

# CAPITAL Market

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## Law on capital market took effect

**The National Financial Market Commission (CNPF) will provide the necessary assistance to the participants in the capital market in order to help them adjust their activity to the Law on the Capital Market that came into force on September 14, 2013.**

The CNPF deputy head Nina Dosca told the newspaper "Capital Market" that the law stipulates new requirements and terms for switching over to the new capital market rules.

Thus, the term of 18 months of the coming into force of the law is given both to professional participants in the securities market to comply with the new work rules for obtaining a license for an unlimited period and to potential issuers and investors for familiarizing themselves with the possibility of attracting investments and of investing in the financial instruments proposed by law.

According to Nina Dosca, in this period of transition, the provisions of the Law on the Securities Market and the normative documents of the CNPF will be implemented alongside

the Law on the Capital Market, if they do not run counter to this law.

Nina Dosca also said that in separate cases, the financial market regulator is ready to make comments and offer explanations as regards the implementation and observance of certain provisions of the law that took effect.

The paper "Capital Market" proposes the persons interested in the studying and implementation of the Law on the Capital Market to initiate a dialogue with specialists of the CNPF by putting questions and making suggestions.

*Ghenadie TUDOREANU*

## LIQUEFIED GAS, DIESEL FUEL PRICES RISE IN MOLDOVA

**Two of the largest oil companies of Moldova, that manage about 180 filling stations, increased the prices for liquefied gas by 0.7 lei and for diesel fuel by 0.45 lei today.**

The pump price for diesel has reached 17.10-17.29 lei per one litre and the one of the liquefied gas 9.60-9.69 lei per litre. Fuel importers explain these price increases by the rise in import prices for oil products and depreciation of the Moldovan leu.

The price rises were announced in late last week. Four oil companies notified the National Agency for Energy Regulation (ANRE) of their intention to increase the liquid gas prices by an average of 0.45-0.60 lei per litre. According to the regulation in force, companies can raise prices of petroleum products three days after informing the ANRE.

One of the four companies withdrew their data on prices, in force till October 14, from its official website. Yet, this company did not post the new prices, although it announced that they were changed on October 15.

The retail price of liquefied gas practiced by more companies remained the same – 8.95-8.97 lei per litre and 16.87 lei per litre for diesel.

Four oil companies informed the ANRE of their intention to increase the diesel fuel prices by about 0.45-0.90 lei per litre and two importers said they were set to raise the petrol prices by 0.2-0.40 lei, the ANRE press service has reported.

## MOLDOVA'S SAVINGS BANK HAS NEW BOARD

**The extraordinary general assembly of shareholders of Moldova's Banca de Economii (BEM/Savings Bank), convened on 11 October. The participants in the event elected a new composition of the board of directors after the state's stake had been reduced to a blockage stock of 33.33% plus one share following the placement of the closed issuance of shares worth 80.2 million lei.**

The state has two representatives in the Saving Bank's board of directors: the director of the Finance Ministry's public debt department, Elena Matveeva, and deputy director of the Finance Ministry's State Treasury, Angela Voronin.

Thus, Moldova observed the recommendation of the last International Monetary Fund mission that visited Moldova on 18 September – 1 October. Head of the IMF Mission Max Alier said in a press release issued at the end of his visit that "although the participation quota in the bank's authorised share capital was reduced, the government must ensure a solid presence in BEM's Board of Directors, in order to protect the public interest."

The private shareholders are represented in the Board by Constantin Paladi, who presently works at Banca Sociala (Social Bank), where the current BEM head Ivan Crivceanschi worked, the chief of the Central Depository Stanislav Budza and the adviser of the Savings Bank head, Ion Ursu.

Six candidates were put up for the positions of Board representatives, yet the former chairman of the board, Mihail Hincu, garnered the lowest number of votes.

A member of the Moscow Capital company's board of directors, Mariana Covaci, and Natalia Tonu from the Finance Ministry were included in the reserve list.

The biggest BEM shareholders are the Ministry of Finance – 33.33% plus one share, and the Integrated Information Systems – 33.7%, which has increased its stake following a recent share issuance.

