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PERSPECTIVES OF IMPROVEMENT OF THE CAPITAL MARKET OF THE REPUBLIC OF MOLDOVA THROUGH BROADENING THE INVESTORS' BASE

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***Abstract**:*
The article presents an analysis of the prospects of stimulating capital market activity as a mechanism for attracting and redistributing investment capital in the Republic of Moldova. The research was based on a thorough analysis of international experience in capital markets improvement through expanding the investor base in developed and developing countries. Among other, the article identifies the main aspects of the impact of improving the legal framework on increased activity of both institutional and retail investors in the financial markets of the EU countries. The bellow study was carried out with the help of the following research methods: logical analysis of theoretical and practical materials, documentary method, analogy and grouping, quantitative and qualitative data method, synthesis method, comparative analysis; all these resulted in identifying features of investment activity of domestic investors and formulating recommendations on measures aimed at its stimulation, based on best international practices.

Key words: *capital market development, institutional investors, retail investors*

JEL**:** *E2, G22, G23, O16*

1. INTRODUCTION

One of the most significant institutions of the stock market is institutional (collective) investors, whose activity allows setting long-term investments of savings in securities; it provides tools for pensions and savings, which has an overall positive impact on the welfare of the population.

The intensive development of institutional investors and their achievement of a certain level of maturity in most developed countries created the prerequisites for the growing economic and financial role of these institutions as representatives of the financial interests of the broad masses of the population.

During the second half of the twentieth century, a broad and developed system of institutional investors was formed in developed countries with specific features determined by the specific conditions of each element. In countries with developed national stock markets, institutional investors practically shape the course and specifics of the development of the stock market.

Investment and pension funds, as well as insurance companies and other types of institutional investors in the second half of the twentieth century received the bulk of the financial assets of advanced economies. They began to have a serious impact on the derivatives market, money and foreign exchange markets, as

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well as on the development and formation of the primary and secondary market for long-term securities. Currently, in countries where stock markets play a significant role in economic development, the largest amount of assets is managed by institutional investors. The level of development of institutional investors is interrelated with the level of development of the securities market. In order to accelerate and successfully complete the formation of the stock market, countries with economies in transition, including the Republic of Moldova, must ensure the long-term development of institutional investors, primarily collective investment institutions such as investment and non-state pension funds.

2.1. RESEARCH THEORETICAL ASPECTS

Financial markets play a vital role in the allocation of resources and operation of modern economies. Modern studies prove that increasing the level of development of the financial system reduces the cost of external financing, promotes the emergence and growth of new firms, and accelerates the growth of innovative industries. Stock market development stimulates economic growth, as measured by per capita GDP. Moreover, among the indicators of the stock market, one of the most significant is the level of liquidity and depth, as well as the effectiveness of financial intermediaries. The level of development of the financial market and its impact on the economy in Eastern Europe is still falls behind the more developed EU countries. The smallest lag is in the one of government securities markets, the equity markets are lagging to a greater extent, and the most severe lag is typical for corporate bond markets. In countries that are new EU members, bank lending dominates the economy, and to a lesser extent the stock market. However, modern research shows that the measures taken in several Eastern European countries to improve the macro-economic situation, financial infrastructure, financial liberalization, and improve the corporate governance mechanism significantly contributed to the development of national capital markets. It was also revealed that an increase in the number of financial intermediaries had a significant positive impact on the development of the *capital market* of these countries and the increase in their role in economic growth (Hîncu, R. and Biloocaia, S. (2016)).

Institutional investors contributed to greater activity in the capital markets, which was the result of increased demand for local securities and, as a result, led to an increase in capitalization of the *capital market.* Institutional investors are actively involved in corporate governance, reducing the cost of capital for firms. Institutional investors are successful in monitoring the executive bodies of the company. It was found that pension funds, as well as investment and hedge funds effectively improve the business policies of companies and the organization of their management. It has been proven that pension reform has made a great contribution to the institutional development and growth of the stock market in Central and Eastern Europe. This result coincides with the opinion that until developing and transitive countries have sufficiently developed a national institutional structure and "fundamental institutions of the capital market", they will not be able to develop a national *capital market.* Note that in recent years a significant number of theoretical and empirical studies have appeared that emphasize the importance of the emergence of institutional investors for the development of national stock markets and, as a result, for enhancing their influence on economic growth (Hryckiewicz, A. (2009), Baltagi, B. et al.(2007)).

