

THE MANAGEMENT OF FINANCIAL STABILITY
IN NATIONAL STRATEGIES

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In this article authors provide an overview of national strategies that directly or indirectly consider the management of financial stability. The actuality of this research topic is based on several factors. Firstly, the depth of the global financial crisis that started in 2007 has shown that financial stability must be ensured and monitored by competent authorities. Secondly, the situation of the national economy has been worsened since 2015, as a result of massive dilapidation of funds and serious violations with regard to preserving the systemic financial stability of the Republic of Moldova. Under the present state the issue of ensuring financial stability becomes more significant and important. The purpose of the research is to analyze and synthesize national strategies which reflect the management of financial stability and to detect the existing gaps. The scientific methods used are the following: systemic approach, analysis and synthesis, induction and deduction, logical analysis, critical analysis, etc. The research has found that the policy of preserving the systemic financial stability is missing from the current national strategies, and there is a huge gap with regard to banking supervision and the objective of ensuring systemic financial stability.

Keywords: financial stability, strategy, management, central bank, economic security, national security, etc.

În acest articol autorii efectuează o sinteză a strategiilor naționale care, în mod direct sau indirect, reflectă gestiunea stabilității financiare. Tema de cercetare este actuală datorită mai multor factori. În primul rând, profunzimea crizei financiare globale, ce a demarat în anul 2007, a demonstrat că stabilitatea financiară trebuie să fie asigurată și monitorizată de către autoritățile abilitate. În al doilea rând, situația în care se regăsește economia națională din anul 2015, drept consecință a unor delapidări masive de fonduri și încălcări grave privind menținerea stabilității financiare sistemice a Republicii Moldova. În condițiile actuale, problema asigurării stabilității financiare capătă o amploare și o importanță tot mai semnificativă. Scopul cercetării este analiza și sinteza strategiilor naționale în care este reflectată gestiunea stabilității financiare și depistarea lacunelor. Metodele științifice utilizate sunt: abordarea sistemică, analiza și sinteza, inducția și deducția, analiza logică, analiza critică a materialelor etc. Cercetarea a constatat că politica de menținere a stabilității financiare sistemice lipsește din cadrul strategiilor naționale actuale și a identificat diferențe majore privind supravegherea bancară și obiectivul asigurării stabilității financiare sistemice.

Cuvinte-cheie: stabilitate financiară, strategie, management, banca centrală, securitate economică, securitate națională etc.

В этой статье авторы представляют обзор национальных стратегий, которые прямо или косвенно рассматривают менеджмент финансовой стабильности. Тема исследования является актуальной из-за нескольких факторов. Во-первых, глобальный финансовый кризис, начавшийся в 2007 году, показал, что финансовая стабильность должна быть обеспечена и контролироваться компетентными органами. Во-вторых, ситуация национальной экономики ухудшилась с 2015 года в результате массовых хищений денежных средств и серьезных нарушений в отношении сохранения системной финансовой стабильности Республики Молдова. В современных условиях проблема обеспечения финансовой стабильности приобретает более значительный масштаб и важность. Целью исследования был анализ и синтез национальных стратегий, в которых

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отражается менеджмент финансовой стабильности и выявление пробелов в данных документах. Используемые научные методы: системный подход, анализ и синтез, индукция и дедукция, логический анализ, критический анализ материалов и т.д. Исследование показало, что политика обеспечения системной финансовой стабильности отсутствует в текущих национальных стратегиях, а также существует огромный разрыв между банковским надзором и целью обеспечения системной финансовой стабильности.

Ключевые слова: финансовая безопасность, стратегия, управление, центральный банк, экономическая безопасность, национальная безопасность и т.д.

JEL Classification: E00, E02, G01, G28.

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Introduction. The systemic financial stability is an essential component of economic and national security. The purpose of studying the management of systemic financial stability is to analyze and predict a wide range of determinants of the financial system stability, by revealing the dangers and weaknesses within its functioning. The systemic financial stability is preserved by a series of activities carried out in the financial area in connection with the following sectors: monetary and credit, economic, social, international financial etc. Consequently, the concept and the strategy of systemic financial stability should be reflected and addressed in the general concept of the state strategy of economic security as well as in the economic, budgetary and monetary policy.

