LEVERS FOR THE MACROSTABILIZATION OF ECONOMY AVAILABLE TO THE MONETARY AUTHORITY AND ACTUAL MEASURES ADOPTED IN THE CONTEXT OF THE COVID-19 PANDEMIC

Mădălina RĂDOI[*]

Nicoleta PANAIT[**]

Abstract

Measures taken by states, in the context of epidemiological situation, to reduce the effects of the health crisis have been severe, the most important being stopping non-essential activities, restricting travel and banning travel to and from certain countries and causing shocks in production and distribution chains, but also a sharp contraction in demand for a wide range of goods and services. Given the difficult economic context created by the COVID-19 pandemic, which impacted both the national and global economy, one of the objectives adopted by the Romanian monetary authority in the first half of 2020 was to maintain the stability and liquidity of the banking system for proper functioning of public finance and the real economy. As a state of emergency was declared as of March 16 2020, and considering that the main fiscal response in Romania came from the national budget, the NBR collaborated with the Government in order to avoid a potential conflict between government measures and fiscal measures. One of the unconventional measures "quantitative easing" which involves the basic injection of money into the market in exchange for various financial assets was used by the monetary authorities, including in emerging economies, such as NBR. This paper focuses on the measures and effectiveness of the monetary policy of the national monetary authority in order to reduce the negative effects of the crisis caused by the COVID-19 pandemic.

Keywords: *monetary policy, monetary policy interest rate, exchange rate, capital flows, monetary aggregates, inflation.*

1. Introduction

According to its statute, the NBR's fundamental objective is to ensure and maintain price stability. In the short run, the evolution of prices is subject to multiple influences generated by internal and external factors that act on aggregate demand and supply. In the medium and long run, monetary policy plays a key role in ensuring price stability.

As regards the monetary policy as a nominal macro-stabilization anchor, it is well known that the difficulties of macro-economic stabilization, where market forces failed to play any role in the efficient allocation of resources and/or governments failed to support market mechanisms for a long period of time, are amplified by strong distortions and major imbalances that characterize the economies of those countries.

Under such circumstances, even small changes in the real values of the economic variables lead to very ample variations of the nominal values of these variables. In this context, in order to reduce inflation, measures are often adopted to stabilize the nominal values. Once inflation is reduced, the changes produced by the real demand for money, the real exchange rate, the relative prices are no longer, for the most part, affected by ample changes in the nominal values and it is no longer necessary to maintain the nominal anchor.

Regarding foreign capital flows to countries with structural reform programs, they are determined by a multitude of factors: lack of alternative profitable investments in many countries; the interest rate difference between the interest rate on the national currency and the interest rate on the international capital market, in particular when the real exchange rate is expected to appreciate; fiscal and monetary restrictions in the country of origin compared to the country of investment; massive privatizations; liberalization of large markets with unsatisfied demand; anticipating significant improvements in marginal capital productivity; the success of macrostabilization and the takeover of economic growth. Capital flows have external causes (such as low interest rates in other areas, expected to generate highly volatile speculative capital flows) and internal causes (such as high marginal return on capital) that generate these stable capital flows representing direct investment - if the stabilization was successful - or speculative-stabilizing flows that seek to obtain benefits from existing imbalances, anticipating the success of stabilization.

[*] Associate Professor, PhD, Faculty of Economics and Business Administration, “Nicolae Titulescu” University of Bucharest (e-mail: radoimadalina@univnt.ro).

[**] Lecturer, PhD, Faculty of Economics and Business Administration, “Nicolae Titulescu” University of Bucharest (e-mail: npanait@univnt.ro).

Experience shows that stable flows only occurred after a responsible fiscal policy has been consolidated, in the context of maintaining a very restrictive monetary policy. The speculative-stabilizing flows have a positive role in the quick removal of distortions generated by a monetary policy. They generate an increase in the demand for money and an increase in interest rates, which leads to increased savings without stimulating the demand for goods and services, therefore without exerting pressure on prices. If inflows are the result of borrowing for increased consumption, then the balance of payments account surplus will be reflected in a comparable current account deficit and again the price level will remain largely unaffected. Part of the money will inevitably be used for the consumption of goods and services that are not subject to international trade.

