MONETARY POLICY MANAGEMENT WITHIN THE POST-CRISIS CONTEXT*

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Rezumat

Contextul post-criză se impune, din rațiuni de țintire a unor rezultate optime la nivel macroeconomic, a fi privit ca o continuitate, cel puțin din punctul de vedere al administrării macroeconomice, a contextului de criză, respectiv pregătirea, din acelaşi punct de vedere

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al continuităţii programelor post-criză este structural legată de administrarea programelor de sustenabilitate macroeconomică asociate contextului de criză.

Principalul aspect al lucrării este evidenţierea necesarului de creştere a capacităţii administrative al sistemului politicilor macroeconomice – sistem din cadrul căruia face parte, cu acelaşi nivel de importanţă, politica monetară.

În ceea ce priveşte contextul actual, marcat mult mai profund de complexitatea relaţiilor economice decât de fenomenul de criză, sistemul politicilor macroeconomice se impune a avea un nivel de abordare corespunzător nivelului de complexitate căruia i se adresează în economia reală, subliniind şi faptul că actuala criză economică, în mod natural resimţită diferit în diversele sisteme macroeconomice, după cum acestea sunt diferite, nu este decât un răspuns al economiei reale la insuficienta capacitate administrativă a sistemelor politicilor macroeconomice.

Abstract

By taking into consideration that any macroeconomic administration activity it is either compulsory or necessary to be oriented for the obtaining of a complex system of optimum results, the post-crisis context become strictly correlated to the crisis one; this is mean that the management of the post-crisis programs is structural correlated to the management of the crisis ones towards the assurance of the sustainability being understood in all directions of the society life.

The main aspect of the present paper is the aspect of the development needs of the management capacity of the macroeconomic policies system, among of the monetary policy is one of the components which has the same value and importance like any other component.

Referring to the actual macroeconomic context, which is stronger influenced by the complexity of the economic relations that the crisis phenomena, the macroeconomic policies system must be associated to a level of thinking more closely to the complexity level already mentioned. In the same time, a more correct idea is that the actual economic crises, having different effects associated to the differences between the national macroeconomic systems, is a correct reply of

the real economy for the insufficient management capacity of the macroeconomic policies systems.

Keywords: financial stability, macroeconomic policies, equilibrium, sustainability, crisis

JEL classification: E61

The **goal** of this paper is to reveal, as a set of solutions and recommendations, essential aspects of the monetary policy management within the current context characterized by the international macroeconomic crisis and by the increasing complexity of the international relations.

From this perspective, the paper presents both economic models and analyses of concrete aspects of the monetary policy management.

1. A new and possible necessary approach of the monetary policy – the Islamic vision of the banking system

Causes of the European banking crisis

Among the main causes for the propagation of the crisis within the European banking system are phenomena such as:

1. Transactions with complex, highly risky financial products;
2. Over-indebting and the faulty management of the credit risk;
3. Excessive stimulation of the real estate credit by favourable fiscal policies and loosening of the credit eligibility criteria;
4. Expansive monetary policy which encouraged an excessive consumption.

Anti-crisis measures

The main anti-crisis measures promoted by the European states aimed to decrease the interest rates; to infuse liquidity on the monetary market in order to prevent the bankruptcy of the banks in distress; to guarantee the deposits of the natural and legal persons and a closer monitoring of the financial institutions involved in transactions with sophisticated financial assets. The level of prudence displayed by the population also increased, as shown by the reduction of investments and consumption and maintenance of the savings and incomes outside the financial-banking system. The immediate consequence was a higher number of bankruptcies, a higher intensity of great companies and banking institutions reorganisation, merges and acquisitions etc. The economic development in the euro zone experienced the most dramatic decrease of the past decade, the heavily indebted countries such as Spain, Portugal, Italy and Greece being on the brink of bankruptcy. The European Union is presently confronted with the risk of breaking into a strong zone of the powerful and competitive member states and a poor zone confronted with a strong economic recession and compelled to give up the single European currency, although its highest advantage is the interconnection of the member states.

