

PROSPECTS FOR TRIGGERING THE CRISIS AND RELATED INVESTMENT OPPORTUNITIES

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Abstract:

Crisis occurred, is occurring and will occur. Each crisis comes with threats and opportunities. The main problem is the difficulty to predict or to anticipate them. Never less, it is possible to not repeat passed mistakes. Accurate forecasting is difficult and today we don't have enough tools to make exact forecast. It is almost impossible to find a model of investment opportunities. During the ongoing EU integration process of Republic of Moldova, people realize that EU is not perfect. It is noteworthy to remember some historical facts of the country. Republic of Moldova took part of a very unequal Soviet Union and the fear of a similar organism is still present in society spirit. In the same time, the opportunity of solving some problems together with other European countries cannot be neglected.

Key words: remittance, forecast, econometrics

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Introduction

We are living in a global society, full of crises generating events. From an epistemological point of view, the evolution of today phenomena (social, economical or political) is not linear any more, but is achieved through a succession of crises. The word "crisis" comes from the Greek κρίσις (KRISIS) which means decision, "turning point", a situation requiring a decision. It should be also mentioned that the word "crisis" is translated in Chinese by two words that paradoxically have two opposite meanings: the first meaning is crisis itself (danger) and the second is "opportunity" (Greene GJ, Lee M, Trask R, Rheinscheld J., 2000). In this way a crisis could be considered as an opportunity. This is the desired outcome of a crisis, seen as an opportunity and an integral part of a continuous process of development.

During a crisis period we are in a permanent state of fear, anxiety and uncertainty about the future. Our instinct of defense and conservation urges us to behave sometimes irrationally and even increase this volatility. All of us have a cognitive capacity of filtering the information and understanding phenomena in our own way, thus transposing it in a certain behavior related to the market. Consequently crisis is a period that offers to individuals and entrepreneurs a broad horizon of new possibilities. Technologies are constantly changing. They offer both possibilities and desires to undertake new businesses and provide solutions for all businesses.

Crisis is a subject one can discuss a lot about, but it is clear that its consequences could not be exact foreseen, thus deteriorating economic situation in most countries. Establishing the real causes that led to the outbreak of the financial crisis, it is one of the objectives of many economists, each trying to give a rational explanation of what had happened.

The recent financial crisis in Republic of Moldova confirmed what theoretical and empirical studies have already shown. Different types of financial crises are hardly distinguished, they just coexist. Some studies can be found (Bauer, C., Herz, B. și Karb, V., 2007) that make a distinction between pure currency crises, external debt crises and twin crises in terms of sequence of events and economic consequences.

The present article analyzes prospects for triggering the crisis and related investment opportunities. It is focused on Republic of Moldovan authorities' unclear decisions. In today EU integration people realize that EU is not perfect. It is noteworthy to remember Moldova's history. The country took part of a very unequal Soviet Union and the fear of a similar organism is still present in society mind. Some young persons, pushed by mistakes of older generations, change totally their pro - European views. If before Moldovans were lost in transitions, now Moldovans are lost between countries. The article is not intended to provide a particular set of formulas

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prescriptions, but it is intended to help readers have some more information about this phenomenon.

Description of the problem

For many years, crisis in Republic of Moldova did not get a lot of attention. Journalists, policy makers, and economist have tried to explain the rapid changes. Some have provided well-reasoned analyses that carefully identify and weight the many contributing factors. Others have tried to reduce the complex story to a sound bite, often to make a political point. A lot of information is available, but it is necessary to sort it. It is evident that crises and frauds occurred in many countries. So, one could learn from others crises, mistakes and success. One way is to analyze them according to an historical approach. Literature review enables to identify most recent crisis, for example:

1992-1993 Black Wednesday;

1994-1995 Economic crisis in Mexico;

1997-1998 Asian Financial Crisis;

1998- Russian financial crisis;

2000-2001 Turkish economic crisis;

2000 decline in economic activity in developed countries;

1999-2002 Argentine economic crisis;

2001 dot-com bubble;

2007- 2010 subprime to global financial crisis.