In this case, it is necessary to appreciate the national currency in order to redirect consumption to imported or exportable goods and to cancel to a certain extent the effect of increasing domestic prices. If capital inflows are excessively large, regardless of their nature and purpose, and exceed the possibilities to increase the production capacity, the optimal answer to prevent economy overheating and rising prices is a restrictive fiscal policy.

In most cases, however, governments and central banks try to control the current account deficit of the balance of payments, regardless of the level of limitation of loans to domestic market beneficiaries (enterprises, population, government agencies and public institutions). This prevents the uniform intratemporary allocation of the level of consumption.

Where there are significant devaluations or where there is a significant depreciation of the exchange rate, the authorities are not willing to accept a real appreciation of the national currency by appreciating the nominal exchange rate. In such situations, a policy of sterilizing capital inflows is used.

When sterilization is not successful, the effects of capital inflows are seen in the price level, the appreciation of the national currency taking place through inflation and not through the appreciation of the nominal exchange rate. This is a blow to the credibility of monetary policy, since the very purpose of initiating sterilization, i.e. to maintain price stability, was sacrificed in favor of defending the nominal exchange rate and of controlling the current account deficit of the balance of payments.

The high quasi-fiscal costs of sterilization mean that countries that have adopted this mechanism will eventually abandon it. The quasi-fiscal cost of sterilization is borne by the central bank through interest paid on securities denominated in national currency, issued with a risk premium on market interest, in exchange for the currency purchased by the central bank and commercial banks by the tax implicitly applied on them, if required reserves grow and are remunerated at an interest rate lower than the market interest rate.

With inefficient sterilization, in the absence of a restrictive fiscal policy, the currency appreciates externally in real terms through inflation, the volume of lending decreases, and the level of interest rates is higher than in the absence of sterilization. If capital inflows were allowed to increase the money supply in response to increased demand, interest rates would fall, the volume of lending would increase, the impact on prices would be insignificant, and the national currency would appreciate to a certain extent in nominal terms. This argument is convincing enough against attempts to sterilize capital inflows.

Regarding the capital inflows in 2021, in our country, investor interest is still very low and is more focused on the speculative component, with IIF data indicating high volatility. Emerging markets in Europe saw a massive decline in capital inflows in the first eight months of 2021 compared to the same period in 2020, by 63.6%, as net inflows from equity portfolios decreased by 75%, up to $12.5 billion, and net bond inflows decreased by 52.6% to $24.6 billion. In the context of deepening economic imbalances, of the political crisis and of inflationary pressures, the negative outlook on capital flows remains.

2. Content

NBR's monetary policy strategy is to directly target inflation. " Inflation is always and everywhere a monetary phenomenon"[1].In order to counterbalance the limitations of using monetary aggregates as a nominal anchor and the lack of effect of pre-announcing their target levels, a pre-announced level of inflation is used. Monetary policy thus focuses on the ultimate goal and not on an intermediate target. "Inflation expectations matter in two important areas. First, they influence the level of real interest rates and so determine the impact of any specific nominal interest rate. Second, they influence price and money wage-setting and so feed through into actual inflation in subsequent periods. We discuss each of these in turn"[2]. For this policy to bear fruit, it is necessary to have a real independence of the central bank and the monetary policy needs to be very well correlated with the fiscal policy. The use of inflation control as the ultimate goal must give the central bank enough freedom so that when inflation is

[1] Bank of England, "The transmission of Monetary Policy", 2000.
[2] *Ibidem* 3.

generated by shocks other than monetary, it can allow the shock to be consumed by inflation, ensuring that the return to the desired level is made as quickly as possible, once the shock is consumed. These elements make it difficult to use inflation as a direct objective of monetary policy.

According to the projections made, the annual rate of CPI inflation would have reached 3.8% at the end of 2019, 3.1% at the end of 2020 and 3.2% at the horizon of the projection (Q3 2021). In contrast, although the stationary inflation target is 2.5 percent ± 1 percentage point, the annual inflation rate in 2019 reached 4.04%, mainly due to shocks on the supply side of certain agri-food products (pork and fresh fruit) caused by the global African swine fever epidemic, respectively the unfavorable weather conditions in the region, the decrease in thermal energy prices in November as a result of subsidies to the population, the slight depreciation of the leu against major currencies, and a persistent aggregate demand surplus. In November 2019 alone, the annual inflation rate, which measures the evolution of consumer prices in the last year, increased to 3.77%, given that food prices rose by 4.9%. Non-food product prices increased by 2.83%, and the price of services increased by 4.19%, according to data from the National Institute of Statistics (INS).