The development of financial institutions and increased competition between them leads to: a decrease in interest rates on loans, as well as an improvement in the quality of selection and subsequent monitoring of firms and households - borrowers; increases the efficiency of loan allocation; reduces the level of collateral requirements and makes obtaining funds affordable for new firms, making it easier for them to enter the market and giving them the opportunity to compete with existing firms; accelerates the exit from it of inefficient corporations. Financial institutions: mobilize savings; choose the most optimal opportunities for their placement; control the use of borrowed funds by firms, helping to improve the quality of management activities; reduce unnecessary expenses and fraud; promote the implementation of the best accounting and financial accounting standards; ensure the functioning of risk diversification mechanisms and affect the savings rate and resource allocation efficiency, which creates prospects for future economic growth (Adarov, A. and Tchaidze, R. (2011), Kahan, M. and Rock, E. (2007)).

Developing a deep and diversified domestic institutional investor base has long been acknowledged as an important contributor to capital market development by such financial institutions as World Bank, Committee on the Global Financial System etc. Moreover, facilitating direct and indirect access to professional fund management services, including through collective investment products, can encourage greater financialization of household savings, away from gold and property, supporting stronger business investment and economic growth. Key policies that influence the evolution and impact of an economy's domestic institutional investor base include: the structure of the domestic retirement savings system, particularly the role of funded versus unfunded pay-as-you-go schemes; the degree to which saving via pension, mutual fund and insurance products is actively encouraged through tax treatment or requirements for participation; the quality of the supervisory framework applicable to asset managers and the confidence this imparts; the range of assets that institutional investors are allowed to hold; and the degree of financial literacy of potential clients (BIS (2019)).

To stimulate the institutional investors expansion and to increase their influence on the attraction of long term investment resources in the capital market, Organisation for Economic Co-operation and Development (OECD) proposed *High-level principles of long-term investment financing by institutional investors* (G20/OECD (2013)), to spur the capital market development, including through institutional investors' activity stimulation, *Bank for International Settlements* (BIS) in its investigation *Establishing viable capital markets* (BIS (2019)), identified the broad range of drivers, including diversification the spectrum of investors and activation of their activity in the capital market.

At European Union level, for implementation of one of the most important initiatives of European Parliament of last years - the creation of the Capital Markets Union (CMU), which is a key point in the EU's long-term endeavor to foster financial integration and resilience and has the main scope of lowering the dependence on bank-based financial systems, increasing cross-border capital market integration and fostering better growth performance and risk sharing, what is especially important for EU developing countries, the main subjects were proposed, which include: financing for innovation, start-ups, and non-listed companies; making it easier for companies to enter and raise capital on public markets; investing for the long-term, infrastructure, and sustainable investment; *fostering retail and institutional investment*; leveraging banking capacity to support the wider economy; facilitating cross-border investing (EU Commission (2015)). Federation of European Securities Exchanges (FESE) elaborated its Blueprint: *Capital Markets Union by 2024 – a vision for Europe,* setting out 20 principles and recommendations on how to take the CMU forward, paying special attention to investors activity stimulation (FESE (2019)).

Taking into consideration the necessity of increasing of capital market role as one of the most important mechanism for attraction and redistribution of investment capital in the Republic of Moldova, the *scope of this article is*: based on the investigation of the EU experience, to analyze the perspectives of capital market improvement in the Republic of Moldova, through broadening the investors' base.

2.2. PROPOSED RESEARCH METHODS

The investigation presented in this article was implemented based on such research methods as: general-scientific methods of cognition, logical analysis of theoretical and practical materials, documentary method, analogy and grouping of quantitative and qualitative data method, graphical method, method of synthesis and comparative analysis method. Analysis is based on the data obtained from World Bank, European Fund and Asset Management Association's (EFAMA)*,* National Commission for Financial Markets (NCFM) etc. To analyze the possibility of implementing the best international practice in developing the capital market through stimulating the activity on the national markets of different types of investors, the current article has analyzed the experience of some developed and developing EU countries.