There is a lot of literature covering issues from the beginning to the end of these crises. Thus, despite other problems, it is easy to identify that there was too much reliance on mathematical models applied to economy. CDO as the most famous model for pricing structured credit securities is the Gaussian copula model. A common fallacy is that the marginal distribution and correlation matrix are sufficient for describing the joint distribution of multivariate distribution. But this hypothesis has some limits. Correlation only measures linear dependence. If we simulate points from the bivariate normal and Meta-Gumbel distributions, bivariate distributions have standard normal marginal distributions, and in each case the correlation is the same. But Meta-Gumbel distribution is much more likely to anticipate large joint moves. Some limits of CDS are mentioned in Arnold Kling 2008 articles, Idiosyncratic risk, systemic risk, (Arnold Kling, 2008) etc.;

2008-2011 Icelandic financial crisis was a major economic and political event in Iceland that involved the default of all three of the country's major privately owned commercial banks in late 2008, following their difficulties in refinancing their short-term debt and a run on deposits in the Netherlands and the United Kingdom. One problems besides others was that relative to the size of its economy, Iceland's systemic banking collapse was the largest experienced by any country in economic history. As in recent crisis in Republic of Moldova, the Central Bank of Iceland found itself, not well prepared, unable to act as a lender of last resort during the crisis, further aggravating the mistrust in the banking system. The crisis led to a severe economic depression in 2008–2010 and significant political unrest.

2010 European debt crisis. Some causes are only connected to monetary reasons and not a fiscal union, banking growth or competitiveness problems and they could vary from country to country, because each country has its own law, traditions, language. Even if a lot of literature exists, is good to make an analysis of drop in exchange rates from 1.6 to 1.1. European crisis also showed that some countries are more close connected than others. As an example one can consider how much money the German government saved as a result of the Greek/ Euro zone crisis. It has been clear that crisis-driven capital inflows to Germany have led to higher demand for government bonds. As a result prices went up and yield down. If you manage a debt stock of about 75% of GDP it seems clear that the continuous roll-over of parts of that stock and the issuance of new debt will be conducted under very favorable circumstances. According to calculations of the reputable Leibniz Institute for Economic Research in Halle (IWH) the German government has saved more than €100bn since 2010. The first paragraph of the study basically says it all: "This note shows that

the German public sector balance benefited significantly from the European/Greek debt crisis, because of lower interest payments on public sector debt. This is due to two effects: Firstly, in crisis times investors disproportionately seek out safe investments ("flight to safety"), bidding down the returns on safe-haven assets. We show that German bunds strongly benefited from this effect during the Greek debt crisis. Secondly, while the European Central Bank (ECB) monetary policy stance was quite close to an "optimal" monetary policy stance for Germany from 1999 to 2007. During the crisis monetary policy was too accommodating from a German perspective, due to the emerging disparities across the Euro area. As a result of these two effects, our calculations suggest that the German sovereign saved more than 100 billion Euros in interest expenses between 2010 and mid-2015. That is, Germany benefited from the Greek crisis even in case that Greece defaults on all its debt (a total of 90 billions) owed to the German government via diverse channels (European Stability Mechanism [ESM], International Monetary Fund [IMF], or directly). (Geraldine Dany, Reint E. Gropp, Helge Lüttke and Gregor von Schweinitz, 2015) Two things are very interesting to bear in mind in this context. Firstly, as the study notes, even if there is a full write-down of all 'rescue' loans, the overall balance is still positive for the German government. And secondly, the misguided fiscal policy aim of a balanced budget ('black zero') has been achieved as a result of the Euro zone crisis rather than taking tough political decisions. In essence, this is yet another example that shows how much misunderstanding there is about who pays and who benefits from the multiple crises we are currently living through.

The Russian financial crisis in 2014 is also well described. A lot of information covering it from the start to the end exists, underlining authorities policies and decisions, sanctions, panics, oil and gas prices. And the answers from Russian authorities with impact inclusive for Moldovan people.