Impact of the financial crisis on the financial system in Romania

The effects of the financial crisis were felt strongly by the Romanian economy affecting more the real sector and less the banking system because its low exposure to toxic assets. The shrinking crediting hampers the investments and the consumption, the lower foreign financing and exports generate currency depreciation and the monetary policy decisions affect the standard of living of the population. All these put a break on the foreign direct investments, lead to chain-bankruptcies and generate panic among the population and economic agents.

Within this context characterized by financial instability and high volatility, NBR adopted a proactive attitude regarding the prudential monitoring and banking regulations by requesting a monthly report from the credit institutions with worrying data regarding:

- Negative financial results;

- Decrease of the solvency indicator below the average value of the banking system;

- High volume of unperforming debts.

The market of insurances had a decreasing rate of growth for the general insurances, higher costs on the car insurance segment and a decrease of the life insurances. The insurance companies have also been affected by the economic crisis, by the decrease of share prices during the first part of the year and by the depreciation of the national currency. However, they managed to get protected by investments in state bonds and in high yielding banking deposits.

The capital market was characterized by a lower risk aversion in 2009 under the impact of the favourable evolution of the international stock exchange indices, but 2010 experienced again a higher volatility and lower volume of transactions under the impact of the domestic economic tensions.

The Islamic banking system – source of inspiration

Due to the high level of ethic specific to the Islamic finances, they proved to be less vulnerable within the context of the present crisis, but they were not totally immune. We will try to identify the main reasons which helped the Islamic system to cope with the crisis in order to highlight the importance of building a financial system blending finances and ethics. The Islamic finances might play an important role during the next period in ensuring the stability of the new global financial system.

The Islamic law, the Shariah, dominates the economic and social life in the Muslim countries. The principles imposed by Shariah aim religion and justice, policy, business and economy. These principles might be synthesized as follows:

1. Ban on interest rates: the credits and loans must not bring high profits, which is why the interest rates are almost null;
2. Ban on speculations: gambling is prohibited, such as the speculative transactions;
3. Ban on the economic activities nit allowed by the Islamic law – business with alcohol, tobacco, pork, pornography etc;
4. The sides participating in a business or transaction (associates in an activity or the relation between the banks and their clients) have to share both the losses and profits;

5 The asset-backing principle: the Islamic financial transactions must be directly linked to a real and tangible asset, thus to the real economy.

In countries such as Iran and Pakistan, most financial institutions are represented by the Islamic banks, while in other countries such as Malaysia, the Islamic finances coexist with the conventional finances proving their sustainability as form of financial intermediation.

Even if the Islamic banks hold a low proportion of the global assets, this industry increased strongly during the recent years (38% in 2007 and 25% in 2008).

The financial crisis and the Islamic finance

The Islamic banks were not fully protected against the economic decline because of their involvement in the real estate sector. This sector has been seriously affected particularly in the Gulf area threatening the financial position of some important financial institutions.

Even the Islamic financial institutions are exposed to the risks specific to the mortgages sector which don't interfere with the principles imposed by the Shariah. However, globally, the Islamic finances have been less affected by the current crisis than the conventional finances.

The current crisis, often seen as a crisis of the trust in the financial institutions, created significant opportunities of development and expansion for the Islamic finance. The flame of the current crisis has been fuelled by the failure of the corporative governance, by the excessive risk and by the financial innovations. The Islamic finances are protected from these dangers by their nature, because the financial transactions always rely on an economic activity and submit to the principles imposed by the Shariah.

The evolution so far of the Islamic financial system is only partially harmonized with the Islamic vision. The Islamic banks and financial institutions do not meet fully the conditions imposed by the Shariah. Even so, the Islamic financial system has the potential to correct the abnormalities which had threatened the stability of the conventional system, due to the close connection between the financial and productive flows and due to the constraint of equitable risk sharing.