2.3. RESEARCH OF EMPIRICAL ASPECTS

The key factor determining the sustainable development of the economy is the availability of financial resources to support investment activity. In the EU countries, especially in the countries of Eastern Europe, the most important source of economic growth, as in the Republic of Moldova, is bank lending. At the same time, capital market as a market for long-term financial instruments, can play a crucial role in the allocation of capital, supporting productivity and healthy economic growth in the country.

A comparative analysis of the European financial market and the financial market of the United States, where the dominant position of the main source of investment financing is the securities market, revealed that relative insignificance of capital market-related financing in the EU countries can be explained by both *supply-side* and *demand-side* factors (GCEE (2018)). A key reason for the relatively *low level of supply* in the capital markets in Europe compared with the United States is the difference in *savings patterns.* Savings in the United States are mainly accumulated using capital market products such as shares and investment funds, whereas savers in Europe traditionally opt for bank deposits.

The low level of supply in European capital markets may also be due to structural differences in the systems underpinning *provisions for old age*. In Germany, for example, pensions are mainly financed on a *pay-as-you-go basis*. By contrast, pensions in the United States are to a larger extent funded by capital, which explains the higher investment volumes and the greater relevance of institutional investors such as *pension funds* and *asset managers*. A relatively low level of investments in capital market products may also be due to a less developed *financial literacy*. In Europe, for example, there is a noticeable positive correlation at country level between financial literacy and investing in investment funds.

On the *demand side* a significant challenge is *information asymmetries*. Another challenge is the fact, that about 98% of EU non-financial companies are small and medium enterprises (SMEs). SMEs face obstacles when accessing capital markets because fulfilling the disclosure requirements involves a lot of effort. Moreover, the fixed *costs for issuing securities* are frequently prohibitively high. Many SMEs turn to banks for finance instead, but this is not an option for *start-ups* in their initial and growth phases. In countries where the capital markets are poorly developed in terms of *venture capital*, new companies are less likely to be launched or they will relocate to another country. The problem with this is that start-ups are crucial to economic growth and innovation. The problem for equity market development in EU is the structure of the *tax system*. *Debt finance* enjoys *preferential tax treatment* in most EU member states. The aforementioned obstacles are even greater when it comes to *cross-border financing*. This might explain the low level of risk sharing via capital markets. For *institutional investors,* such as asset managers, barriers arise as a result of differing legislation and its application at member state level, for example, in the case of insolvency law, differences in sales regulations and consumer protection rules etc.

To remove the aforementioned obstacles, in EU were elaborated and implemented numerous *measures* and *legislative proposals* in connection with Capital Markets Union (EU Commission (2019)). These include the proposals on a *Common corporate tax base* and *Common consolidated corporate tax base*, as well as the reform of the *European Market Infrastructure Regulation* (EMIR) aimed at providing simpler and more proportionate rules for over-the-counter derivatives. Also, six legislative measures to introduce *new EU-wide rules for products, labels and passports* were proposed, including: regulations on *European venture capital and social entrepreneurship funds*; regulation harmonizing the *securitization legal framework;* creating *simple, transparent and standardized securitization*; regulation on a *Pan-European Personal Pension Product*; political agreement on *common rules on covered bonds*; package on facilitating *cross-border distribution of collective investment funds*; the proposals for a regulation on *crowdfunding* etc. To create new funding channels, the case for *European secured notes for small and medium-sized loans and infrastructure loans* was assessed.

