

ANALYSIS OF MONETARY POLICY INTEREST RATES' EVOLUTION

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Abstract: This research aims to analyze the evolution of monetary policy interest rates in the Romanian banking sector, in the period 2021-2023. It is also analysis interest rates for Lending facility and Deposit facility, throughout the same period. Starting 1 September 2011, the National Bank of Romania's reference rate is the monetary policy rate. One of the most important instruments of monetary policy is the NBR's standing facilities offered to credit institutions. The main monetary policy instruments used by National Bank of Romania are open market operations, standing facilities and reserve requirements.

Key words: monetary policy, interest rates, lending facility, deposit facility, reference interest rate

INTRODUCTION

The fundamental objective of the National Bank of Romania is to ensure and maintain price stability. Also, the National Bank of Romania, as well as other state institutions, have a significant role in ensuring financial stability.

In order to achieve financial stability, cooperation is necessary between:

- The National Bank of Romania,
- Financial Supervision Authority,
- The Romanian Government.

Achieving financial stability at national level requires a cross-border approach, due to the nature of Romania's open economy. As a monetary and prudential supervisory authority, the Central Bank must identify the risks and vulnerabilities of the entire financial system [3].

The effectiveness of this strategy is conditioned by the following:

- reducing the annual inflation rate below 10 percent;
- accumulation of a gain of credibility by the Central Bank;
- strengthening the independence of the Central Bank;
- the restriction of fiscal dominance;
- improving coordination between fiscal policy and monetary policy;
- flexibility of the Leu exchange rate;
- strengthening the banking system and increasing bank intermediation;
- enhancing the transparency and accountability of the Central Bank.

Beginning with the importance of monetary policy it should be noted that the most important monetary policy instrument of the National Bank of Romania is represented by money market operations (open market operations). These operations are attached to the monetary policy interest rate [9].

The other two extremely important monetary policy instruments are focused on [2]:

✚ the permanent facilities offered by the National Bank of Romania to credit institutions, namely the credit facility and the deposit facility;

✚ the mandatory minimum reserves, represented by the cash availability of credit institutions, in Lei and in foreign currency, kept in accounts opened at the National Bank of Romania.

Starting from the importance of these monetary policy instruments, this research aims to analyze the evolution in structure and dynamics, monetary policy interest rates and interest rates of standing facilities (lending and deposit).

The Central Bank uses the transmission mechanism of monetary policy, adapted to the characteristics of the Romanian economy. This mechanism represents the totality of channels through which the Central Bank, using a diverse set of monetary policy instruments, can influence the dynamics of aggregate demand and prices in the economy.

Both in specialized literature and in the economic practice, the following channels (or specific mechanisms) regarding the transmission of monetary policy have been identified [8]:

- the channel of interest rates practiced by financial institutions;
- credit channel;
- exchange rate channel;
- channel of wealth and balance sheet effects;
- channel of the economic agents' expectations regarding inflation [4].

The importance of these transmission channels of monetary policy, puts at the center of attention and concerns of the National Bank of Romania, the issue of monetary policy interest rates and interest rates of permanent facilities (credit and deposit), practiced within the Romanian banking system.

MATERIALS AND METHODS

This paper proposes a structural and dynamic analysis of the evolution of monetary policy interest rates in the period of 2021–2023. The causes, their validity periods, as well as their evolution trend are identified.

The developments in interest rates on permanent facilities (lending and deposit) established by the National Bank of Romania, during the period under analysis, were also analyzed. The validity periods of these lending facilities and deposit facilities have also been identified.

The evolution of monetary policy interest rates and rates of permanent, lending and deposit facilities, the data and indicators presented in the interactive statistics on the website of the National Bank of Romania, were used for the structural and dynamic analysis [14].

The main monetary policy instruments that the National Bank of Romania has at its disposal according to the legal regulations in force have also been inventoried.

Valuable information has been selected regarding the monetary policy instruments and the procedures available to the Central Bank for the implementation of its monetary policy [10].

The scientific research methods used in this paper are: identification of the problem subject to research, delimitation of the relevant research horizon, analysis of the history of the evolution of banking data and indicators, selection and collection of relevant data and information, systematization, classification according to the importance of the identified criteria, definition of concepts, comparison, selection of banking regulations regarding the issues addressed in the research, analysis and synthesis, generalization and scientific abstraction, induction and deduction, and others, as well as professional reasoning.

The evolution of monetary policy interest rates and interest rates of permanent facilities (lending and deposit) was analyzed in the context of the monetary policy strategy of the National Bank of Romania, what is the direct targeting of inflation [12].

