

**PRIORITY DIRECTIONS OF INCREASING  
THE INVESTMENT POTENTIAL OF THE CREDIT  
SYSTEM OF THE REPUBLIC OF MOLDOVA**

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*Actuality of the research is determined by the need to increase the efficiency of investment lending activity. The aim of this article is to study and identify opportunities for increasing the investment potential of the credit system. For research there were applied general scientific methods, and particularly statistical method, the method of extrapolation, analogy, institutional analysis. As a result, based on the performed studies there are determined some priority directions to increase the investment potential of the credit system of the Republic of Moldova. Thus, for the investment potential improvement of the credit system of the Republic of Moldova it is required to complete the legal and normative framework which controls the investment lending activity; creation and widening of long-term credit resources; improvement of investment lending mechanism in the real sector of the economy; absolute development of investment lending system by creating investment banks.*

**Keywords:** *investment potential, credit system, investments credit, real sector of economy.*

*Actualitatea cercetării este determinată de necesitatea eficientizării activității de creditare a investițiilor. Scopul acestui articol constă în studierea și identificarea posibilităților de creștere a potențialului investițional al sistemului de credit. Pentru cercetare au fost aplicate metodele științifice generale, în special metoda statistică, metoda de extrapolare, analogie, analiza instituțională. Drept rezultat, în baza studiilor efectuate sunt determinate unele direcții prioritare de creștere a potențialului investițional al sistemului de credit al Republicii Moldova. Astfel, pentru sporirea potențialului investițional al sistemului de credit al Republicii Moldova este necesară perfecționarea cadrului legislativ-normativ ce reglementează activitatea creditării investiționale; crearea și lărgirea bazei de resurse creditare de lungă durată; perfecționarea mecanismului creditării investiționale a sectorului real al economiei; dezvoltarea completă a sistemului de creditare a investițiilor prin crearea băncilor investiționale.*

**Cuvinte-cheie:** *potențial investițional, sistem de credit, creditarea investițiilor, sectorul real al economiei.*

*Актуальность исследования определяется необходимостью повышения эффективности деятельности по кредитованию инвестиций. Цель данной статьи состоит в том, чтобы изучить и выявить возможности для повышения инвестиционного потенциала кредитной системы. Для исследования были применены общие научные методы, в частности, статистический метод, метод экстраполяции, аналогии, институциональный анализ. В результате, на основании проводимых исследований, были определены некоторые приоритетные направления для повышения инвестиционного потенциала кредитной системы Республики Молдова. Таким образом, для увеличения инвестиционного потенциала кредитной системы Республики Молдова необходимо совершенствование нормативно-правовой базы, регулирующей деятельность инвестиционного кредитования; создание и расширение ресурсной базы долгосрочного кредитования; совершенствование механизма кредитования инвестиций реального сектора экономики; полное развитие инвестиционной кредитной системы путем создания инвестиционных банков.*

**Ключевые слова:** *инвестиционный потенциал, кредитная система, кредитование инвестиций, реальный сектор экономики.*

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**Introduction.** The globalization of economic processes requires urgent need of making structural changes in the economy of the Republic of Moldova. In the current conditions, investments are the main driver of economic growth, within the close interaction between credit system and the real sector of the economy. Demand for long-term loans does not coincide with the offer from commercial banks, and the level of profitability of enterprises of real sector of economy does not allow attracting necessary the investment volume. Further development of the economy depends on the structure and size of the investment potential of the credit system, which is largely determined by the presence of investment resources in combination with the efficient management of these resources.

Internationally, the issue of efficient functioning of the credit system has been in the focus of researchers and economists for decades. According to researcher Igonina L.L., the banking system institutions are focused on a considerable investment potential, which unlike many other institutions have exclusive possibilities of use of funds [1].

Growth opportunities of the investment potential were discussed by local researchers and economists [5-14]. In the sphere of investments in the Republic of Moldova, along with positive trends, negative phenomena are taking place, as well as contradictions in relations among population, traders from different branches of the economy and the state, contradictions aimed at the formation, mobilization and use of investment resources, both at macro and micro levels. On the one hand, there is the chronic lack of full financing of investment needs of enterprises from the main branches and other branches of the economy and, on the other hand, there is the existence of considerable investment resources that are not attracter in the investment process, mainly, due to the lack of appropriate investment market instruments and mechanisms of, and first of all, by the transformation mechanisms of household savings into real investments [5, p. 61].