More recently, in 2016, British withdrawal from the European Union (also referred to as Brexit) was a political goal that has been pursued by various individuals, advocacy groups, and political parties from across the political spectrum since the United Kingdom joined the European Economic Community in 1973. The UK treasury has estimated that being in the EU has a strong positive effect on the trade and as a result the UK's trade would be worse if it left the EU. The International Monetary Fund forecasts reduced world economic growth following Brexit and greater reductions in UK economic growth. Exist a lot of available information that supporters of withdrawal from the EU have argued that the cessation of net contributions to the EU would allow for some cuts to taxes and/or increases in government spending. However, Britain would still be required to make contributions to the EU budget if it opted to remain in the European Free Trade Area. The Institute for Fiscal Studies notes that the majority of forecasts of the impact of Brexit on the UK economy indicate that the government would be left with less money to spend even if it no longer had to pay into the EU. British government argued that if Britain left the EU, the EU would not impose retaliatory tariffs on British products, pointing out that the EU needed a trade agreement with Britain as German car manufacturers wanted to sell their cars to the world's fifth biggest market. James Dyson argued that it would be self-defeating for the EU to impose retaliatory tariffs on British products because if the EU imposed a tariff on Britain, Britain would impose a retaliatory tariff on the EU claiming that Britain bought 100 billion pounds' worth of the EU's goods and sold 10 billion pounds' worth of Britain's goods. However, proportionally, the government responded that "EU exports to the UK are worth 3% of EU GDP, while UK exports to the EU are worth 13% of UK GDP – four times more." British government suggested laws to be passed in order to follow the official Leave campaign. It concern Finance Bill (to scrap VAT on tampons and household energy bills), Asylum and Immigration Control Bill to end the automatic right of EU citizens to enter Britain, National Health Service; European Union Law Bill and Free Trade Bill (to negotiate with non-EU countries). From free available information is evident that some nations and cities may have benefits from Brexit. After the vote, several global banks quickly began the process of shifting some operations out of London and into other European financial centers, as example including Frankfurt, Paris, and Dublin, in order to establish new legal domiciles in Europe in case London headquarters are no longer legally sufficient to serve the rest of the continent, while other European financial centers may benefit. Is evident the risk of economic prospects, fiscal and external performance, and the role of sterling as a reserve currency exists. Economic analysts have pointed out that the UK, as a fiscally and monetarily sovereign nation, retains the ability to service or retire, at any time, any part or all of the state debt that is denominated in the national currency, hence, there is no risk whatsoever of defaulting on that part of its debt.

Methodology and data sources

As in recent crisis in Republic of Moldova, a lot of information remains unknown or even unknowable and exist lack of exact data., This article is based on historical and literature review work. Thus, one manner is to use historical approach in order to use Generalized Linear Mixed Model, an expand to the generalized linear model in which the linear predictor contains random effects in addition to the usual fixed effects. This idea was extended to non-normal data or Mixed linear Models, a statistical model containing both fixed effects and random effects. These models are useful in a wide variety of disciplines in the physical, biological and social sciences. They are particularly useful in settings where repeated measurements are made on the same statistical units (longitudinal study), or where measurements are made on clusters of related statistical units. Because of their advantage in dealing with missing values, mixed effects models are often preferred over more traditional approaches such as repeated measures ANOVA. At the same time many companies preferred analysis of variance (ANOVA) besides others methods.

After reviewing all crises is easy to understand that in a financial crisis process authorities could be involved in different ways. There are similarities and similar steps in case of financial crisis related to contagion effect, moral hazard, bubbles, bad regulation, panics etc. There are Basel rules, and work done by many economist about regulation. For example, Jean Tirole work on why financial intermediaries, such as banks and insurance companies, need to be regulated at all. Good regulations represent a useful tool for dealing with bubbles. Republic of Moldova do not have such a regulation .In comparison with its neighbor Romania where exist more regulations.

Some persons are learning from history, some ones not. One answer to bubbles was cooperative form of organization. But if to use historical approach bubbles was and will be in different sector of economies. Cooperative form of organizations in developed countries even exist, for instance, Sweden generally managed better crisis and threats and anticipated possible bubbles. A relative recent Sweden economic institution estimation, indicates that a short future bubble is possible.

Historical analysis of mathematical models that performed poorly before and during the financial crisis from 2007-2010 financial crisis in US alerts that history is set up to repeat itself. According to Bloomberg News, a bespoke tranche opportunity is just a fancy new word for what was formally known as a collateralized debt obligation (CDO). For years, investment banks put together packages made up of thousands of mortgage loans to sell them to the highest bidders, and buyers happily picked them up because they promised high returns. During the mid-2000s, these CDOs were increasingly filled with bad loans, as subprime loans, that were incorrectly given stellar ratings and peddled off as good investments. As risky homeowners failed to pay their mortgages, the value of the CDOs collapsed, making investors unable to pay back the loans they borrowed to buy the CDOs in the first place. This triggered a ripple effect that caused the U.S. economy to spiral. After the 2007-2008 financial crash, CDOs had a bad rep, which is what led to a rebranding of sorts. Thus CDO is making a comeback -- it's just being called differently: a bespoke tranche opportunity.