Scientific approach. The starting point in the research of financial stability as a scientific dimension was the year 1974, along with the coming out of Financial Instability Hypothesis by Hyman P. Minsky. The global financial crisis has “awoken the interest” for thorough research of both financial stability concept and its measurement methodology. There were developed a series of research papers which specify and define the financial stability, financial instability, crisis warning instruments etc.; the main western authors are: W. Allen, G. Wood, J. Chant, A. Crockett, F.S. Mishkin, H.P. Minsky, M. Foot, M. Illing, O. Evans, A. Leone etc. The Romanian researchers that have approached this subject are: Dinga E., Cerna S., Albulescu C., Donath L., Seulean V., Herbei M., Batrancea I., Barglazan D., Boldea B., Chiritescu D.D., Vasilescu M., Campeanu E., Chiriacescu B., Danila A., Dardac N., Diacunu R., Isarescu M., Moinescu B., Nedelescu O., etc. As well as Russian scientists that have revealed the issues connected to economic and financial security are: Abalkin L., Arhipov A., Gorodețky A., Mihailov B., Bulihvald E., Glovațkaya N., Lazurenco S., Vasilik S., Vecikanov G., Vorobiov A., Chenușina T., Glaziev S., Goncareenco L., Drobisevsky S., Senceacov V., Trunin P. etc. However, we have to mention that the concept of systemic financial stability especially the management of systemic financial stability in the Republic of Moldova is still insufficiently studied.

Applied research methods. In the research process were firstly applied the general scientific methods such as: systemic approach, analysis and synthesis, induction and deduction, logical analysis, critical analysis of materials, monographic analysis, typology method, analogy method etc. **Informational support** of the study represents scientific publications on the topic of research; analytical materials and results of institutional research projects applied within NIER; national legislation in the analyzed field, policy documents; strategies of the National Bank of Moldova, Government of the Republic of Moldova, Ministry of Economy, National Commission for Financial Markets, Ministry of Finance etc. as well as draft laws and regulations, other informational resources on-line available.

Results obtained. The main activity directions of the Government of the Republic of Moldova, according to the Law no.64 of May 31, 1990 on Government, are to create conditions for establishing and ensuring economic and political sovereignty of the Republic of Moldova, providing the protection of national interests within the external economic activity, promoting the free trade policy and *national security policy* [5].

Moreover, the vision of the Republic of Moldova on economic growth and medium and long term prospects for development is provided by the National Development Strategy „Moldova 2020” [16]. This strategy seeks to change the development paradigm – from the current economic model based on domestic consumption sustained by remittances to a model based on domestic and foreign investment and on the increased export of goods and services, which would support the creation of jobs and the economic welfare in after years. As mentioned in the Strategy – „The economic growth, wherever it occurs, is based on three pillars – factors of production function, i.e. accumulation of production factors – capital and labor

and their productivity degree, including any other parameters, such as: technologies, efficient government, skills etc. In the view of the National Development Strategy „Moldova 2020” the Government has made an attempt to shape the historical and future growth of the Republic of Moldova”.

The same Strategy indicates 8 critical issues which are the basis for goals identification:

- 1) Aligning the educational system to labor market requirements in order to increase labor efficiency and the employment in the economy;
- 2) Increasing public investment in local and national road infrastructure for mitigating transport expenditures and raising speed of access;
- 3) Reducing financing costs by increasing competition in the financial sector and developing risks management tools;
- 4) Improving business environment, promoting a competition policy, optimization of regulatory framework and application of information technologies in public services for the business environment and citizens;
- 5) Reducing energy consumption by increasing energy efficiency and using renewable energy sources;
- 6) Ensuring financial sustainability of pension system to secure an appropriate rate of salary replacement;
- 7) Increasing the quality of justice and fighting against corruption for insuring an equitable access to public goods for all citizens;
- 8) Increasing the competitiveness of agri-food products and insuring sustainable rural development [16, p.47].