## Changes in method of paying insurance for damage caused by motor vehicles delayed

**The 'eternal' conflict between the owners of motor vehicles and the insurance companies for damage paid as a result of road accidents has been again resolved in favor of the insurers.**

Thus, on September 17, 2013, the court decided to annul the normative document of the National Financial Market Commission (CNPF), No 50/7 of 30.11.2012 "Regarding the modification and completion of the regulations concerning the method of determining the damage caused by motor vehicle owners". According to the authors, to a certain extent this method can be considered innovative for the Republic of Moldova as it enables the victims of road accidents to count on damages whose value is as close to the real cost of the spare parts as possible.

This beneficial result for the injured party is due to the fact that the CNPF proposed another method of calculating the wear degree of the spare parts. Thus, the main indicator is the price of an original or secondhand part or of a part produced on a license basis. For example, if the front fender of the car costs, relatively speaking, X lei, the wear degree is calculated based on the ratio of X to the price of the original part, indicated in the producer's catalogue. It should be noted that according to the old calculation method, the wear was determined based on a

set coefficient, while the obtained arithmetic result, in most of the cases, didn't meet the real market prices of the spare parts. This generated a large number of disputes between the injured party, the insured person and the insurance company.

Another important aspect resides in the fact that the CNPF proposed that the wear should not be calculated for motor vehicles younger than three years, instead of one year as earlier, on condition that the repair is done at service units accepted by the sides – the insurer and the insured person.

The proposal can be explained by the fact that the motor vehicles younger than three have the producer's warranty and there are cases when the owners lose the warranty as a result of a road accident for reasons that do not depend on them.

It should be noted that the CNPF didn't ignore the insurance companies' interests either.

In particular, in order to prevent situations of abuse on the part of persons who want to renovate the vehicle at the insurer's expense and on the part of service units by groundlessly increasing the prices of spare parts, it is clearly stipulated that the price of a spare part cannot exceed the price indicated in the producer's catalogue.

The insurance companies represented by the Union of Insurers of Moldova didn't agree with the new changes proposed by the CNPF, which



promoted the interests of most of the drivers, and thus appealed to court, which annulled the CNPF's decision.

If referring to the relations between the Union of Insurers of Moldova and the CNPF, the court decision of 17.09.2013 is the second that blocks the actions of the regulator aimed at protect-

ing consumers' interests. In August, the court suspended the CNPF's decision concerning the reduction in the prices of certain categories of Green Card insurance policies. As in the first case, the CNPF has to appeal to a higher court in order to defend its position.

*Ghenadie TUDOREANU*

# Process of strengthening savings and loan associations can no longer be avoided

The low capitalization of the savings and loan associations holding licenses of category A can be increased if these associations are reorganized by merger with smaller associations or by absorption by the associations holding licenses of category B. Representatives of the National Financial Market Commission (CNPF) and of the Central Association of Savings and Loan Associations (CASLA) explained the legal framework and how the reorganization should take place to associations' administrators.

By November, the administrators from all the country's districts will attend seminars where they will be taught about the strategies and advantages of extending the activity of the savings and loan associations. There will be also explained the essential provisions of some of the bills that are indispensable for the new changes in the work of the savings and loan associations, such as the draft merger contract, the reorganization plan or the transmission document and the concessions enjoyed when providing intermediation services in insurance as bank insurance agent. The seminars are organized by the CASLA and CNPF, with support from the International Agriculture Development Agency (IFAD), which since 2000 has provided financial assistance to Moldovan rural businesses.

The necessity of strengthening the system of savings and loan associations has been discussed for many years. Some of the associations during the last two years even tried to reorganize themselves. CASLA director general Efim Lupanciuc said that though there is a legal framework regulating the reorganization of associations, the attempts didn't have continuity, first of all because the necessity wasn't evident. Secondly, the reorganization procedure was a difficult one and should be well coordinated with the supervision body – the CNPF.

"We want the administrators of small associations to perceive the reorganization as a

real possibility of developing further by offering attractive products for the members as individually they cannot grow to the level to which they can cope with competition. If they are absorbed and become category B associations, they will be able to attract savings as cheap sources that are so necessary for appropriate functioning because this is a possibility of obtaining capitalization and accumulating own money", stated Efim Lupanciuc. He underlined that the regulations concerning the reorganization of the savings and loan associations proposed by the CNPF opens a new way to small entities so that they meet the norms of a classical lending union, i.e. work both with savings and loans.