Recent financial crisis in Republic of Moldova, (that reduced purchasing power of individuals and translated into lower consumer spending) and it European Integration process consequences is analyzed in an previous article. (Gherbovet Sergiu, 2016) At the same time, without the Kroll report (a company that have information from most important world banks) and help, it could be obvious to anticipate that after financial crisis usually an economic crisis comes followed by a political one and it could be expected, that stability after Political aftershocks of financial crises can be severe. (Howard Davies, 2015) Recent events in Europe provide ample evidence that the political aftershocks of financial crises can be severe. The dataset that covers elections and crises in 20 advanced economies going back to 1870 to systematically study the political aftermath of financial crises. Far-right parties are the biggest beneficiaries of financial crises, while the fractionalisation of parliaments complicates post-crisis governance. These effects are not observed following normal recessions or severe non-financial macroeconomic shocks. (Manuel Funke, Moritz Schularick, Christoph Trebesch, 2015).

Results obtained

As long as Republic of Moldova, an independent state will wait that somebody will solve all its problems, so long problems will appear. Each state serves countries interest manipulating

sometimes the laws. It is evident that IMF as a very important financial institution will not solve all the problems of a country. As an example, when the Swiss National Bank decided to lift the floor on the Swiss franc, IMF was left out of the loop many impact of this decision, one for example was necessary intervention of Central Bank of Romania for people that has credits in francs. Exist different currency wars in the world.

Econometric models have proven to be good for economic analyses but not perfect in predicting crises, therefore, alternative approaches as historic, behavior approach, theoretical models, system dynamics models, analysis, experiences, policies etc. are also needed. Not necessary to use mahalanobis distance to understand that at the moment Republic of Moldova is an outlier of European Union, a weak, captured state.

Each crises comes with opportunities and threats. Statistics is an important tool for analysis, but too much statistics applied to economics is not always the best solution. Econometric analysis (e.g. endogeneity problem – GARCH) is useful, but economics is not only statistics. Economist who are using statistical analysis can come to opposite conclusions than an economist analyst using cause-and-effect methods.

Research gives a certain advantage for a certain period, despite on other fields of sciences, so much work has already been done in economics. There is almost impossible to make some innovation, but it is possible to make economic analysis and to read at least the most visible work that already exist as example analysis of consumption, poverty, and welfare; analysis of market power and regulation; empirical analysis of asset prices. It is very important to know the work performed before, . Even new crisis comes with news, sometimes to solve them a very advanced sciences knowledge is not needed. Extremely simple situations exist as work in libraries with literatures Exist already penalties more serious as in case of 2009 manifestations against the Communist Party, as for example bad impact of economic crisis on demographic processes in Republic of Moldova, as example economic crises and fertility, economic crises and mortality, economic crises and migration. Where the direction of the effect is clear, the size of the crisis effect is not. Even the story is not quite that simple, start with simple question: How large was and will be the impact of the crisis ? If there is considerably uncertainty about future. The financial crisis in Republic of Moldova is a reminder that the economy holds many surprises. We will continue ? New persons can change the results, but the basic logic would still apply. Some results already are dramatic.

Prospects for triggering the crisis in Republic of Moldova are the relationship between socioeconomic status and population mutual evolution. Socio-economic situation has a direct effect on the dynamics of demographic processes. Also, the workforce is a key factor in the production process and, therefore cause economic recovery. If poor socio-economic situation in the previous period resulted in damage to key demographic indicators in anticipation of medium and long-term impact of the demographic factor on the economy will be more pronounced than vice versa relationship (Gagauz Olga, Penina Olga, Tabac Tatiana, 2016). Understanding of what happened and why may affect how we spend and invest our money, and determine the types of policies that make sense. Even if it is not possible to develop a perfect forecast of future it is helpful to identify some warnings signs. Given the size and complexity of the world, the list of forces that determine investment opportunities is incredible long. This article is not intended to examine every aspect of the issue, but instead focus on a few important factors, one for example is that usually related investment opportunities of crisis come from the fact that many assets are on sell. The Moldavian bank fraud management of financial crisis made to be on sell many assets.