According to the World Economic Outlook report updated and published by the International Monetary Fund (IMF) in July 2019, the outlook for the global economy has been revised downwards under the influence of the slowdown in global economic growth since early 2019. This situation is largely due to worsening geopolitical and trade tensions and worsening financial conditions in developed countries. Under these conditions, the trend towards investments and the demand for durable goods have decreased and, thus, led to the moderation of economic activity.

In Eurozone countries, economic growth has slowed more than expected as a result of weakening consumer and business perceptions, delays in introducing new fuel emission standards for diesel-powered vehicles in Germany, uncertainty over fiscal policy, and street protests in France that disrupted retail and impacted consumption.

In Romania, the year 2019 was characterized by 4.1% economic growth - unsustainable growth considering the increase of the budget deficit and external deficit, by an inflation at the end of the year of 4.04%, but higher than the admissible 3% limit in the EU area. There was a low unemployment rate of the International Labor Office - ILO (3.9%), but also a growing trade deficit of the current account expressed as a percentage of GDP (-4.7%) which remained negative in terms of value in the last three decades.

In 2019, Romania had a relatively low public debt (approximately 35% of GDP) and a total (public and private) external debt of approximately 48% of GDP, of which 2/3 belonged to the private sector. Reinhart and Rogoff[3] found out that the emerging markets face lower thresholds for external debt (public and private). When external debt reaches 60 percent of GDP, annual growth declines by about two percent, but for higher levels, growth rates are roughly cut in half.

The increase in public debt as a result of permanent expenditures, such as the increase in the pension point, and low budget revenues can further damage the situation of public finance, and the cost of financing will depend on the evolution of deficits, exchange rate pressures and inflationary expectations.

According to the SEC 2010 methodology, the general consolidated budget deficit increased in 2019, reaching 4.3% of GDP compared to 2.9% of GDP in 2018 and exceeding the 3% limit set by the Maastricht Treaty. Among the member states of the European Union, our country registered the largest budget deficit expressed as a percentage of GDP. Also, the primary budget deficit expressed as a percentage of GDP reached 3.1%, our country registering, for the third consecutive year, the largest imbalance in the European Union

In the economic boom years, the monetary policy pursued by the NBR was countercyclical, and after the outbreak of the global crisis of 2008-2009 it became expansionary, by reducing the monetary policy interest rate and minimum required reserves in response to declining interest rates on new loans granted in the national currency.

At the beginning of 2019, the NBR maintained the monetary policy interest rate at 2.50% per annum, as well as the interest rates on deposit and loan facilities at 1.50% and 3.50% per annum, respectively, as well as the levels in force of the minimum required reserve ratios (RMO) applicable to the liabilities in lei and foreign currency of the credit institutions (8% and 6% starting with the application period February 24 - March 23, 2020).

The new coronavirus (***COVID19***), which was discovered in China in late 2019 and turned into an epidemic since January 2020, has severely affected the entire world economy. By spring 2020, more than half of the world's population had experienced a lockdown with strong containment measures. The measures taken by the states to reduce the effects of the health crisis were severe, among the most important being stopping non-essential activities, restricting travel and banning

[3] Carmen M. Reinhart and Kenneth S. Rogoff, *Growth in a Time of Debt*, NBER Working Paper no. 15639 January 2010, Revised January 2010.

travel to and from certain countries, which caused shocks in production and distribution chains, but also a strong contraction of demand for a wide range of goods and services.