Defining the investment potential of the credit system requires *mobility to invest efficiently, quickly and with a variety of options to use all available resources, skills and capabilities*. The main direction of financial and economic analysis of the investment potential of credit system represents a financial review, which corresponds to the economic content of economic and financial processes within the credit institution [2]. Investment potential of the banking sector is an important feature in the macroeconomic analysis of the banking system [3]. Economic and financial analysis in the sphere of credit is scientific and practical work that covers the collection, processing, interpretation of data on financial and economic processes, objective and subjective factors, under whose influence some risks occur and results of the activity of the credit system appear.

The purpose of economic and financial analysis of investment potential of the credit system comprises:

- Multi-objective evaluation of the performance of credit system, the current and future situation;
- Identification of growth stocks of the market value of the credit system, a more efficient use of internal resources of the credit system;
- Development of management decisions options on increasing the efficiency of activity and fulfillment of strategic objectives and tasks of development of the credit system.

Economic and financial analysis allows assessing the results and the effectiveness of investment potential use of the credit system, which serves as the basis for assessing the credit system management. Thus, the essential feature of economic and financial analysis is the ability to study and assess not only the activity of the credit system, but the management effectiveness of the credit system [4].

**Analysis and assessment of investment potential of the credit system of the Republic of Moldova.** Situation analysis of the credit system of the Republic of Moldova during the years 2007-2015 (table 1) shows a trend of decrease in the main indicators, in particular the reduction of ratio of total assets of the banking sector to GDP from 78.9% in 2013 to 56.7% in 2015, decrease of rates of return on assets from 3.91% in 2007 to 1.66% in 2015, and return on equity from 23.97% in 2007 to 9.06% in 2015.

During 2016, due to the fraud in the banking sector, which took place in 2013-2014, Republic of Moldova faced very tough monetary conditions with very high interest on the grounds that the economy was tried to be adjusted to the fraud. The effect produced is characterized by significantly reduced level of economic activity, the economy as a whole being located at the lower limit of development. The biggest influence of negative processes in the banking sector and in economy as a whole occurred in the **investment sector**. According to the National Bureau of Statistics data (table 2), in January-December 2015 investments in national economy accounted for 21123.3 mil. lei (current prices). Compared to the respective period of 2014, this amount was reduced by 9.4% (in comparable prices). Construction and

assembly works were recorded amounting to 10130.4 mil. lei, which is with 15.5% less than in 2014 (in comparable prices).

In the first semester of 2016 the volume of investments in long-term tangible assets totaled about 5.4 billion lei, with a decrease of 21% (in comparable prices) compared to the first semester of 2015. Of these, construction-assembly works constituted about 2.6 billion lei and decreased with 17.7%, respectively. This decrease was due to some negative expectations of economic agents and the general public about the economic and political situation in the country, especially due to the high cost of credit. Although the credit volume given to economy during the study period increased, reaching a value of 42593.3 mil. lei in 2015, the ratio of loans to GDP declined in comparison with 2013 from 44.29% to 35% in 2015 (the GDP value in 2015 calculated in current prices). Also, there was observed a decrease in the ratio of monetary savings to GDP of individuals from 42.4% in 2013 to 35% in 2015 (the GDP value in 2015 calculated in current prices). During ten years (2007-2015), money transfers from abroad to individuals amounted to 13978.76 mil. USD. It was expected that these funds to be recovered at a high efficiency. But today we can see that these funds have not been used effectively. Analysis of the made calculations on growth rates of GDP, loans and bank deposits of individuals, shows a lack of correlation between these indicators.

Table 1

**Situation of the Moldovan banking sector during the years 2007-2015**

Indicators	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross Domestic Products, mil. lei	46096,3	57 617,2	59152,8	64716,7	76784,8	81744,7	96521,3	105327,6	121851,0
Total assets of the bank system, mil. lei	31978,7	39122,7	39915,0	42302,9	49282,0	58168,5	76184,0	59978,6	69095,6
The ratio of total assets of the banking sector to GDP, %	69,9	67,9	65,5	67,4	64,2	71,1	78,9	56,9	56,7
Loans to economy, mil. lei	20883,8	25122,6	23884,1	26915,5	30962,9	35948,3	42632,7	41273,0	42593,3
The ratio of credits to GDP, %	39,1	45,3	40,4	41,6	40,3	44,0	44,2	39,2	35,0
The balance of bank deposits of individuals - total mil. lei	14214,0	17242,0	16610,0	18465,0	21277,0	25257,0	31433,0	34444,0	35098,0
The ratio bank deposits to GDP, %	30,8	30,0	28,1	28,5	27,8	31,0	32,6	32,7	29,0
Money transfers from abroad to individuals (net) mil. USD	1660,09	1660,09	1182,02	1244,14	1443,47	1494,23	1608,98	1612,96	1129,36
Profit, mil. lei	1093,5	1219,6	-164,5	188,8	806,9	753,7	1151,4	923,7	1442,7
Return on assets, %	3,91	3,49	-0,39	0,54	1,8	1,1	1,56	0,85	1,66
Return on equity, %	23,97	19,91	-2,51	3,04	10,6	5,6	9,42	5,86	9,06