To boost the confidence of *retail investors*, the distribution of investment products was assessed. This assessment has identified several challenges that consumers face when looking to invest. Some of these challenges were already addressed by recent changes in EU legislation that improve transparency and strengthen retail investor protection, including through reviewing the *Markets in Financial Instruments Directive* and the *Packaged Retail and Insurance-based Investment Products Regulation*. Several instruments that could help retail investors participate in capital markets were also analyzed. *Employee share-ownership schemes* give retail investors some experience when it comes in investing in shares. *Investment savings accounts* can help more generally to reduce administrative burden and give investors an incentive to participate in capital markets, helped by transparent conditions. Also in the area of retail investment, the EU Commission is examining *technology-driven digital interfaces* that could help individuals find suitable and cost-effective retail investment products in a reliable, transparent and trustworthy way. Finally, the EU Commission has undertaken a study on *potential tax obstacles* to cross-border investment by pension funds and life insurers. To provide simpler, clearer and more proportionate rules for *entrepreneurs, businesses and financial institutions* in EU were proposed legislative measures, which include: *new prospectus regulation*; more proportionate and *risk-sensitive rules for investment firms;* political agreement on the *Directive on preventive restructuring frameworks*; measures to increase the efficiency of *restructuring, insolvency and discharge procedures*; regulation on *European venture capital funds and social entrepreneurship fund;* new rules that will facilitate *financing through capital markets for small businesses*; regulation on the *law applicable to the third-party effects of assignments of claims.* Also, EU Commission adopted an amendment to the *Solvency II* framework for the prudential treatment of qualifying private equity and privately placed debt as well as adopted a more tailored prudential treatment of long-term equity investments by insurance companies. The EU Commission has also committed to identifying and promoting best practices for private placements and promotion of corporate bond markets development in the EU. At EU level, authorities pay special attentions to creation of more *efficient and centralized supervision* of EU capital markets, and the supervision of *central counterparties* is of particular importance is due to their systemic importance for European capital markets. One of the main tendencies of last years is also promotion of *sustainable finance*, which to enable the EU financial sector to lead the way towards a climate neutral, more resource-efficient and resilient circular economy (EU Commission (2019)).

Households and other retail savers are one of the main sources of long-term funding for the European economy (figure 1).

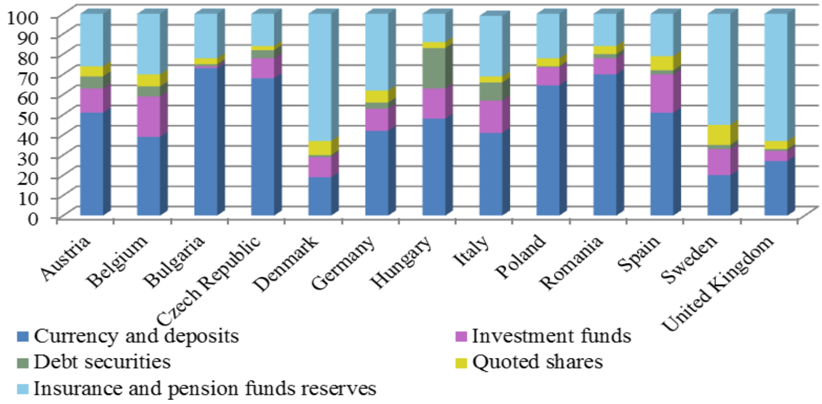

Figure 1: Direct financial holding of households - asset allocation at the end 2017 (%)
(*Source:* elaborated by the author based on EFAMA, 2019)

Individual retail investors, referenced as savers, encompass a broad range of investor types with very different savings needs. As a result, their investment objectives, risk tolerances and investment horizons vary widely and will often change dramatically over an individual's lifetime (Blackrock (2015)). Significant efforts made by the EU Commission for attraction of retail investors on the capital market have shown positive results in recent years, and EU households are increasingly choosing to place their assets not in currency and deposits, but in capital market financial instruments.

The study also proves that the structure of households' asset allocation varies significantly depending on the level of development of the country's economy and its financial market. The higher the level of development of the country, the greater the share of household assets falls on insurance and pension funds reserves, investment funds. Even in conditions, when the share of financial assets invested by the households from developing EU countries in investment funds is insignificant, in general, in EU, households own 25% of the investment funds assets (figure 2).