Given the mentioned goals we conclude that the Government has no direct goal related to assurance of systemic financial stability. According to this Strategy *the focus is to produce a socio-economic impact on each of the dimensions mentioned above. The cumulated effect of the concerned issues is to eliminate the critical barriers which block the optimal development of resources. This approach makes possible the prioritization of state intervention fields and their submission to a well-defined goal of the Strategy: **assurance of qualitative economic development and implicitly the poverty alleviation*** [16]. Accordingly, the systemic financial stability is a topic eliminated from strategic goals list of the Government and the provision of systemic financial stability is the first condition to ensure a qualitative development and poverty alleviation. **The Ministry of Economy** is the central body of public administration which *compiles and promotes the macroeconomic single policy*. However, in the annual report of the Ministry there is no goal or direction to ensure the macroeconomic stability. According to its Activity Report for 2015, the Ministry of Economy has contributed to the promotion and implementation of the policies focused on main activity directions for which in the Action Plan of the Ministry of Finance for 2015 there were planned 134 goals and 369 actions (during the year, the plan was expanded up to 376 actions). These goals were achieved as follow: 55% fulfilled, 40% – partially fulfilled and 5% – unfulfilled. The goals related to such areas as: business environment (regulation of entrepreneurial activity), small and middle enterprises (access to finance, business support infrastructure, entrepreneurial culture), domestic trade, administration and privatization of public property, investment and exports promotion (ensuring the implementation of state policy on attracting investment and export promotion), industrial and competition policy, economic cooperation with EU [13].

According to the Law of public finances and budgetary-fiscal responsibilities no. 181 of June 25, 2014, **the Ministry of Finance** is the central public authority in the public finances area and has the following basic skills and responsibilities: *compiles and ensures the budgetary-fiscal policy according to the established budgetary-fiscal principles and rules; prepares and submits to the Government for approval the medium term budgetary framework and the draft law on mid-term macro budget limits; administers the public debt and state guarantees, as well as monitors public debt* [6].

In the Republic of Moldova, the budget process lies behind the budgetary policy and is open for negotiation. Those who have economic goals try to achieve them by providing amendments on the budget process. The degree in which the interest groups and the public have access to the formulation of budgetary policies and the degree of decisional transparency are tools which can influence the budgets. The budgetary policy also depends on the behavior of political and administrative bodies [8].

In this context it should be noted that the budgetary policy can be also seen as a process which *indicates where, when and by whom* the resources are more efficiently allocated. To answer these questions it is necessary to perform a synthesis of the legal and institutional framework analysis in the

field of public finances of the Republic of Moldova [9].

In the field of finances are reflected the results of activities conducted by millions of people, their participation in the establishment of financial resources funds, redistribution of funds between different recipients and their impact on socio-economic development. As a result, the progress of financial relations is no accidental and it is necessary to be rigorously regulated.

The financial system seen as relations in public finances is composed of the budget system, which is an aggregate of joined public budgets, composed of many components which are individualised by a series of specific features (programming competences, adoption, implementation and resolution powers, sources of revenues formation, expenditures purpose, degree of territorial scope etc.), and others, including public nature of needs and resources which are defining [11]. In the Republic of Moldova, the fiscal governance is ensured by the Law on public finances and budgetary-fiscal responsibilities and Law on public sector debt, state guarantees and refinancing [4, 6].

The budgetary-fiscal policy at macroeconomic level influences the macroeconomic variables such as the balance of payments, inflation, general level of economic development, external debt and, finally, systemic financial stability. The fiscal policy for 2017 is mainly oriented to accumulate more resources for the budget. The main cause of this policy is the consequence of the economic recession and financial crises caused by significant funds dilapidation. This is explained by the fact that the authorities urgently need money to meet their commitments and only by tightening the policy it could accumulate the necessary financial amounts into the budget, but very often the expectations are not the same as reality. In the article „Tax burden – an essential component to ensure financial stability of the state”, the authors Perciun R., Popa V. argue on the role of tax burden analysis for financial stability. In this article is shown that in different periods there are applied various fiscal burden shares by the decision-makers [10].

The analysis of the public finance situation shows that the fiscal and customs policy measures are not sufficient to supplement the national public budget revenues. As well the efficientization of budget spending is imminent, it will allow finding the necessary sources for other problems of social and economic importance.