Perspectives of the Islamic finance

The Islamic finance plays an important role both at the national and at the international level. The Islamic finance provides financial services to the national corporations and to the population and it intermediates economic relations between the developed states and the emerging countries.

According to the G20 Declaration on the Necessity to Strengthen the Financial System, the reform of the international financial system architecture must aim the following key areas of action:

a). Strengthen the international framework in the area of the prudential regulations;

b). Adjust the accounting standards;

c). Review the objectives of regulations;

d). A closer monitoring of the credit rating agencies and a better risk management.

The Islamic finance provide opportunities for innovative business and access to new designs for capital creation and for economic growth. The Islamic banks proved to be more resilient to the financial crisis and economic decline than the conventional banks. This prompts huge development opportunities for the Islamic banks as soon as the investors will look for new sources of finance.

2. The monetary crisis within times of crisis

Stages of the crisis phenomenon

How did we get to the financial crisis?

The financial crisis started in early 2007 in the USA and it revealed the frailty of the financial markets and institutions and questioned the regulatory framework aimed to keep it stable. In their endeavour to avoid the complete “melting” of the financial system, the central banks had to reinvent their role, to change the monetary policy behaviour an the responsibilities derived from the quality of ultimate creditor.

In conclusion, this financial crisis was triggered by world macroeconomic misbalances, by the improper risk management performed by the actors of the financial market which compounded with the flaws in the regulatory and monitoring system.

In order to avoid a full crash of the financial system the governments, the central banks, worldwide, had to take unusual measures.

The functioning mechanism of the monetary policy under normal economic conditions

Normally, the main goal of the monetary policy id to maintain inflation at a quite constant level and to stabilize the real economy.

The way in which the monetary policy acts on the interest rate level, on the development of the real economy, on the level of inflation, is called transmission mechanism. This mechanism is described by three channels: the interest rate channel, the credit channel and the exchange rate channel. These channels intersect and mingle, the purpose of differentiation being to enable explaining them.

The interest rate channel can be used to influence the cost oif saving and loaning. A low interest rate means that it is advantageous for the companies to finance their investments by loans and that for the population it is more advantageous to finance the consumption by credits. If the interest rate is low, saving is no more appealing.

The changes in the interest rate will affect the economy through the second channel, the crediting channel.

Through the exchange rate channel, the monetary policy can influence the value of the national currency. Normally, a decrease of the repo rates weakens the Romanian currency.

The expectations regarding inflation also re important for the way in which the companies will determine the prices and for the evolution of wages, hence on the evolution of inflation.

The monetary policy under special conditions

One of the ways in which the central banks attempted to counteract the effects of the financial crisis was to reduce the monetary policy interest rate.

The increase of the monetary basis can sometimes be an intentional strategy. In this case we are specking of a quantitative easing, which means that the central bank, instead of reducing the monetary policy interest rate, prefers to promote the increase of the banking deposits – and indirectly, of the monetary basis.

The situation created by this financial crisis is new for all the central banks worldwide, which attempt to manage as well as possible taking into account the local conditions in each country. There is no universally valid solution to exit the crisis, but we can learn from the experience of our neighbours. We just have to want this.

The central banks from the developed countries managed to avoid the very serious consequences of the crisis. By giving up the division of the prudential regulation from the monetary policy, the central banks reacted swiftly to the need of liquidity of the financial institutions. Question is whether they have gone too far in their action to inject liquidity. Too much liquidity injected has a limited cost within the conditions of a possible implicit subsidizing of the banking system. The undersized injection of liquidity favours contagion and may generate the need for more liquidity. Therefore, the first, and the correct measure is to inject the liquidity necessary to the banking system. The cost for the taxpayers may be high but it doesn't exceed the cost of a total banking blockage.

3. Administrative behaviour of the public monetary policies within the current international context

The current study takes into calculation the possibility of a prolonged economic crisis, phenomenon caused by the long-term and medium-term effects which the economic crisis might have on the Romanian economy, particularly, and on the international economy, generally.