In order to reduce the negative effects of the pandemic crisis, the central bank has adopted a series of measures, among which we mention[4]:

- monetary policy measures consisting of reducing the monetary policy interest rate by 0.5 percentage points from 2.5% to 2% and narrowing the interest rate corridor of permanent facilities around the monetary policy interest rate to ±0.5 points percentage points from ±1 percentage point. As such, the interest rate for the deposit facilities remains at 1.5%, and the Lombard interest rate is reduced to 2.5% from 3.5%. These measures have led to a reduction in interest rates on loans to individuals and legal entities. Two other measures adopted were the provision of cash to credit institutions through repo operations (these are reversible operations with government securities) in order to ensure the smooth functioning of the money market and other segments of the financial market, as well as the purchase of government securities on the secondary market in order to increase the money supply.
- establishing measures to make the regulatory framework more flexible so that credit institutions and NFIs are able to support individuals and companies with existing loans: creditors were able to defer the payment of the loans of any natural and legal person affected by the COVID- 19 epidemic, without applying the conditions regarding the indebtedness level, the limitation of loan amount depending on the value of the guarantee and the maximum duration of the consumer loan.
- measures regarding the bank resolution by which the term for collecting the annual contributions to the bank resolution fund for 2020 was extended by 3 months, up to a maximum of 6 months, and the postponement of the deadlines for reporting information related to resolution planning.
- operational measures aimed at ensuring the proper functioning of the payment and settlement systems in the national currency, in order to carry out the normal commercial and financial transactions. The central bank provided banks with uninterrupted cash flows for all operations, including ATM cash.

It is important to note that the central bank, by acquiring government securities on the secondary market for the purpose of injecting liquidity into the market, used, for the first time, a non-standard monetary policy instrument such as quantitative easing (Quantitative Easing - QE), as well as forward guidance, an indication of the expected level of interest.

Over the last decade, the ECB and the Federal Reserve have pursued very low monetary policy rates (even negative ones, in the case of the ECB), on the one hand to avoid deflation and on the other to avoid a possible collapse of banking systems, as was the case in the 2008-2009 crisis caused by the failure of companies that had invested in subprime mortgages (high risk). Bank of America estimates that after the bankruptcy of Lehman Brothers and to date, central banks have injected $ 23 trillion into the economy through various monetary policy instruments such as quantitative relaxation and the purchase of financial assets in areas of strategic importance. These unconventional measures (Quantitative Easing - QE) have been adopted by other central banks, such as the ECB, the Fed, the Bank of England, the Bank of Japan, etc.) which have targeted the purchase of financial assets and very advantageous financing lines for banking systems in order to boost lending. This "quantitative easing" which involves the basic injection of money into the market in exchange for various financial assets should not be confused with the "open-market" monetary policy instrument used by the monetary authorities, including in emerging economies, such as NBR. The use of this measure involves some risks in the case of an emerging economy compared to developed economies and this is due to distinct features. When it comes to cushioning strong shocks, the autonomy and effectiveness of monetary policy are limited as no reserve currency is issued. In addition, in an economy such as the Romanian one, in which the Euro-ization[5] is significant, a major depreciation of the currency has significant balance sheet effects and a major impact on inflation. It should not be overlooked that the local capital market, which barely exceeded its "border market" status in September 2020, and, although included in the category of emerging markets, is not yet sufficiently developed and the financial market cannot absorb large issues of sovereign bonds, as there are limits on the exposure of financiers to local sovereign bonds. In contrast, in economies where domestic transactions are highly de-Euro-ized, inflation is at an acceptable level, deficits are significantly reduced, there are significant foreign exchange reserves and financial markets are developed, the monetary authorities have room for maneuver relevant for the adoption of such unconventional measures.

Central banks also reacted promptly, as did the Fed, which reduced the key interest rate to a positive lower limit and implemented large asset acquisitions.

[4] National Bank of Romania - COVID-19 (bnr.ro).
[5] daianu-1.07.2020.pdf (consiliulfiscal.ro).

The ECB has considerably eased its monetary policy stance to counteract the negative effects on the Eurozone economy, through a series of measures with the specification that monetary policy interest rate is at zero, being maintained at that value.

During the first period of the crisis, there was an appreciation of the US dollar, the fluctuations in relation to the single European currency being relatively modest, this being a typical evolution for the periods of economic stress. Thus, the EUR/USD exchange rate was slightly below the level of 1.10 for most of the February-May period, while in the previous months it was around the level of 1.11. Subsequently, as a result of the reduction in international risk aversion and the reduction of the interest rate differential between the two currencies, the European currency positioned itself, with the adoption of monetary policy stimulus measures, on a gradual upward trajectory, and in relation to the US dollar exceeded the 1.20 level in the latter part of 2020 and at the beginning of the following year.