It should be noted that the public finance management is an important instrument for providing fiscal policies and achieving the final goal of sustainable growth and development. According to the Strategy of public finance management development 2013-2020 [3], „Government is committed to achieve the accession to high standards of responsibility and transparency in the public sector which are essential to provide public services and other activities falling within the power of Government”, and „the responsible body for the Strategy of public finance management development 2013-2020 will be the Ministry of Finance” [3, p.2]. This strategy presents a „consolidation in a single document of several policy actions and dedicated ongoing strategies in more critical components of the public finance management” [3, p.2].

Thus, according to the annual Report on Action Plan implementation for the Strategy of public finance management development 2013-2020, in 2015, under division „Ensuring a debt management in accordance with good practices”, subparagraph „Annual Development of mid-term State Debt Management Program”, the Ministry of Finance has reported „Action in course of implementation (it will end during the I quarter of 2016)” [13]. In order to ensure a prudential management of the state debt according to the good practices in the field it was elaborated the Program „Mid-term management of state debt (2016-2018)” [7]. The basis of the Program is the reviewed Forecast of macroeconomic indicators for the period 2016-2018, compiled by the Ministry of Economy, and the evaluations of the state budget during 2016-2018, presented within MTBF 2016-2018. At the same time, the political instability and frequent changes in the Cabinet of Ministers during 2015 slowed down the promotion and the approval of the Program „Medium-term management of state debt (2016-2018)” by the Government. As a consequence, the Program was submitted to the Government for approval in the first quarter of 2016. In the Program „Medium-term management of state debt (2015-2017)”, it is noted that the Minister of Finance has analyzed 4 Funding Strategies [7].

„Strategy I presents prospects on funding sources according to indicators which are at the basis of the Medium-Term Budgetary Framework 2016-2018 and emerging from the current market conditions. The Ministry of Finance forecasts the following indicators (table 1):

Table 1

Funding sources prospects, period 2016-2018 (as % of GDP)

No.	Indicator	2016	2017	2018
1.	Budget deficit, as % of GDP	3.2	4.9	3.6
2.	Financial assets and other sources of financing, as % of GDP	0.2	1.2	1.3
3.	Finance requirements reported to GDP, % <i>including</i>	3.0	3.8	2.3
	<i>Net external financing</i> , as % of GDP	2.9	3.2	1.8
	<i>Net internal financing</i> , as % of GDP	0.1	0.6	0.5

Source: [7].

From the analysis of the prospected indicators we can see that *in the following years the coverage trend of the state budget deficit will be made mainly from external source*. And this development reveals the major dependence of the Republic of Moldova on external financial markets, implicitly on the access of the external funds.

The Ministry of Finance forecasts also that the state will benefit of external government debt which will be directed on an average of 20% for the budget support, and for the projects financed by external funds will be directed about 80% of external government debt.

About 87% of the external debt is expected to be received from the multilateral institutions and the remaining 13% on average from bilateral creditors.

The eventual structure of the Republic of Moldova's creditors is the following:

- a) World Bank Group – 33.5%;
- b) European Investment Bank – 25.9%;
- c) European Bank for Reconstruction and Development – 20.5%;
- d) Government of Romania – 7.3%;
- e) Government of Poland – 5.7%;
- f) Council of Europe Development Bank – 5.6%;
- g) International Fund for Agricultural Development – 1.1%;
- h) Government of Japan – 0.3% [7].

Concerning the internal financing sources, with the aim to finance the state budget deficit, there are expected to be traded state debt securities on the primary market in an amount which would exceed the refinancing of short-term internal state debt, respectively about 0.1% of GDP volume in 2016, 0.6% annually of GDP volume in 2017 and 0.5% in 2018 [9]. Strategy II supposes an increase of net internal financing through medium-term moderate diversification of the tools for internal state debt. Strategy III includes the increase of net internal financing through issuance of long-term instruments, but interest rates mainly variable for both internal and external financing. Strategy IV was designed to reduce the exchange rate risk thus providing the financing of the state budget at 100% of internal sources denominated in national currency [7].