Possible evolutions of the macroeconomic trend within the international context

The main problem regarding the evolving international macroeconomic aspects regards the evolution of the economic crisis, more precisely the phenomenology of this economic crisis, the identification, prediction and prevention of the running processes of the economic crisis.

According to the meaning of this study, the starting point of any anti-crisis strategy is the identification of the following aspects:

- Manner of evolution of the economic crisis;
- Transmission channels of the economic crisis;
- Potential risks.

This study supports the concept according to which the driving force of the economic evolution is the real economy. The administrative subsystems of the macroeconomic policies have to be organised as an administrative system whose efficient operation provides the legislative, institutional and methodological support to coordinate the sustainable evolution of the real economy towards the strategic goals.

Given these aspects, the main task is to identify and implement the optimal strategy which will draw placements in a sustainable manner.

Necessary approaches for monetary policy management

The main risks confronting the macroeconomic system in terms of monetary policy management under the conditions of the phenomena associated to the current economic crisis are the following:

- Destabilization of the monetary market:

  - *drastic, sudden* – by the reduction of the monetary mass in circulation (due to the possibility to transfer large amounts of money via the foreign banks operating in Romania; this happens when direct and indirect foreign investments back off when the investments are redirected towards other geographical areas etc.);

  - *drastic, gradually* – by misbalancing the macroeconomic system when the correlation between the monetary mass in circulation, the level of production, the prices within the economy are no longer correlated (Fischer's equation of the macroeconomic balance);

- misbalancing the balance of foreign payments by:

  - imbalance between the volume of exports and of imports;

  - disturbed regional commercial flows;

  - imbalances within the system of transaction prices;

- blocking the circuit of funds through the state budget, because of the drastic reduction of the revenues to the budget and inefficient implementation of sustainable macroeconomic programs.

When the destabilization of the monetary market is drastic, the main risk of monetary policy management is the insufficiency of the volume of monetary reserve compared to the amount necessary to set the monetary market again in balance.

Regarding the risk of imbalance of the foreign balance of payments, the main risk of the monetary policy management is the unacceptability of the necessary size of the operations of equilibrating the balance of payments (the misbalance, in a direction, of the current account is compensated, even partially, by a reverse misbalance of the capital and financial account, less the "assets in reserve"; the possible remainder of this operation of counteraction influences the assets in reserve of the central monetary authority) given the necessary required in order to engage the monetary reserve in operations meant to balance the monetary market – operations which have priority because of the higher importance compared to the operations meant to balance the balance of foreign payments.

Consequently, the actions of the monetary policy management must include the following strategic objectives:

- consolidation of the monetary reserve according to the principle of sustainability of the materialized possible scenarios;

- consolidation of the legislative framework and of the monitoring system in order to ensure the stability of the monetary market;

- ensure the access to instruments and measures of monetary policy in order to achieve an efficient adjustment required by the macroeconomic balance.

Case study – the situation of Romania

The current situation of Romania is that of systemic crisis; the causes of the national crisis are internal mainly and the most important ones are as follows:

- Perpetuation of a state of lack of performance of the economic strategies;
- Perpetuation of a state of dysfunction of the macroeconomic policies; their administration fails to have the characteristics of an integrated system as it is normal in the situation of a developed national economy;
- Sale of the most important national economic assets and of the key institutional positions within the national commercial flows;
- Disastrous administration of the public funds,

All these aspects lead to the pauperization of the national economy which cannot reach sustainability.

Motivations and arguments in favour of adopting a proposal of guiding elements at the administrative level of the monetary policy.