Elena Burlacu, representative of IFAD that has provided investment loans for savings and loan associations over the last four years, said the donors also have now more requirements and want to see the associations developing steadily. "Until now our organization financed rural businesses through the associations of type A and B, but now we offer support only to those from the second category as they have chances to become microfinance organizations with a diversified service portfolio", stated Elena Burlacu.



Currently, the savings and loan associations are supported financially by microfinance organizations, especially the Rural Finance Corporation and organizations like IFAD, but independently they do not meet the requirements and eligibility criteria for the Ministry of Finance to sign direct financing agreements.

Alina Cebotariov, head of the CNPF General Collective Placements and Microfinance Division, said the supervision body does not oblige the associations to reorganize themselves. "The comparative advantage of the savings and loan associations is that they are closer to the people from villages, but their major problem is that the loans they release are expensive because the financial resources attracted by them are also expensive. That's why the associations must understand that they do not have another economic alternative than to unite", stated the representative of the CNPF.

In the first seminar, Cebotariov presented the results of a study of regional development based on associations' assets. Thus, Briceni district ranks first with 16 savings and loan associations. It scored 40.6 points. Alina Cebotariov said that

in some districts the activity of the associations is insignificant owing to the lack of capitalization, but also to the precarious demographic situation. That's why the idea of reorganizing and strengthening them is topical. "Furthermore, if they manage thus to attract savings, they will become much more independent and will be able to reduce the interest rate on loans, which will make them more competitive in relation to the banks", said Alina Cebotariov.

Asked if the association he administers is ready for a possible reorganization, Valentin Jucican, executive director of the savings and loan association "Rediumareanca", said that this is a procedure of the future. "For the time being, we are satisfied with our stability and development. We recently extended the activity. We now offer loans to residents of three more villages from the neighborhood. However, the interest on the savings we deposit with the banks is too low. I think we should deposit the money at the Central Association, if the legislation is amended to allow this", said the association's director.

According to the CNPF, there are about 360 savings and loan associations in Moldova. The amendments to the legislation that took effect last summer enable the associations to obtain one of the four types of licenses – A, B, C and for the central association. Under the given amendments, the license of category B can be granted to an association that has held a license of category A for at least a year, has assets totaling at least 1.5 million and has minimum 200 private individuals and legal entities as members. The CNPF can issue a license of category C to an association that has held a license of category B for at least a year, has assets totaling at least 20 million and has minimum 2,000 private individuals and legal entities as members.

Lilia PLATON

## Moldovan financial system at half way

The World Economic Forum assessed the Moldovan financial system with 3.22 points of 7, which shows that the system is poorly developed owing to a number of factors, including the reduced access to loans and the complexity of the financial market.

The Moldovan banking system, though it is considered a developed one at internal level, is isolated from the foreign financial markets because the banks limit themselves to attracting financial resources from the population and companies only. On the other hand, its development is hindered by inefficient loan guaranteeing mechanisms and this makes the banks to overestimate their lending risks. As a result, the interest rates on loans are exaggeratedly high.

**Alexandru Fala, program director at the Analytical Center "Expert Grup": "BANKING SYSTEM NEEDS SECTOR REFORMS"**

Currently, the banking system is well capitalized, except the banks facing problems that are mainly related to financial risks, i. e. with security, given that the banks demand large securities in order to be sure that the loans are repaid. The problems of the banking system come from the justice sector, which is inefficient. An example is the raider attacks.

Sector reforms are first of all required, which would not hinder the banking system from developing. But the most important aspect now is the protecting of those that invest in the banking system of Moldova and for Moldova's economic security. If structural reforms are done to improve the activity of the banking system, we can expect the fundamental economic factors to improve as a result of a rise in the number of loans in the economic sector.



**Roman Chirca, economic analyst: "BAKING SYSTEM IS CONSTRAINED BY INEFFICIENT MANAGEMENT AND LOW INTERBANK COMPETITION"**

The banking system is constrained by certain mechanisms and inefficient management as well as by the low interbank competition. The banks do not have great potential and they often center on the provision of services with increased commission to the detriment of development programs and lending to the real sector of the economy, which the banks consider less interesting and not of major importance. All these things lead to reduced efficiency, low competition and inconsistency with the market demands. On the other hand, in Moldova there are no foreign banks or there are foreign banks present only through indirect mechanisms. This leads to a reduction in the credibility of the banking system and in the potential of investors. Many of the investors coming to Moldova want to enjoy the bank services they know. Their absence represents a barrier for the foreign investors.