However, we would like to mention that tax system is one of the most important components of the economic relations. And on its efficiency depends if the economic and social reforms will be a success or not. This is why all amendments and recommendations on tax system should be considered, profoundly analyzed and even tested. A tax system is defined as the totality of taxes established in a country. As well the tax system is the expression of political purpose of a society. The fiscal levers are reflected in Tax Code of the Republic of Moldova and are classified in terms of institutions which manage general, state and local taxes.

The process of establishing an efficient fiscal and customs policy is very important and significant for Moldovan economy. During the last years we have seen a considerable increased openness from the responsible institutions and an active involvement of business environment in the discussions and adjustments process.

A permanent record of the systemic financial stability condition and factors analysis has to become a primary direction **of the National Bank of Moldova**. It should be included logically in the analytical informational component of the central bank's activity, with the aim of providing veridical information to economic agents and state governmental bodies, of improving transparency and predictability of the monetary policy and of influencing on formation of market expectations. Until recently *the legislation of the Republic of Moldova has not stipulated the goal and the responsibility of ensuring the financial stability of the banking sector* by the National Bank of Moldova. Only one official document mentions that the NBM *contributes* to preserving the stability of the banking system and

of supervised financial institutions – *Memorandum of Understanding on Maintaining the Financial Stability*. Within the NBM, the attributions pertaining to financial stability are carried out by issued regulations and prudential supervision, by an efficient transmission of monetary policy and by supervision of the payments system.

As scholar Cerna mentions "Until the outbreak of the crisis, the central banks grounded their monetary policy strategies on the hypothesis that the monetary stability leads necessarily to financial stability and both contribute to a sustainable economic growth". The countries with emerging market economy have additionally tried to achieve exchange rate stability. It is true that these countries, as others argued, are concerned about exchange rate only if it influences the inflation and do not follow a certain target in connection with it [1, p.8].

From the analysis of the legal framework it can be noted that under the provisions of art. 4 of the Law on National Bank of Moldova, the main goal of the NBM is *ensuring and maintaining price stability*. The medium-term monetary policy of the National Bank of Moldova (*approved by the Decision of the Executive Board of the National Bank of Moldova no. 303 of December 27, 2012*) states that price stability can be defined as a situation in which the prices advance is sufficiently reduced and stable so that not to exercise a significant influence on economic decisions of the society. In the above mentioned Strategy it is also specified that ensuring price stability and maintaining inflation rate at a low level will contribute to the creation of a new relatively stable economic framework which will assure the economic development and a sustained level of economic growth. Also, the National Bank of Moldova considers that a low, relatively stable and credible target of inflation:

- will keep the nominal interest rate at a low level which stimulates the long-term investment and allows to keep the economic agents competitiveness internally and externally;
- will discourage speculative activities and consolidate financial stability;
- will support sustainable economic growth, job creation and lead to an increased productivity and an improved quality of life;
- will protect population with fixed incomes and socially disadvantaged groups that are affected especially by high rate of inflation and by the erosion of investment revenues and social payments (pensions, allowances etc.) [2].

Since 2011, the NBM has approved the publication of Report on Inflation, which reflects a detailed analysis on the achievement of the established goal in the context of eventual risks which may affect the process of meeting the target, and in case of exceeding the rate of inflation and the forecasted inflation over the established limits, the NBM has proposed to present a corrective action plan in this direction. It is also provided a medium-term inflation forecast taking into consideration the analysis of the external environment (rates of economic growth in advanced and emerging economies, unemployment rate in advanced economies etc.), aggregate demand, risks and uncertainties [2].

The permanent concern of the NBM for consolidation of its institutional capacities has resulted on the one hand in the efficiency of bank supervision activity and on the other hand in the consolidation of the legal framework. Also, the process of prudential supervision is *favoured by the existence of an appropriate legal framework which regulates the organization of the entire banking activity according to the rules of prudential and healthy banking practices*.

In the Republic of Moldova the supervision of the banking sector is more important than that of other sectors of the financial system. According to some authors (S. Cerna, E. Dinga, etc.), *key characteristics that a regulation and financial supervision authority should possess are: independence, responsibility and transparency*. The authors agree with this opinion and consider that *the NBM independence* is the main element which will ensure the financial stability goal but this presumes *the capacity to resist to any political influence in the decision-making process*. The responsibility is the degree in which the supervision authorities *are accountable* for their actions, decisions and performances and can explain and justify to the market participants. The transparency is the information exposure on government activities to the general public.