Given the current situation of Romania, the international circumstances and the economic perspectives, this study takes into discussion the following characteristics of the administrative behaviour within the monetary policy:

- Relation with the other macroeconomic policies:

- Occasional collaboration imposed by the obligation to participate in common national programs;
- Permanent collaboration to determine common elements for a macroeconomic program;
- Collaboration within an integrated system of the macroeconomic policies working on the principles of strategy coordination and correlation of the specific measures with the view to achieve common strategic objectives;

- Relation with the environment of the real economy:

- The administrative system of the monetary policy must assume the role of driving force of the macroeconomic development;
- The administrative system of the monetary policy must assume the role of coordinating factor of the macroeconomic development;

- Inclination towards the prioritization of the economic interests:
- Implementation, with priority, of the programs required by the regional economic convergence;
- Implementation, with priority, of the programs required by the promotion of the national interests.

Within the current stage of development of Romania, and within the current international context, the optimal solution of macroeconomic administration is the *scenario in which the collaboration between the macroeconomic policies is permanent and associated to the operation of the policies within an integrated system of macroeconomic policies functioning according to the principles of strategy coordination and correlation of the specific measures with the view accomplish common strategic goals; the environment of the real economy is stimulated and coordinated, through the macroeconomic policies, to an evolution characterized by an optimal* *trend – expanded in terms opportunities of development at the microeconomic level – opportunities created conjunctly and thereafter identified and developed at the level of macroeconomic policies management in collaboration with the level of the microeconomic management.*

In order to ensure the functionality of the administrative level of the macroeconomic policies according to the optimal scenario it is necessary to implement a set of programs streaming from the directions of actions. The period of time necessary for the implementation of such programs ranges between 1 and 2 years, which creates problems mainly because the phenomenon of the economic crisis has a much faster pace.

In conclusion, in parallel with the implementation of the necessary measures to organise an administrative system of the macroeconomic policies in the optimal variant, there must also be a program of transition from the current administrative system of the macroeconomic policies towards the optimal variant – transition which, according to the acceptation of this study may be characterized by the implementation of intermediate scenarios compatible with the objective of implementing the optimal scenario – variant which would lead both to a better preparation for the implementation of the optimal scenario and to the alleviation of major macroeconomic risks.

This study also aimed the necessity to increase the administrative performance of the macroeconomic policies in agreement with the current circumstances – a complex process whose necessity presumes the consequent modification of the administrative behaviour of the macroeconomic policies.

Our analysis has a more general character which can be applied to all the macroeconomic policies; the technical approach avoids the association of the ideas with a particular macroeconomic policy so as to avoid understanding the existence of a hierarchy within the administrative system of the macroeconomic policies. This study considers that all the components of the administrative system of the macroeconomic policies are of equal importance. The functionality of the system can be the object of future theoretical and methodological approaches in continuation of this analysis.

4. Monetary policy versus financial policy within the context of adjusting the real economy

Ensuring the financial stability is not something new, rather the refreshment of a traditional line.

There has to be a delimitation of the two concepts – “price stability” and “financial stability” – taking into consideration the existence of multiple definitions for the first concept and the failure to have a universally accepted definition of the second one

Correlation between the practical approaches and the actual reality

ECB vision of price stability is the following: “*price stability is defined as that state of the economy in which the general level of prices is strictly stable or the inflation rate is sufficiently low and stable, so that the considerations on the nominal dimension of the transactions ceases to be a pertinent factor for the economic decisions”.*

In Romania, price stability is the object of NBR’s strategy of direct inflation targeting. The strategy aims an optimal level of inflation which contributes to a sustainable economic growth, to macroeconomic stability and, ultimately, to a high level of social welfare.

Thus, the concept of “financial stability” appears as a feature of the financial system which includes the financial market, the financial institutions and the associated infrastructure.

The financial stability doesn’t require that all the components of the financial system function at or near the top speed at any time. A stable financial system has the capacity to limit and solve the imbalances, partly via self-control mechanisms before causing a crisis (case in which the financial stability and the monetary stability are reached concomitantly). The evaluation of the financial system requires both a global perspective and a systemic one.