The evolution of the RON/EUR exchange rate, as a mechanism for transmitting monetary policy in the economy, has received the impact of worsening sentiment of financial investors towards emerging financial markets. One cause of inflation is the depreciation of the national currency against the euro. During October 2019-January 2022, it is on an ascending trend (4.7486 on 9 October 2019 to 4.9449 on 18 January 2022, the maximum being 4.9510 reached on 30 November 2021). Also, the exchange rate changes have an impact on the economy in terms of capital flows, because a relatively stable currency will attract foreign investors. Otherwise, the prospect of losses from currency depreciation may discourage foreign investors.

According to the Fiscal-Budgetary Strategy[6] approved by the government in December 2019, economic growth for 2020 was estimated at 4.1% by the contribution of domestic demand which is the engine of economic growth especially by increasing gross fixed capital formation, with a higher dynamics than end consumption, respectively 6.8% compared to 4.5%, and on the supply side, an improvement of the economic activity in all sectors was estimated, especially in the services sector and in the industries with high export potential.

These forecasts did not come true, as a result of the COVID-19 pandemic, the Romanian economy contracting by 3.9% in real terms. The measures taken by the states to reduce the effects of the health crisis were severe, among the most important being stopping non-essential activities, restricting travel and banning travel to and from certain countries, which caused shocks in production and distribution chains, but also a strong contraction of demand for a wide range of goods and services. As such, in Romania as well, the year 2020 was characterized by a sudden decrease of private consumption during spring and a negative impact on exports. Imports decreased less than exports, which led to a further deterioration in the trade balance. The nominal depreciation of the national currency, over 1.9%, was also reflected in inflation. In July 2020, the public debt reached 42.2% of GDP, increasing by RON 71 billion since the beginning of 2020, and in November 2021 it reached 48.7% of GDP. If the indebtedness exceeds 50% of GDP, the Government must resort to freezing public sector wages and, eventually, adopt additional debt reduction measures, according to the Fiscal-Budgetary Responsibility Law (LRFB) amended at the end of 2013. Between January and November 2021, the total external debt increased by EUR 6.430 million. Long-term external debt amounted to EUR 96.501 million as at November 30, 2021 (72.4 percent of total external debt), an increase of 3.2 percent compared to December 31, 2020. Short-term external debt was EUR 36.736 million (27.6 percent of the total external debt) on November 30, 2021, increasing by 10.4 percent as compared to December 31, 2020.

The effect of fiscal measures taken during the state of emergency and the state of alert on the public budget was almost 1.5% of GDP, which is added to the budget deficit of 4.6% in 2019 as a result of a poor collection of budget revenues, the high share of rigid expenditures in tax revenues, but also a lower collection of dividends from state-owned companies and the payment of state debts to private companies. The widening of the deficit from 2.8% of GDP in 2018 to 4.6% was determined by a decrease in total revenues of 0.1 percentage points and an increase in total expenditures by 1.7 percentage points. The increase of the budget deficit has been one of the main drivers of the deepening of the current account deficit in recent years, the fiscal relaxation leading to an increase of the population's income over the capacity of the internal supply. In February 2020, the European Commission initiated the excessive deficit procedure against Romania. The Excessive Deficit Procedure was carried out under the general clause derogating from the provisions of the Pact and allowed for a fiscal policy that would support the economy. Some of the measures adopted in 2020 aimed at combating the effects of the pandemic continued in 2021, such as those applied in the field of social protection or those addressed to companies in the form of state aid. Romania is at the point where the current account deficit is higher than the public deficit.

[6] SFB 2020-2022 -11 December - 12:00 (gov.ro).