Discussions. As a result of the analysis of the current situation in the Republic of Moldova we have found that a series of serious reforms should be initiated, as well as implemented a series of modern concepts; we need scientific and well-argued approaches of a well-functioning management of systemic financial stability.

The new concept has to encompass the object of management, purpose, tasks, methodological principles, solution instruments, evaluation target indicators.

The main priority of state activity regarding the ensuring of financial stability is the security of citizens of the state and the improvement of quality of life. *The purpose of the management is to ensure financial sustainability and independence which are manifested by macroeconomic balancing, reduction of state debt, a strong national currency and an increased welfare. The main methodological principles of management of financial stability are: macroeconomic balance of all economic sectors, interests' correspondence of all members of the society, use of economic laws, considering the internal and external political and economic conditions according to real capabilities. The main condition of financial stability is to protect the financial interests at all levels of financial relations.*

It is very important that nowadays *the financial stability to be analyzed not only as a state (and mostly it is noted the financial-economic situation of the banks) but also as a strategic process which consist in ensuring economic security of the state.* This is a long-term process. Respectively, it is also necessary to determine the stability criteria specific to the Republic of Moldova. It should be taken into account that in modern conditions, the notion of "financial stability" turns gradually into an efficient risk management and financial control. Thus, the first problem that arises is that of informational assurance, namely how the management control the activity of the financial system, especially the banking one and how quickly and efficiently can it respond to a changing situation, to determine various options of events development and to take necessary measures to accomplish the financial stability and to minimize the risks.

The analysis of the international experience in this field has shown that since 2009 all central banks, governments pay a special attention to financial stability management. The financial organizations, especially the IMF, recommend reducing the macrofinancial risks and imbalances based on broadening the spectrum of monetary instruments by improving the supervision system of financial stability and macroprudential supervision. For our country which is characterized by an unstable economy, the new concept of systemic financial stability management has to include all particularities of financial instability and actual state of the economic and financial system, and to represent a flexible complex of goals which shall be included and achieved by a systemic financial stability and macroeconomic strategy. This strategy should involve: creating conditions and ensuring balanced and sustainable economic growth; providing stability of the financial system; restructuring the production and resources potential according to the demand, indispensable for building a modern and developed economy; effective inclusion in the world economic system; increasing employment and social stability; creating a state institutional management and non-state institutions according to the international practices; ensuring an efficient legal framework.

The effectiveness of stability programs depends largely on the crisis nature and the national economy particularities. The strategy mission shall take into consideration the following characteristics:

- a) formation of a flexible structure to monitor efficiently the systemic financial stability;
- b) sustainability of national financial system;
- c) economy specialization;
- d) management modernization of financial area.

In most emerging economies, the systemic financial stability strategies are an integral part of strategies related to the state economic security. Under adverse circumstances, internal and/or external ones, the systemic financial stability can be ensured only by a system framed in the economic security.

In authors' opinion, a modern concept of systemic financial stability management shall be guided and shall contain: 3 mechanisms, 3 directions and 3 characteristics – Rule of three dimensions (figure 1).

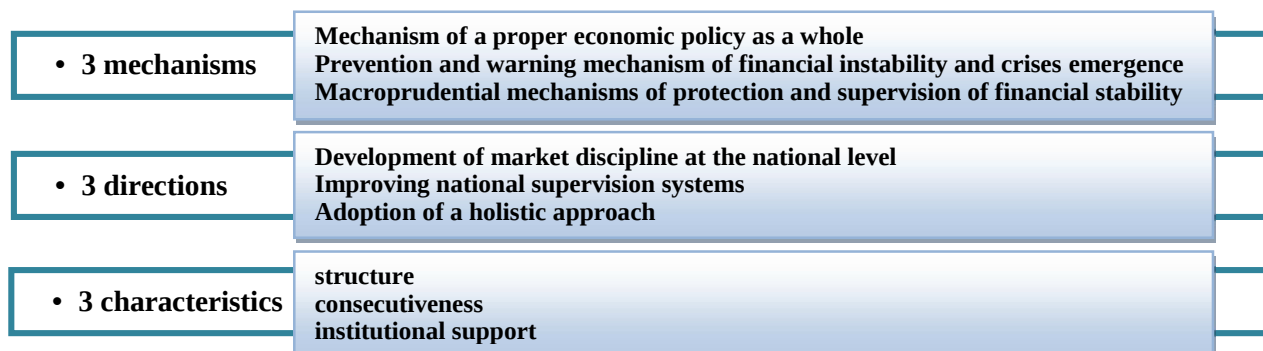


Figure 1. Rule of three dimensions

Source: Compiled by authors.