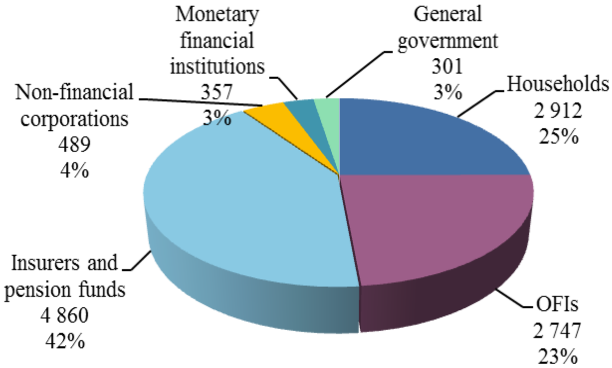

Figure 2: Investment funds ownership at end 2017, EUR bln and share of total (%)
(*Source:* elaborated by the author based on EFAMA, 2019)

Retail investors actively carry out investments both directly in the capital market, through implementing direct investments, as well as indirectly, through different intermediaries, investing in private pension funds, issuance companies, investment funds etc. Thus, retail investors contribute to the development of *institutional investors,* increase their assets, which ensures the growth of *demand on the capital market.* Table 1 shows the volume of investments made in 2017 by EU institutional investors.

Every year, the volume of assets of *institutional investors* in the EU countries grows by an average of 10% (EFAMA (2019)), *households* investments in financial instruments of the capital market since 2012 have grown by 4% of GDP (AFME (2018)). One of the most important prerequisites for stimulating this growth is the above-mentioned measures taken at the EU level to improve the legislative framework, protect investors' rights, improve supervision, increase the transparency of the financial market, develop its infrastructure and its digitalization, as well as the creation of a wide range of new financial instruments and investment alternatives, including through the growth of cross-border transactions. At the same time, these same activities have a positive effect on the increase of *supply* on the capital market.

Table 1. Asset allocation of EU financial institutions at end 2017 (EUR billions)

Financial institute	Currency and deposits	Debt securities	Quote d shares	Investment funds	Multi -asset	Real estate	Other	Total
Insurers and pension funds	846	5748	817	4860	-	-	1456	13727
Undertakings for the Collective Investment in Transferable Securities (UCITS*)*	1168	2626	3697	-	1751	-	389	9731
Alternative Investment Funds	59	1120	825	-	1591	648	1650	5893

(*Source:* elaborated by the author based on EFAMA, 2019)

Studies show that markets that manage the most significant broadening the investors' base are markets that have reached a certain level of development (table 2). A study of the main sources of investment capital in the Republic of Moldova proves that the national stock market does not have a decisive influence on providing the economy with capital and companies prefer to use bank loans in search of investment funds, whose share in GDP is much higher than the share of capitalization, as evidenced by the dynamics of indicators of *domestic credit to private sector/GDP* and *market capitalization of listed domestic companies/GDP* (table 2).

Table 2. International comparisons of the main financial indicators, 2017

Country	Assets of private pension funds (% of GDP)	Assets of investment funds (% of GDP)	Assets of insurance companies (% of GDP)	GDP per capita (current US$)	Gross savings (% of GDP)	Domestic credit to private sector (% of GDP)	Market capitalization of listed domestic companies (% of GDP)	Stocks traded, total value (% of GDP)
Austria	6,0	48,7	32,2	47380,8	27,4	84,0	36,1	9,6
Belgium	7,9	41,1	70,3	43507,5	25,5	65,9	88,5	na
Bulgaria	12,9	1,2	na	8228,0	28,6	50,6	14,4	1,6
Czech Republic	8,8	8,1	10,5	20379,9	26,3	51,5	15,0	na
Denmark	46,4	109,2	112,5	57218,8	29,5	162,9	na	na
Germany	6,9	61,7	62,5	44681,0	28,2	77,3	61,2	42,2
Hungary	4,3	15,1	7,6	14278,0	25,6	33,2	22,6	7,4
Italy	1,0	16,2	49,6	32155,2	20,0	81,2	na	na
Poland	9,0	14,4	9,4	13861,0	19,8	52,5	38,3	12,9
Romania	4,9	na	na	10792,9	20,2	26,5	11,1	1,8
Spain	9,5	26,0	26,2	28208,2	22,9	105,5	67,6	56,4
Sweden	4,2	86,9	33,6	53253,4	29,3	132,7	na	na
United Kingdom	105,5	57,7	na	39932,0	13,1	135,4	117,5	94,2
Republic of Moldova	-	-	0,96	2724,5	16,8	22,7	0,3	1,01

(*Source:* elaborated by the author based on World Bank Open Data, 2018; CNPF, 2018)