The reduction of the monetary policy interest rate, in three stages, confirmed the decrease of inflation in the medium and long term, at the end of 2020, the annual inflation rate being 2.1%, the lowest in the last three years. Unlike Eurozone countries that have experienced deflation during periods of recession, emerging countries have experienced growth rates and therefore inflation. Romania also had deflation (-1.5%), the decrease of prices being artificially determined by the reduction of taxes, especially of VAT. It is more difficult to control deflation, which can lead to recession, as compared to inflation. A drop in prices may sound encouraging, but the effects of deflation are a decrease in consumption in favor of saving, an increase in the burden of public debt, a decrease in the value of assets and an increase in real interest rates. As in the case of other economies, the Romanian economy also depends heavily on exports and consumption.

Regarding the evolution of GDP, except for the economic performance in the first two months of 2020, the impact of the pandemic and the state of emergency established by the Romanian authorities since March was felt, thus canceling that strong start. The first quarter of 2020 brought an economic stagnation (-0.04%, revised data) compared to the level of GDP in the last quarter of 2019.

According to the National Institute of Statistics, the second quarter of 2020 was the worst affected by the pandemic, bringing a record economic decline of 12.2% compared to the first quarter. This figure represents the largest decrease in the quarterly GDP of the Romanian economy, surpassing also the negative quarterly records of the economic-financial crisis from 2008-2009.

After this record decline, Romania's economy grew by + 5.6% in the third quarter compared to the previous quarter. Thus, in annual terms, Romania's GDP accumulated a decrease of 5.7%, both on the gross series and on the seasonally adjusted series, compared to the third quarter of 2019, which at the same time represents a decrease below the EU countries average (-4.3%).

Pressures on the public budget have eased in the first half of 2021 due to the medical situation and the positive developments in the economy. The budget deficit reached 4% of GDP in the first 10 months of the year compared to 7% in the same period of 2020, after increasing to 9.7 percent of GDP by the end of 2020. The real annual GDP growth rate in the second quarter of 13.9% was the consequence of continuing the recovery of the economy as a result of the improvement of the medical situation, but also of a substantial basic effect associated with the strong contraction in the second quarter of 2020 after the COVID-19 pandemic started. These developments have been similar to those at the regional level[7]. Budget revenues increased based on the advance of VAT revenues generated by the recovery of consumption and the reduction of the growth rate of wage expenditures, which ultimately led to the adjustment of the fiscal position by 1 pp compared to the same period of 2020.

The NBR made two increases in the monetary policy interest rate, the first increase being adopted on 5 October 2021 to the level of 1.5%, and the second increase on 9 November 2021 to the level of 1.75%, under cash control conditions on the money market. Also, the interest rate for the deposit facility was increased to 1.00%, and the interest rate for the credit facility was increased to 2.5%, due to the extension of the symmetrical corridor formed by these two interest rates for permanent facilities, from 0.5 pp to 0.75 pp. At the same time, the levels of minimum required reserve ratios for lei and foreign currency liabilities of credit institutions remained unchanged. This increase in the interest rate in less than 2 months will lead to a slowdown in lending. Although inflation has accelerated, the annual rate reaching 8.2% in December 2021, the NBR decided on 10 January 2022 to increase the key interest rate by only 0.25 percentage points, from 1.75% to 2%. In 2021, rising energy and fossil fuel prices led to increased risks in the second half of the year. The annual inflation rate will exceed the upper limit of the target range, especially after the cessation of measures to cap and offset energy prices. Additional effects will be generated by the increase in the price of tobacco products, non-food and imported goods, but also by blockages in the production and supply chains.

The main risks to the macro-stabilization of the economy, and respectively to the financial stability determined by the evolution of capital flows refer to:

- Strengthening the sustainability of the external debt service, both in the short and long term
- Improving the structure of external financing flows, including in order to contribute to the sustainable modification of the growth model of the Romanian economy (the main growth factor is domestic demand, unfortunately mainly private consumption and to a lesser extent investments)
- Absorption of European funds, a source of financing that continues to remain at modest levels (gross capital formation should have increased as a result of the impact resulting from the “residual” absorption of structural and cohesion funds allocated through the Multiannual Financial Framework 2014-2020, but the absorption rate was about 30%).

Financial vulnerabilities are still high in some sectors, such as the sovereign or insurance sectors.

[7] www.bnr.ro/RSF_2021_editia_decembrie (1).pdf.