– **3 mechanisms.** After analyzing the historical experiences of the countries which overcame similar crises and succeeded to stabilize the financial situation we can emphasize **3 main mechanisms** that should be taken into consideration:

Mechanism of a proper economic policy as a whole. The systemic financial stability strategy has to be an integral part of the macroeconomic strategy of the Republic of Moldova. Firstly, this shall become the main instrument for achieving the long-term interests of the country, ensuring the economic independence and security of the Republic of Moldova. The main national interest of the Republic of Moldova shall remain the sustainable development of economy, competitiveness on external markets and an increased welfare. However, the above mentioned strategy has to meet the social efficiency criteria, i.e. on the one hand the strategy shall involve the innovative development, financial system balance, resilience capacity of the financial system to various risk factors, on the other hand the good results of the economic policy, GDP growth and population welfare. *Only such a strategy oriented towards the welfare of society and based on a financial system ready to ensure the economic growth by financial intermediation can be called effective.*

We must consider new policies which would solve one of the most difficult and complicated problems – *building the aggregate financial potential of Moldovan economy*, that includes the state and local budgets and extra-budget funds, corporate finances, as well as households finance. In the broad sense of finance, the banking resources are also situated in this aggregate potential. Each defined segment keeps its independence and functions, while the consolidated financial potential serves as a basis to achieve the national interests of the state, mentioned previously. The systemic financial stability Strategy includes not only the public finance strategy, but it should be as well a strategy of the corporate sector finance and other private financial institutions.

The development of the mentioned strategy shall be long-lasting and shall imply *a complex management of the external and internal public debt of the Republic of Moldova, as well private debts.*

This shall also respect the capital inflows and outflows. *The flight of capital is a phenomenon hardly to identify and prove, however there must be a methodology at the state level, based on the international standards to follow the capital inflows and outflows in our country.*

The concerned strategy implies the use of all instruments and relevant institutions and creation of a well-organized system. For example, the fiscal policy shall emphasize the development of some indicators which could forecast on long-term the increase of tax basis by substituting some taxes to other modern forms, which could reduce the discrimination and would ensure the equity of tax-payers. At the same time, it will allow diminishing the phenomenon of tax evasion. The public investment should be made based on a qualitative analysis and prioritization of national economy sectors, which bring added value (the so-called SMART specialization), to create advantageous conditions to enterprises that have a competitive advantage on external markets. In such a way, could be created a greater fiscal potential based on these sectors. Certainly, a special element in the creation of a systemic financial stability Strategy is the monetary policy. Since 2015 the dilemma of *financial stability against price stability* has persisted in the Republic of Moldova. A sustainable economic growth is impossible without the ability of the banking system to create money and to direct these resources to crediting the real sector. The generation of new financial resources should be coordinated between the NBM and Ministry of Finance.

Prevention and warning mechanism of financial instability and crises emergence

The current financial crisis calls for a mix reorientation of promoted policies, thus requiring a new vision to address the financial stability of the state. In this respect, it is imminent and necessary to determine a modern prevention and warning mechanism of financial instability by applying new methodologies which will help to:

- assess the potential of the country to face eventual external shocks;
- develop protection policies of the economic growth and reduction of poverty.

We suggest replacing the existent National Committee for Financial Stability, which has failed to manage the banking crisis, with a new macroprudential structure which shall be established under a law (for example the Romanian case, Law on macroprudential supervision of the national financial system).

The suggested National Committee for Macroprudential Supervision could be composed of the following institutions:

1. National Bank of Moldova;
2. Ministry of Finance and Economy which represent the Government;
3. National Commission of Financial Markets;

4. Deposit Guarantee Fund of the Banking System;
5. Independent Expert in the field (perhaps even from academia).

This Committee is an interinstitutional cooperation structure having as a major role ensuring the coordination of the macroprudential supervision at the national level and the systemic financial stability.