The issues carried out on the national capital market are closed, the bulk of the placed securities are ordinary shares. In the entire history of the capital market of the Republic of Moldova, in domestic market has never been an *initial public offering (IPO)* of equities. Trading volumes in the secondary market are not significant, as evidenced by one of the lowest *stocks traded, total value/GDP* indicators in Europe. Corporate bonds, financial hedging instruments, securitized liabilities, innovative capital market instruments (equity crowdfunding etc.) are non-existent. The main reasons that determine the lack of interest of national corporations in raising capital on the capital market of the Republic of Moldova are: the danger of losing control over the enterprise and / or dilution of the share of shareholders in the authorized capital of the company; the compulsoriness for information disclosure during a public offering of securities; a lengthier procedure of securities issue, compared to bank lending, when also being uncertain if the placement of securities will be successful; repeated attempts of raider seizures of companies carried out through transactions on the capital market; the lack of need to attract significant amounts of capital for a long period (5 years or more); lack of awareness of companies about the benefits of raising funds on the security market;a significant share (over 98%) of small and medium-sized enterprises (SMEs) that cannot be issuers in the national capital market, etc. All of the above determines the low level of *demand of capital* on the capital market, which slows down its development.

Regarding the *supply of capital*, insurance companies are the main *institutional investors* on the capital market in the Republic of Moldova. According to the NCFM, the share of assets saved by domestic insurance companies in securities during 2012-2017, increased from 17% to 46%, also during the same period, the share of allocated capital into bank deposits decreased from 35% to 18%. The volume of capital invested by the insurance companies as investors on the capital market grew from 152.9 mln.lei in 2012 to 788.2 mln.lei in 2017, the volume of capital invested in bank deposits, decreased from 317.5 mln.lei to 310.0 mln.lei in the same period (table 3).

In the Republic of Moldova there are no active *undertakings for collective investment in transferable securities. Privatization and investment funds,* which during 1994-1997 collected public property bonds (vouchers) from 1.8 million citizens and privatized property in the amount of 930 million lei, in 1997 failed to fully implement the requirements of the Law "On Investment Funds", and as a result, for a long time, their substantial share was in state of forced and voluntary liquidation, and today do not carry out any activity. *Non-state pension funds* also aren't functioning in the Republic of Moldova (Biloocaia S. (2018)).

Table 3. The structure of assets admitted to represent the insurance reserves and the minimum solvency margin

Indicators	2012		2013		2014		2015		2016		2017	
	mln.lei	%	mln.lei	%	mln.lei	%	mln.lei	%	mln.lei	%	mln.lei	%
Securities	152,9	16,9	284,3	26,1	398,4	32,9	705,7	33,2	758,5	33,5	788,2	46,2
Bank deposits	317,5	35,1	323,0	30	308,8	25,5	598,1	28	594,2	26,0	310,0	18,2
Available in bank accounts and in cash	60,9	7,0	89,3	8,0	67,5	5,6	158,7	7,0	140,4	6,0	93,4	5,5
Land and buildings	185,6	21,0	199,9	17,9	226,9	18,7	355,2	17,0	400,7	18,0	225,1	13,2
Receivables related to subscribed premiums	54,0	6,0	63,8	6,0	68,4	5,6	125,9	6,0	157,4	7,0	92,7	5,4
Reinsurer's share	130,4	14,0	127,3	12,0	142	11,7	179,8	9,0	213,7	9,5	196,6	11,5
Total	901,3	100	1087,6	100	1212,0	100	2123,4	100	2265,0	100	1706,1	100

(*Source:* elaborated by the author based on CNPF, 2018)

Retail investors also do not make investments on the capital market. The main reasons for the reluctance of the population/households, small and medium-sized enterprises, as well as of other potential investors in investing in the capital market of the Republic of Moldova are: insufficient knowledge of the population about the prospects of investing and making profit in the national capital market; the complexity of acquiring of securities that provide a stable income on both the primary and the secondary securities markets; informational opacity of issuers whose securities are not traded in a regulated market; insufficient liquidity of the national stock market; distrust in the reliability of investments in the national securities market in conditions when the compensation fund for investor protection provides insignificant compensation for losses; a relatively low income level; low level of institutional development; insecurity of minority shareholders; low enforcing of contracts; high level of corruption; lack of institutional investors; a narrow range of financial instruments offered for purchase; low level of infrastructure development; an easy alternative in the form of guaranteed and non-taxable income on bank deposits; a small share of joint-stock companies that actually pay dividends, resulting in population tending to invest available funds in more profitable and familiar banking financial instruments.