Current aspects of the situation in Romania

Romania still displays the features of an emergent financial market. In 2010, the credit institutions and the non-banking financial institutions continued to hold most of the financial assets, increasing slightly to 93.9%, the insurance market and the capital market holding only 6.1% of the total net assets.

This is why the impact of the dysfunctionalities from the banking system on the stability of the entire financial system is much stronger than the impact produced by the problems affecting any other component of the financial sector.

Each component of the financial system has thus to be monitored efficiently, but banking surveillance holds the predominant role for the financial and monetary stability. The banking system is the main channel through which the monetary policy transmits its effects to the real economy and if it would display imbalances in the form of liquidity surplus or deficit, the central bank would find it very difficult to achieve its goals.

In our opinion, the function of regulation and monitoring of the banking system is vital for price stability, because the micro- and macro-prudential information thus obtained can be used successfully to avoid or to solve crises that might affect adversely the main goal of the central bank, with repercussions on the real economy.

Usually, the financial stability is not an explicit objective for the modern central banks, but they start to show a special interest in it in their pursuit of their goal: ensure the stability of the national currency. The monetary policy cannot be fully efficient unless it relies on predictable mechanisms of transmission, which presume a sufficiently-enough stable financial environment. Reciprocally, price stability is a necessary, although not enough, condition for the financial stability. In our opinion, under specific circumstance, some unpredictable mechanisms of transmission may also be highly efficient.

A financial system which operates well allows the economy to make maximal use of its potential of growth because it ensures at minimal costs the financing of the investment opportunities. A stable financial system also facilitates the improvement of the economic performance and contributes to the correction of the imbalances affecting the economy. However, this concept has to be considered dynamically. This means that the resources must be mobilized continuously and, once stability is reached, the policy must not loosen; on the contrary, it has to be maintained because the financial system is in a continuous qualitative change.

The link between the monetary policy and the stability of the banking system is not reflected exclusively in the level and volatility of the interest rates. A more general tension is that according to which the cyclic effects of the monetary policy and of the banking surveillance yield opposite decisions.

The monetary policy tends to move in an anti-cyclic manner: when the economy slows down the central bank opens its exogenous offer of currency, injecting more funds in order to accelerate the process of economic healing. However, the effects of the banking system regulation, the prudential surveillance particularly, are pro-cyclic: they require a contraction of the banking activity when the economy is in recession. For instance, during such a period, an authority of banking regulation might impose the increase of the compulsory minimal reserves and the improvement of the credit portfolios.

A *second argument* of the incompatibility between the monetary policy and the financial stability policy is reflected by the authors who don't agree with the involvement of the central bank in regulation and surveillance. The idea is to establish a Single Authority of Surveillance (SAS) responsible with banking, stock exchange and insurance surveillance, which will relieve the central bank from the function of banking regulation and surveillance.

A *third argument* of the incompatibility between the monetary policy and the financial stability policy is the very complexity of the two objectives. While price stability is the main objective of many modern central banks and it may be accomplished and maintained in time, the financial stability objective is more complex. This comes both from the different opinions regarding its definition, from the multiple ways of achievement and from the importance given to it function of the economic context. The financial stability depends both on endogenous factors such as the state of the real economy, the relations with foreign entities, the operational risk, the domino effect etc., and on exogenous factors: macroeconomic imbalances, natural disasters, bankruptcy of large companies.

In the contemporary economies, a low and stable level of the inflation leads to the establishment of a new economic environment in which the financial stability is no longer guaranteed, which prompts the rigorous reconsideration of the relation between price stability and the financial stability.

We can thus identify a *fourth argument* showing the incompatibility between the monetary policy and the financial stability policy: the new environment hypothesis. The case of some Asian countries in 1997-1998 is relevant to this point. In the periods preceding the onset of a financial crisis, those economies experienced significant imbalances despite a rather high level of price stability. A similar situation was noticed during the current economic and financial crisis, when the central banks had to inject a consistent volume of liquidity in order to maintain the financial systems operational. Thus, the central banks don't have the capacity to ensure concomitantly price stability and financial stability if the accomplishment of these two requirements demands contradictory measures.