Source: According to the National Bank of Moldova and National Bureau of Statistics data [19, 20].

Table 2

**Main indicators of investment activity during the period 2007-2015 mil. lei**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investment in long-term tangible assets	15 335,8	18 224,8	11 123,6	13 804,8	16 449,5	17 153,9	19 132,3	21 158,5	21 123,3
Construction-assembly works	8 630,0	10 233,3	6 047,1	7 078,8	7 950,3	8 784,6	9 881,2	11 103,8	10 130,4
Putting into operation of fixed assets	11 210,6	14 138,8	11 374,9	13 156,0	15 384,3	14 566,3	16 891,0	19 111,5	18 942,9

Source: National Bureau of Statistics [19].

Due to the insufficient development of the domestic banking system, a key issue of the Moldovan economy is in noncompliance of real investment with the level that will ensure the large-scale modernization of the national economy.

Based on the performed analysis, creation of an advanced credit system in the Republic of Moldova, increase of the share of financial services in GDP, including investments, sustainable economic

development, increase of the quality requirements of services provided by credit institutions require the need to increase the investment potential of the credit system, including the establishment of priority directions.

### **Priority directions of growth of investment potential of the credit system of the Republic of Moldova**

In order to increase the investment potential of the credit system of the Republic of Moldova is necessary to take actions in the following priority directions.

**1. Improvement of the legal framework governing investment lending activities, implementation of the best practices and modern standards in the field.** According to the strategy for implementing Basel III in the Republic of Moldova under the European legislative framework (Decision of the Executive Committee of the NBM no. 94 of 07.04.2016), based on analyzes performed within the NBM, a number of problems have been identified including [15]:

1) The existent normative base of NBM largely does not meet the current European standards. To succeed to cover the currently unregulated areas, NBM undertakes attempts to amend and supplement the existing regulatory framework to solve the existing issues. A modern regulatory framework similar to the European one would create prerequisites of sustainable development of financial institutions, open to strategic investors from abroad and the recognition of equivalence of the Moldovan framework by similar authorities from abroad.

2) Insufficient institutional capacity of the NBM in the context of exercising its banking supervision functions: NBM does not have all the tools to prevent problems in the banking system and the processes of modernization and development of the existing tools and techniques of supervision do not provide the increase of quality of performed activities in this respect and promotion of prudent behavior from the supervised entities.

3) Opaque quality and transparency of the organizational structure of institutions: the area is negatively evaluated by specialized international organizations, and in most of cases, their recommendations are aimed at improving the given situation.

Thus, eliminating the mentioned shortcomings, and applying the most modern techniques of supervision by the NBM will significantly contribute to improving the current positions of financial institutions in the Republic of Moldova.

It is also necessary to mention that the provisions of the National Development Strategy "Moldova 2020" stipulates that the *existent deficiencies in collateral management will be removed and the instruments of hedging will be developed so that excessive liquidity in the financial system to be targeted in an effective way to crediting the real sector of the national economy* [16]. By Government Decision no. 511 of 25.04.2016 there was approved the National Strategy for attracting investment and promoting exports for 2016-2020 and the Action Plan for its implementation [17]. Situation from the banking sector and the real economy shows the lack of ways of targeting excess liquidity for investment lending of the real sector of economy.

### **2. Long term creation and broadening of the lending resource base.**

Increasing the desire of population to save money and place them in banks requires:

- improving the reliability of banks and other financial institutions by their capitalization, improvement of prudential supervision, expanding refinancing instruments;
- financial education of the population;
- creation of new financial instruments for population, development of the collective investment field;
- development of the insurance risk system, including ensuring accountability for financial intermediaries, the formation of guarantee funds and compensation, the development of the derivative financial instruments market.