RESEARCH RESULTS

The interest rates of monetary policy, as well as permanent facilities rates, are set by the National Bank of Romania, in the meetings of its Administration Board, where monetary policy issues are debated.

The evolution of monetary policy interest rates, in the period 2021 – 2023, established by the National Bank of Romania, are presented in the following table:

Table 1.

The evolution of monetary policy interest rates, (% per annum)

Valid since:	Policy rate
10 Nov. 2021	1.75
11 Jan. 2022	2.00
10 Feb. 2022	2.50
6 Apr. 2022	3.00
11 May. 2022	3.75
7 Jul. 2022	4.75
8 Aug. 2022	5.50
6 Oct. 2022	6.25
9 Nov. 2022	6.75
11 Jan. 2023	7.00

Source: National Bank of Romania [11]

The monetary policy interest rate represents the interest rate used for the main money market operations of the National Bank of Romania. Currently, repo operations with a term of one week, conducted by tender at a fixed interest rate.

According to Article 3 of the Ordinance no.13 of 24.08.2011 regarding the legal remuneration and penalty interest for monetary obligations, as well as for the regulation of financial and fiscal measures in the banking field, starting with September 1, 2011, the reference interest rate became equal to the monetary policy interest rate, established by decision of the Administrative Board of the National Bank of Romania.

The table above shows a continued and sustained increase in monetary policy interest rates from 1.75% in November 2021 to 7.00% in January 2023. The National Bank of Romania has set his huge increase in the monetary policy interest rate as a measure to counteract the high inflation index. Effective management of financial stability has forced the Central Bank to establish drastic monetary policy measures [6].

The largest increase in monetary policy interest rate is registered between 11 May 2022 and 7 Jul 2022, from 3.75 % to 4.75 %.

In the statistics with interactive databases generated by the National Bank of Romania, in addition to the interest rates of the monetary policy, the interest rates of the permanent lending and deposit facilities are also presented. The history of the evolution of these monetary indicators is also presented, throughout the time horizon under analysis [13].

The evolution in structure and dynamics of interest rates related to permanent lending and deposit facilities, highlighted by the National Bank of Romania, in the period of 2021 – 2023, are presented in the Table 2.

Table 2.

**The evolution of interest rates on permanent facilities
(lending and deposit), (% per annum)**

Valid since:	Lending facility	Deposit facility
10 Nov. 2021	2.50	1.00
11 Jan. 2022	3.00	1.00
10 Feb. 2022	3.50	1.50
6 Apr. 2022	4.00	2.00
11 May. 2022	4.75	2.75
7 Jul. 2022	5.75	3.75
8 Aug. 2022	6.50	4.50
6 Oct. 2022	7.25	5.25
9 Nov. 2022	7.75	5.75
11 Jan. 2023	8.00	6.00

Source: National Bank of Romania [11]

Interest rates of permanent lending facilities increased from 2.50% as of November 10, 2021, to 8.00% as of January 11, 2023. This huge increase in interest rates on credit facilities highlighted “policy of expensive money” approached by the Central Bank [1]. The measures taken by the National Bank of Romania were aimed at countering inflation.

At deposit facilities, interest rates increased from 1.00 % of November 10, 2021, to 6.00 % of January 11, 2023, thus registering a 6 times higher increase in 2023 compared to 2021.

From the table above it is noted that during the analyzed period, the interest rates on lending facilities increased by 5.5 percentage points, compared to the interest rates on deposit facilities, which increased by only 5 percentage points.

Through this specific monetary policy transmission mechanism, namely the channel of interest rates, the National Bank of Romania aims to target inflation directly and ensure financial stability [7].

From the statistical reports of the Central Bank, throughout the analyzed period, there is a sustained increase in the monetary policy interest rates and interest rates of the permanent facilities (lending and deposit).

CONCLUSIONS

Direct targeting of inflation is the monetary policy strategy of the National Bank of Romania. Lowering of the annual inflation rate below the 10 percent level ensures the accumulation of a credibility gain by the Central Bank, as well as the consolidation of this credibility [5].

In this context, the National Bank of Romania made the steps to create the organizational and technical framework necessary to implement the new monetary policy strategy. They lasted 16 months and benefited from technical assistance from the International Monetary Fund.

The most important monetary policy instrument is represented by money market operations (open market operations). The monetary policy interest rate is attached to these operations.

From the research conducted regarding the analysis of the evolution of monetary policy interest rates and interest rates related to permanent lending and deposit facilities, there is a continuous and sustained increase in them, during the years 2021 - 2023.

The National Bank of Romania decided the increase of the monetary policy interest rate to counteract the high inflation rate and to effectively manage financial stability [15].

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