According to the IMF, the main vulnerabilities that could affect financial stability are targeted at[8]:

- inflationary pressures and the longer-term trend, including in the context of persistent supply chain problems and labor and material shortages;
- overvaluation of assets in some market segments, fueled by monetary policy and large gains;
- high financing needs in emerging and border markets;
- non-uniform recovery among non-financial firms, depending on countries, sectors and size; for example, the risk of solvency continues to be high in the sectors most affected by the pandemic, as well as in small firms. In some economies, lending standards in the banking sector remain restrictive, with effects on lending prospects.

3. Conclusions

In Romania, the annual IPC inflation rate increased significantly in the fourth quarter of 2021, reaching 8.19 percent in December, the highest value in the last ten years. And the world's major economies are facing an unexpected rise in inflation, such as Germany, where inflation has reached a maximum value in the last twenty-nine years, while in the US inflation has reached an unprecedented value in the last thirty-one years. In this quarter, however, the evolution of the indicator was oscillating, the evolution being decreasing only in November, as a result of capping and compensating the prices of electricity and natural gas for the population. In December, the annual inflation rate increased on the background of the increase in the quotations of energy goods on global markets, also reflected in the dynamics of those on the domestic market, given that in the period October-December the wholesale price for natural gas exceeded more than seven times, and in the case of electricity, more than four times, the levels in the same period of the previous year.

Analysts believe that the process of fiscal consolidation can be a brake on economic growth given the high level of the budget deficit. The National Bank of Romania postponed until January 2022 the increase of the monetary policy interest, which reached the level of 2%, but in order to have a visible impact on the economy and implicitly on the inflation rate, at least another increase of this rate should be carried out together with an adequate correlation of the fiscal and monetary policies.

According to the inflation report of February 2022 published by the NBR[9], “an important source of risks remains the conduct of fiscal and revenue policy stemming from the perspective of fiscal consolidation measures. At the current juncture, measures have already been adopted aimed at mitigating both the impact of the abrupt deterioration of the epidemiological situation and that of the increase in utility bills”. Between April 1, 2022 and March 31, 2023, the government approved the capping of the final billed electricity prices for vulnerable household customers on two consumption tranches, based on the average monthly consumption achieved in 2021 and the final prices for natural gas. The need for a new extension of the support measures financed from the state budget entered into opposition to the need to continue at an ambitious pace the correction of the budget deficit, with a deadline of 2024. “On the other hand, attracting the widest possible volumes of European funds, especially investment funds from the "Next Generation EU" program, through the favorable impact on the macroeconomic framework, would be likely to facilitate the process of fiscal consolidation, given a higher speed and, respectively, of lower costs associated with it”[10].

The EU's recovery program should be a goldmine for our country, especially as the medium- and long-term economic recovery must be sustained after the strong impact of the pandemic. The COVID-19 crisis hit two decades of outstanding economic performance, as a result of which Romania's GDP per capita rose to over 60% compared to the OECD average.

In December 2021, the European Commission transferred to Romania EUR 1.8 billion in the form of pre-financing representing the equivalent of 13% of the total grants allocated under the Recovery and Resilience Mechanism (MRR).

OECD Economic Survey of Romania[11], published in January 2022, mentions the need to implement structural reforms focused on resuming productivity growth by making investments in infrastructure, to improve competition and the regulatory framework (economic productivity in Romania is about 2/3 of the OECD average), as well as to create jobs and develop skills.

To support medium- and long-term recovery, Romania needs to focus on an efficient implementation of the EU-funded National Recovery and Resilience Plan, by improving administrative capacity and completely reforming the pension system, as population ages, in order to ensure the sustainability of public finance.

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[8] COVID-19 Crisis Poses Threat to Financial Stability – IMF Blog.
[9] RaI februarie 2022 (1).pdf.
[10] *Ibidem* 9.
[11] romania-2022-OECD-economic-survey-overview.pdf.

It is also necessary to implement a regulatory framework with simpler procedures for setting up and closing companies, thus enabling efficient companies to thrive, invest and adopt new technologies.

Accelerating the modernization of the tax administration, as well as reforms aimed at eliminating inefficient tax provisions (especially those targeting micro-enterprises and certain sectors such as construction) and raising taxes that create less distortions (such as property taxes) could help increase revenue and the creation of a fairer and more efficient tax system.

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