### **3. Improving the mechanism of investment lending of the real sector of the economy.**

Improving the mechanism of lending will comprise several phases including credit and investment resource forecasting, lending process, monitoring of use and repayment of loans.

Issues of further development of the lending mechanism, as part of the management system of banking activity, are closely related to economic development issues. For efficient operation of the banking system by the monetary authority (NBM) the following steps can be taken: stimulate lending by commercial banks to the real sector, create conditions for the development of new forms of lending, development of investment operations, providing facilities to banks that credit the real sector enterprises.

The most important and necessary condition for improving the credit mechanism is to extend the lending process and increase the competitiveness of credit institutions.

#### **4. Development of the business environment and improvement of the investment climate.**

For an effective and dynamic economic growth it is necessary to improve the mobility of capital in the economy by promoting sound macroeconomic policies.

#### **5. Complete development of the credit system of investment by creating investment banks for providing credits in medium and long term.**

Two types of investment banks activate in the modern credit system. First type of banks provide services exclusively related to the sale and placement of securities, and the banks of the second type – the provision of medium and long-term loans. Investment banks of the first type were developed in England, Australia, Canada, USA. These banks are prohibited from accepting deposits from the public and companies, their resources being formed by auto emission of activities securities.

Investment banks of the second type have been seen in a range of countries of Western Europe (Italy, Spain, Netherlands, Norway, Portugal, France, Sweden) and in developing countries. The main tasks of these banks consist in lending in medium and long-term of different branches and sectors of the economy, the realization of various specific projects in advanced technologies filed and government programs to stabilize the economy and socio-economic development. These investment banks activate in various operations in the capital market, the accumulation of savings of individuals and legal entities, performing loan granting in the medium and long term for companies. It should be noted that in some countries, investment banks perform the functions characteristic for both types of investment banks. In England, Canada, US investment banks of the second type do not exist, and long-term lending is carried out by other types of financial and credit institutions. A feature of investment banking activity is their targeting to mobilize long-term capital and making it available through the issuance and placement of shares, bonds, other securities, including long-term loans.

According to Government Decision no. 1015 from 01.10.98 on the creation of the Bank for Investment and Development of Moldova [18], the Government, jointly with the National Bank, had the intention to create a bank for investment and development. With great regret, this bank was not created, while the intention remained only on paper and the governmental document is in effect until today.

#### **Conclusions and recommendations:**

As a result of the conducted study on the priority directions of increasing the investment potential of the credit system from the Republic of Moldova, the following conclusions may be exposed.

1. The investment potential of credit system is one of the main factors of economic growth, stimulation and lending of the real sector of economy.

2. Investment potential was not fully utilized over the analyzed period, thus reducing the investment opportunities in the real sector of the economy and the competent entities failed to create the necessary prerequisites and conditions.

3. Although in the last years serious violations were admitted in the activity of the credit system, which affected the economic situation of the Republic of Moldova, overall, the investment potential of the credit system remains one of the major factors of economic growth, being necessary to make urgently profound structural changes in the economy of the Republic of Moldova, including in the banking sector.

4. In order to redress this situation, the competent bodies are to take concrete action on priority directions of increasing the investment potential of the credit system of the country, including improvement of the legal framework governing investment lending activity, creation and broadening the lending resource base in long term.

5. A decisive role in solving problems related to increasing the investment potential of the credit system of the Republic of Moldova lies in creating a development and investment bank.

The impetus for the successful realization of investment potential of the credit system is to create a developed infrastructure of the market economy, serving the sphere of investment lending to the real sector of the economy. For this purpose, it is necessary to perform the following actions.

1. Establishment of a flexible and efficient interaction system between the banking sector and the enterprises from the real sector, which would allow both to establish a correspondence between the required resources and available credit investments and their structure. This would enable the banking sector to carry out the organization of investment lending activities, involving a large number of enterprises.

2. The use of complex financial instruments, to reduce real interest rate on investment loans through the optimal combination of available range of financial products by the banks. High access to resources creates a higher demand, while the existing investment potential is being used more efficiently.

3. Creation of an effective system of stimulating investment activity by the state.

Creating a favorable investment climate through the actions described above is a macroeconomic condition important for the efficient use of the existing potential of the credit system that would allow achieving the goal on the development of investment credit system in the medium and long term, in competitive and efficient ways, able to ensure a high level of investment activity in the economy.

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