The Chairman of the Committee should be the Governor of the NBM. At the same time there must be a Decisional Body called the General Council composed of the following members:

- governor, deputy governor of the National Bank of Moldova;
- chairman and deputy chairman of NCFM;
- ministers and prime ministers of the Economic and Finance Ministers.

Macroprudential mechanisms of protection and supervision of financial stability

As well, it should be taken into account the distributions of resources, ensuring simultaneously the balance between the interests of all participants. The rotation on the national financial markets is a formal efficiency criterion in the context of attracting the savings on the financial market, distributing and transforming them into investment. The main directions of increasing this indicator are – the *development of bank crediting of the real sector and encouraging banks in intermediation activity to prepare investment projects and attract external and internal investors.*

Achievement of the mentioned measures is possible only under the existence of a performing banking system, capital market and efficient instruments of public finance adjustment.

– **3 directions.** Strategy for attaining financial stability shall also provide the following 3 directions:

- **Development of market discipline at the national level** (emphasizing the role of the National Bank of Moldova as national supervising and resolution authority).
- **Improving national supervision systems** (an established National Committee for Macroprudential Supervision).
- **Embracement of a holistic approach.**

The holistic approach¹ emphasizes the importance of a general protection against global imbalances. The main protection tools against global imbalances transmission suggested by the IMF are the following:

- To introduce regulation mechanisms with the purpose to reduce the weight of borrowed resources from the world banks and to use regulation methods of capital draws from the country made by the largest companies managing the assets.
- To allow a higher appreciation of the national currency.
- To introduce control measures of operations on capital and regulation of capital flows.
- To mitigate the effects of inflows through the macroprudential policy measures – that is regulation policies regarding the risk of collapse reduction of the entire financial system and not with the help of traditional measures of economic policy oriented towards private companies [16].

– **3 characteristics.** In order to ensure the systemic financial stability, the modern concept of its management has to include 3 *main characteristics*: **structure, consecutiveness and institutional support.**

Conclusions. The research has revealed that there is no strategy to preserve financial stability in the Republic of Moldova. As well as a policy on a systemic financial stability within the current national strategies is missing, and there is not much difference between banking supervision and systemic financial stability objective. Currently, in Moldova there is no organized and implemented system for monitoring the financial stability. However, financial stability monitoring system is the first component related to the organization of the management of financial stability. This measure is applied practically in all countries.

Currently, the following institutions have direct responsibilities on systemic financial stability management: National Bank of Moldova, NCFM supervising non-banking financial market, Ministry of Finance in charge of public financial management. In addition to these authorities there are also the Parliament of the Republic of Moldova, Government of the Republic of Moldova, Ministry of Economy.

From the analysis, it was concluded that the responsible institutions do not coordinate their actions and decisions in an efficient manner both essentially and in time. As example is the activity of the

¹ Principle of totality on parts and its irreducibility to the amount of integral parts.

National Committee for Financial Stability. Emerging from the events of 2014-2015 and the way that the state institutions have worked in this period it was stated several times the necessity of an additional regulation of the activity of this Committee, which would ensure a more efficient coordination of actions preventing financial shocks; establishment of the whole functioning mechanism; clear delimitation of each state institution responsibility involved in the coordinated actions in the process of crisis management; establishing a permanent coordination framework between the authorities represented in NCFM; transparency, exchange of information and public information.

The starting point of implementation of the concept suggested by authors is the *National Security Strategy*. In 2016, the Presidency of the Republic of Moldova has initiated the process of public debates on National Security Strategy project of the Republic of Moldova. In this Strategy have been defined national interests; main threats; risks and vulnerabilities to the national security. The main components of the external policy and defense policy related to national security assurance were outlined. At the same time, there are identified ways to ensure the national security and guidelines of the national security sector reform. *In the aforesaid act, the financial stability is an ignored matter*. Thus, we mention that the national security is a synergistic notion including a series of components, such as: economic security, financial stability, technological security, energy, demographic and food security etc.

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