The coming of a famous foreign bank to Moldova would solve the problem of the banking system. I think we now have a larger number of banks than the national economy needs. The coming of a large bank would lead to the coagulation of the financial institutions and to better structuring of the system. Furthermore, a competitive bank with standards would increase the compe-

tiveness of the banking system in general. There is no banks specialized in providing certain types of bank products. We do not have an exclusively agricultural bank, even if there is certain conventional specialization. The financial institutions prefer to perform more profitable activities, including impose hidden commissions, in order to make profit, instead of increasing the volume of released loans.

**Alexandru Stratan, director of the Institute of Economy, Finance and Statistics: "BANKING SYSTEM DOES NOT WORK BADLY GIVEN THAT IT TURNED OUT TO BE VIABLE IN THE CRISIS PERIOD"**

The development level of the banking system is not the required one. I would like to note that the development depended more on psychological factors rather than economic, including the raider attacks, the uncertain situation of Banca de Economii, and the bankruptcy of two banks, InvestPrivatBank and Universalbank. Because of these factors, the situation in the banking system is bad. On the other hand, our system didn't witness perturbations as in Belarus and Ukraine, where the withdrawals from ATMs or from accounts were limited. The current events, including the replacement of the owners of the banks, take place at the level of administration. For the people, the bank as a mechanism works as usual.

The rankings are compiled based on polls involving businessmen. It is clear that any detail here plays an important role.

If a raider attack is staged correctly, from the viewpoint of the Moldovan legislation it is legal. The fact that it is dishonest from ethical, moral viewing is something different. There were no cases when the appropriated shares were returned.

In fact, the competition in the banking sector is not loyal. This sector is partially monopolized and there may exist even cartel agreements. For example, the interest rates on loans and deposits do not differ much from bank to bank. In general, the banking system does not work badly given that it turned out to be viable in the crisis period because it is less developed and is not incorporated into the international financial circuit. At internal; level it works well. It would give it a mark of '3' out of five points possible. It is the matters concerning monopolization, the interest rates on loans and deposits that are mainly the same, plus minus several percentage points, that worry us, not the fact that we have a bad banking system. The score as regards businesses and the guaranteeing of property is rather good in the Republic of Moldova. This is rather doubtful at a time when we witness raider attacks and appropriation of possessions. On the other hand, we have a good score as regards the protection of the property right. It is probably about the procedure and the business itself.

In order to be more competitive, we need access to loans as many companies are unable to take out loans because they do not have the necessary security. The access to finances must be de-bureaucratized by facilitating the procedures so as to ease access of businesses. The bank products should be diversified by implementing international practices in the Republic of Moldova. Furthermore, I don't think the situation as regards the combat-

ing of money laundering is very good as there are many offshore companies involved in different transactions. For example, when making an analysis of the imports of oil products, it becomes evident that they come from offshore states, but these countries do not have crude oil resources.

**Corina Gaibu, economic expert of the Institute for Development and Social Initiative (IDIS) "Viitorul": "BANKING SYSTEM IS ONE OF THE MOST SUCCESSFUL IN ECONOMY"**

The banking system is one of the most successful in the economy. A part of the rankings indicators concern the capital market, which has a score of under 3, except for the access to loans only with the business plan and without collateral guarantees. If they want the bank loans to be provided in a simpler way, without guarantees, there must be certain responsibility regulated by the legislation as the given area does not enable to fluidize the financial flows. I mean the exciting laws and regulations and the judicial system. A bank cannot freeze the money for a long period of time, for the period of a trial. It is a problem that needs to be solved. On the one hand, the banks must be responsible towards the depositors. On the other hand, the granted loans must be secured. It is a chain that cannot be interrupted. The loans are secured by security or pledge, but the responsibility cannot be eliminated.

The competition in the banking system is much healthier than in other sectors. Indeed, the business culture in our country is not at the same level as in the West. The Moldovan companies face problems as regards the business plan. I would understand the risks of the banks, but the financial sector cannot surpass the real sector, which sometimes has great expectations.

Victor URSU