The attraction of retail customers to investments in the national capital market could be facilitated by the use in the Republic of Moldova of such a tool for developing stock markets as the "people's IPO", which has become widespread in countries of Western and Eastern Europe. The experience of Poland, which privatized more than 210 large state-owned companies and several hundred small ones through this mechanism, is very convincing. "People's IPOs" were conducted in different economic conditions in many other countries, including the UK, Germany, France, etc. Initial public offering programs for state-owned companies have been successfully implemented in Brazil, China, Malaysia, Singapore, Indonesia and India. Thus, in Malaysia in the 1970-1980s mass privatization of state-owned companies was carried out, involving about 8 million investors.

The tasks of attracting public funds into the national economy through "people's IPOs" with active participation of retail investors are also being tackled in the CIS countries. A first experience was gained in Russia in 2006-2007, when through the "people's IPO" the shares of Rosneft, Sberbank and VTB bank were placed. As a result of these emissions, almost 200 thousand individuals became investors. In Kazakhstan, in the framework of developing the national capital market and attracting investments from the population, in 2012, shares of KazTransOil JSC, the largest oil pipeline operator in Kazakhstan, were placed, as a result of the issue, more than 34 thousand individuals became shareholders. In 2014, shares of KEGOC JSC (electric grid management company) were placed in Kazakhstan; in the future, it is planned to place shares of companies in the railway and other industries. Within the framework of the "people's IPO", Kazakhstanis are offered shares of stable companies that show positive financial results and regularly pay dividends. The "people's IPO" project has been developed in Belarus, as well. The first "people's IPO" in Belarus took place in 2012. Then the shares of the Minsk sparkling wine factory were put up for stock exchange. They could be purchased only by Belarusians and no more than 999 shares in one hand, a year later an additional issue was carried out according to the number of shares not sold at the first stage. IPO brought the company investments of $3.4 million. In 2014, the Gomel Fat Plant entered the people's IPO, in this case there were no restrictions on the purchase of shares.

3. CONCLUSIONS

According to the results of implemented analysis, the institutional and retail investors can have a significant positively influence on the capital market development, still, there are many factors that negatively affect investors activity in the Republic of Moldova. Considering the experience of the European Union countries in attracting investors into investment activity on the national capital markets, the next main directions for stimulating of broadening the investors' base and for increasing their positive influence on the capital market development in the Republic of Moldova, are suggested: solving the issues of domestic and foreign political instability which lead to inconsistencies in policy initiatives and weak protection of ownership rights; developing fiscal and monetary stimulus, especially during periods of financial instability; developing of a savings culture which affects the amount of assets available for investment, hence the demand for the services of institutional investors; regulating national demographics - aging populations tend to save, while younger populations tend to consume, increasing the overall income and a creating prosperous economic environment, which cumulated with a demographic dividend can provide great opportunities for institutional investors; stimulating competition between capital market investments and substitute services such as bank-offered products, commodities, real estate investments etc.; implementing of privatization of state-owned enterprises through "people's IPOs" and offering retail investors to acquire shares of highly profitable and promising enterprises, which will increase stock ownership, market capitalization and liquidity, bringing depth and width to the capital markets and lifts investor confidence; growing market depth and liquidity, which are the major obstacles for investors in developing countries; implementation of innovative (modern) trading and hedging mechanisms as well as wide variety of financial products which will make capital markets more efficient and attractive for investors; minimization of transaction costs (commissions, fees and tax); modernization of the pension system and development of the private pension funds; speculation and risk aversion control; human capital and professionalism perfection; growth of market openness and accessibility; minimization of corruption and enforcement of investors' rights; growth of financial literacy of the population; digitalization of financial services and attraction on the national capital market of investors from abroad; proposition of new financial instruments, such as municipal bonds; implementation EU experience in attraction of SMEs on the capital market etc.

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