



## Emerging Markets Queries in Finance and Business

# The methodology of financial stability assessment of Republic of Moldova through macroeconomic indicators

Perciun Rodica<sup>a</sup>, Stratan Alexandru<sup>a\*</sup>, Timush Angela<sup>a</sup>

*<sup>a</sup>The Institute of Economy, Finance and Statistics of the Academy of Science of Moldova, 45, Ion Creanga street., Chisinau, MD-2064, Republic of Moldova*

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### Abstract

Paramount importance in the creation of financial security system in the Republic of Moldova acquires the financial stability assessment methods based on international methods of management of security risk. In this paper are examined the important indicators of early warning of crisis in Moldova: the ratio of savings and investment, the balance of the current account balance, GDP growth rates, import and export, the dynamics of growth of money supply and gold reserves. Analysis of the indicators of the external sector in the Republic of Moldova show multidirectional nature of change.

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Of paramount importance for Moldova, in creating the financial security mechanism, is the security systems method based on EU norms and standards. Financial sector indicators are related, in particular, to the integration process, as out of four principles of convergence for countries that tend to join the EU, three conditions relate to the financial sector, such as: sustainability of public finances, stable exchange rates, stable prices level. Moldova's wish to integrate into the EU, opens up possibilities to use the historical experience of European countries for the creation of an efficient system for the management of the financial sector. For

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\* Corresponding author. Stratan Alexandru Tel.: +37369105921; fax: +37322743794.  
E-mail address: alex\_stratan@yahoo.com

Moldova it is important to take into consideration that increased interaction offers advantages to both regions, but also means that economic shocks in a region are increasingly reflected in another, and the bilateral consequences are displayed in all areas of economy and finance.

For sustainable development, countries in Western Europe must adapt continuously to conditions of global economy development by means of modifying the existing structure of national economies. Strategic objectives related to financial stability of these countries involves the creation of a flexible, efficient system aimed at ensuring economic growth and modernization in the context of global competitiveness. The timeliness of structural changes can contribute both to increasing competitiveness on foreign markets and mitigation of social consequences.

For Baltic and Central European countries, financial stability objectives involve two stages:

- convergence of national interests with European interests;
- political, economic, institutional, cultural transformation, etc. in line with EU standards

For Eastern European countries with economies in transition, these objectives are related to the creation of a new management mechanism and the creation of a new system of financial security. The main security threats are:

1. Economic backwardness of the regions of Central and Eastern Europe compared to the countries of Western Europe,
2. Hurdles of transition to a market economy,
3. Problems of creating democratic and market institutions, etc.

**Thus, the organization and implementation of the financial stability system in Moldova at present has the task of identifying security threats based on the specific interests of the period:**

- Achieving the objectives set by the Government in socio-economic policy;
- Condition of stability of economic development;
- Increased competitiveness;
- Addressing access to raw materials markets and markets per se;
- Elimination of illegal economic activities (tax evasion, drug trafficking, laundering criminal money, taking over foreign businesses, etc.).

In Moldova the harmonization of accounting and reporting in the financial sector is at an early stage. Economic reforms should provide for the introduction of international standards of main systems, and namely:

- Prepare periodic reports on financial stability indicators of financial and non-financial institutions and household sector;
- Using International Financial Reporting Standards;
- Implement administrative supervision principles of banks (Basel)
- Monitor systemic indicators for early crisis warning .

It is necessary to create a system of interaction between state bodies involved in the systemic management of the financial sector of the Republic of Moldova. It is important to keep in mind that financial stability depends on the effectiveness of risk management and the trust of the population in the financial system. Therefore, of great importance in the practice of assessing financial stability and creation of the financial security system in Moldova are international management methods of security risks such as:

- 1. Monitoring financial stability indicators;**
- 2. Strategic planning;**
- 3. International security systems mechanism.**

1. **Monitoring financial stability indicators** shows the current state of the financial system and allows to quickly monitor all changes. The indicators are part of a big block of information, which is used to monitor the financial stability. Among the tools that can be used to assess the risk of the financial sector are the indicators used in early warning models. Early warning models are systematic, objective and consistent methods of forecasting / anticipation of crises, but they show ambiguous results regarding the actual accuracy of the

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