To conclude about related investment opportunities is that despite some advances (e.g. diversifications or Capital asset pricing model - a model used to determine a theoretically appropriate required rate of return of an asset, to make decisions about adding assets to a well-diversified portfolio, etc), a perfect model does not exist, never fell in a model. Rules of thumb are helpful guides, as long as one understands their limitations. Economists argue about whose model is better for analyzing, but usually the biggest differences in results are not only because of the models used but most because of the assumptions made. If it were possible to make an exact model or formula, its conclusions would be rule dependable and it could also be a simple matter of coincidence. Consequently, a scientific exact model or formula cannot exist. People behave irrationally, too. Consequently is imposible to make an exact formula that are dealing with corruption, emotions criminalities, etc. In this way, there is no generally known exact mathematic or

logical academic formula or model that has been continuously successful. Rather than to predict what will actually happen, is one lesson readers should take away, it is that analysts who say they know exactly formulas are misleading their audience and fooling themselves. By focusing instead on innovation and factors that will drive future changes or very complicated statistics that miss important aspect, the goal is to provide one extremely simple tool needed to understand a fast-changing world as work with already existed library literature and good economic analyses that was done already.

Conclusions

Of course that nothing is simple, so it should not be surprising that prospects for triggering the crisis and related investment opportunities is often much more complicated than described so far. Crisis has had wide-ranging impacts, and is set in motion a series of events that will be playing out for years to come. But, who do not learn from history are doomed to repeat it. Not all the work that was done by world economist can be applied to realities of Moldovan economy, (e.g., the fact that Federal Reserve was not Lehman's supervisor, in Republic of Moldova is not a Goldman Sachs or AIG model of business, but insufficient attention to the stability often occurs). In general EU are not imposing a pro-European or any kind of future to the partners. Moldova not only lost in transitions, but a young generation of Moldovans are lost between countries. Next generation in Republic of Moldova have to build a new country and to serve the country national interests, without any repeated mistakes: frauds, stolen money or corruption. Challenges of European Integration come with new opportunities and threats. New better reforms must be adopted by future generations of politicians. Some agreements and unions are not working very well, some amelioration could be done in this field too, and is still work to be done. Economics analysis is not only good mathematical models. Very advanced mathematical analysis, good academic tool, could be difficult to be explained to some persons in Republic of Moldova. At the same time, a lot of persons in Republic of Moldova exist that are enough advanced in the field, but some authorities decided that a Czech or Swiss or other formula is better than a Moldovan one. Government policies in one country have implication in other countries

Recent Brexit could be an opportunity or a threat, but for the young generation of moldovans which feel cognitive dissonance, a mental stress between two theories appears. It is not clear if the new EU agreement will be a very theoretical one without any possibilities to improve the existing situation or a reality-adapted one. In mathematical terms is not clear if EU agreement will be a stochastic process or game theory? It is noteworthy to remember the history of the country, as Republic of Moldova took part of a very unequal Soviet Union and the fear of a similar organism is still present in minds. Using some abstraction and philosophy is important to mention, as long as European Union agreement will come to such an agreement that moldovans first must to build Thomas Reuters building and after pushed to send articles indexed in Thomas Reuters database so long this agreement will be with a lot of questions! Behind this types of agreements and the consequences of such of agreements are impacts for too many persons. As recent Brexit, some beds of society in Republic of Moldova is tired of putting penalties (even exist a lot of help from EU) and can take action. Almost any agreement results in winners and losers, and the same can be said for most domestic government policies. Government maintain a wide range of policies that affect the economy. Likewise, many policies have one effect in the country operating the policy, and the opposite effect in other countries. Moldovan government policies is incomplete and oversimplified, is not simply the best, but should be clear that governments have complicated and contradictory effects. Hopefully in the end it is a prudent way, as the opportunity of solving some problems together with other European countries cannot be neglected, for example the problem of big gas subsidies in Transnistria from Russia side making more competitive some products that need gas to be made, and is unclear who will pay for the gas in future.

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