Ministry of Finance, which will optimize the communication concerning auction holding. As a result, the participants in the primary state securities market will be swiftly informed about the satisfied offers and the auction results. In order to ensure the continuity of the auction holding process, there are provided alternative trading options that can be used when the Bloomberg system is not available.

The normative document envisions the implementation by the primary banks-dealers of the own norms concerning the procedure for working with the clients, the way of monitoring the clients and the procedures of internal control of the dealings in state securities. The regulations concerning the placement and redemption of state securities in the form of account records, aimed at the technological modernization of the processes, will support the development of the state securities market and the enhancement of their efficiency, liquidity and transparency.

The National Bank governor Dorin Dragutanu said that after the base rate was reduced from 4.5% to 3.5%, a practically instantaneous reaction followed as regards the trading in state securities maturing in 91 days.

According to the latest statistics of the Ministry of Finance, in the last auction of June 18, there were sold state securities to the value of 140.391 million lei. The state securities maturing in 91 days accounted for 40.634 million lei of this sum, those maturing in 182 days – for 62.564 million lei, while those maturing in 364 days – for 40.711 million lei. The average weighted rate of the traded securities was 4.61% annually.

Victor URSU

A large bavarian company is going to invest \$50 million to production of electronic cables for machines and electronic industry in FEZ BALTI, the 4th subzone

According to the chief administrator of FEZ Balti Marin Ciobanu, they negotiate with Bavarian company for almost 6 months, and soon the negotiations will be up.

The investor's name is kept secret, but soon the company will start investing in the project. The investments will be distributed for 4 years. All in all, company plans creating 4 thousand working places with average monthly salary in the amount of MDL 5.5 thousand. Marin Ciobanu gives a hint that this company is an international leader in producing electronic cables for machines and electronic industry; it annual turnover is more than \$3.7 billion. Moreover, another company is interested in investing money to the 4th subzone – Ceccato S. p. A that produces car washes. The amount of investments equals to \$1 million, there will be 35 vacancies with average monthly salary in the amount of MDL 6 thousand. One more company – Sordina S. p. A – produces medical equipment and intends investing \$3 million to the 4th subzone (30 vacancies, MDL 6.5 thousand); and Grip Engineering – \$2 million (20 vacancies, MDL 7 thousand). The 4th subzone of FEZ Balti is located in Straseni.

Moldovan Economics Ministry, business associations discuss draft of roadmap for competitiveness development

The signing of a deep and comprehensive free trade agreement (DCFTA) with the European Union will include Moldova in the EU market, thus being solved one of the Moldovan economy's basic constraints – the small interior market. Economics Minister Valeriu Lazar made statements to this effect during an enlarged meeting of the Economics Ministry's advisory board.

The meeting took place in the Tracom industrial park and it focused on a draft of the roadmap for the development of Moldova's competitiveness, which was elaborated by the Economics Ministry, along with the local and foreign experts' involvement, the Economics Ministry's information and media communication services has reported.

According to the ministry's service, Moldova is passing through a process of deep transformations, last year entering in force the free trade agreement with the Commonwealth of the Independent States (CIS), which represents about 40 per cent of Moldova's external trade turnover. Moldova is to sign a free trade agreement with the European Union, which is a market of about 500,000,000 million consumers, with the greatest purchasing power, as well as with Turkey, another important trade partner.

"Being located in a very dynamic and competitive region, we must be competitive in everything we do, namely, in business environment's quality, in public services' quality, in investments' attraction sector, etc. Moreover, the economies all over the world are in an acerbic competition and the challenge could be formulated as „to be or not to be competitive”, Lazar said.

In the context, Lazar said that the signing of the agreement on the creation of a deep and comprehensive free trade area with the EU offered significant opportunities to Moldovan businessmen, but also generated certain challenges to those with low competitive level. In order to benefit from the open free trade opportunities with the EU, as well as with other important states, we need a pro-active approach of the interior transformation and, namely, the amendment of the legislation on the matter, the institutions' improvement, as well as the introduction and observance of certain successful practices. But, the most important, is to have enterprises, which would know to operate in conditions of the new rules, on a more competitive market, Lazar said.

Among the constraints and issues identified in the roadmap are: the investment deficit generated by the institutions' inefficiency and the costs generated by the public services' quality provided to entrepreneurs, the legal and the regulation frameworks, the labour forces' willingness and skills, etc. The document will lay the stresses on the intervention of policies that would improve the situation for a short- or medium-term, targeting concrete sectors and subsectors.

In order to overcome these constraints, the roadmap for competitiveness improvement proposes a series of policies interventions, grouped in a matrix and a list of about 300 European directives, which are to be transposed for the implementation of the association agreement and the trade agreement.

As regards the implementation of the actions proposed by the Economics Ministry, it will be created a competitiveness council,

which would represent, on parity grounds, both the public authorities and the business environment.

The presentation of the roadmap within the Economics Ministry's advisory board started up a range of public debates on the constraints existing in each economic area in order to take into account the proposals of all interested parts, including the ones of the entrepreneurs. The business associations, present at the meeting, have welcomed the Economics Ministry's initiative, expressing their willingness to foster the dialogue with the public authorities.

EBRD is ready for co-financing of the projects to restructure and modernize the moldovan railways state company

This was stated by Octavian Costas, a senior banker of the permanent EBRD office in Moldova, during his meeting with the Minister of Transportation and Road Infrastructure Vasile Botnari, where they discussed prospects for the joint launching of these projects.

In particular, Minister of Transportation and Road Infrastructure Vasile Botnari mentioned that Moldova very much needs support from such partners as the EBRD (the European bank for Reconstruction and Development) to finance projects in the railway infrastructure in order to create conditions for internal transportation of goods and passengers as well as to attract railway transit traffic. The head of the ministry said that investments are also needed for the modernization of the railway stock – locomotives, carriages, which would allow to increase labour productivity Vasile Botnari said that an important project soon to be launched and it has to do with the restructuring and modernization of The Moldovan Railways state company. According to him, the Moldovan side needs EBRD expertise to work out a plan for the modernization of such a big company. The minister stressed the importance of the support from the EBRD and other big projects in Moldova, including the one for restoration of roads. In his turn Octavian Costash expressed readiness of the EBRD to support the implementation of the big investment projects in Moldova and emphasized that the Bank is ready to be a co-financier of the projects for modernization of The Moldovan Railways, and among other things to render assistance in increasing efficiency of the organization of the company.

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