Analysing the case of Romania, we may say that the preservation of the financial stability is of particular importance for price stability; it is more important than adopting a fast process of deflation.

In the period 2000-2007, Romania achieved a 5.8% average annual rate of deflation which aimed to avoid the contradiction with the financial stability, while maintaining the stability of the financial system. This shows that although on the short term the two objectives may be conflicting, on the long term they potentiate and support mutually (*conventional approach*). The incapacity to maintain the financial stability can only reignite inflation.

The long-term goal of the monetary policy must be a low and stable inflation which supports a long-term sustainable economic growth. Consequently, the low and stable inflation is both a purpose per se and a means to achieve a sustainable economic growth. The efficiency of the monetary policy in reaching this objective is limited however, unless there is financial stability.

Conclusions

The arguments in favour of an expansive monetary policy for the duration of the financial crisis derive from its advantages: it may reduce the macroeconomic risk and the possibility of the adverse feedback loop. For instance, the economic slowdown affects the financial markets, which makes the creditors, the firms and the population to become very cautious; in turn, this weakens further the economic activity. However, the answer of the monetary policy is dilemmatic, meaning that the higher interest rates which aim to prevent the massive outflow of capital may have an adverse effect on the economy and on the national banks, although it would help the equilibrium of the foreign balance of payment. However, we propose to take the less evil, to decrease the interest rate. As the case of Romania shows, the adjustment in the private sector reduced significantly the current account deficit compensating the outflows and the lower inflows of capital.

However, we must take into account that the flexibility of the monetary authority to work with instruments of monetary policy depends on how well are the inflationist anticipations anchored. It is therefore important to communicate explicitly the flexibility of the monetary policy to the dynamics of the inflationist risk.

The use of conventional and non-conventional instruments of monetary policy could be noticed during the current crisis. The main measures taken by the central banks were the fast and significant loosening of the monetary policy, the increase in volume and frequency of the market operations supplying liquidity into the system, expansion of the range of eligible collaterals and of the maturities of the liquidity offer. The monetary authorities must show enough flexibility and must be ready to withdraw the stimuli once the financial market heals and the inflationist risk increases. Because the crisis had non-linear effects, the monetary policy could not remain inert.

The financial instability caught the real economy too, which increased the incertitude and activated the financial accelerator, which exacerbated the effect of the banking crisis by deteriorating the value of the collaterals to the loans. The monetary policy has the capacity to reduce the macroeconomic risk by decreasing the incertitude and indirectly the risk of the correct evaluation of the assets.

Even if the decrease of the monetary policy interest rates didn't have the expected effect, mainly because the credit standards have been raised significantly due to the incertitude, we consider that the market interest rate would have increased even more in the absence of the relaxation of the monetary policy and the economic contraction would have been even stronger. Actually, the monetary policy has been even stronger than under normal times because ultimately, the decrease of the monetary policy interest rate and the non-conventional measures decreased not only the market interest rates, but also the spread.

The monetary policy could not counter by itself the effects of the crisis, much more as in the emergent countries it has to correct the slips of the fiscal policy. Thus, it has to be accompanied by a fiscal policy with maximum impact on the short term, while not increasing the long-term fiscal burden.

In conclusion, we support the idea that the policies supporting price stability and monetary stability have effects of different intensities on the real economy, even if they can be implemented using instruments similar to those used by the central bank. In our opinion, the banking system must preserve its function of regulation and prudential surveillance, as attribute of the central bank, because it yields micro- and macro-prudential information which increase the efficiency of the monetary policy.

Analysing the relation between the monetary stability and the financial stability we may say that a two-way relation exists between them. Therefore, we consider that although the basic long-term goal of the central bank is price stability, it also must pay special attention to the financial stability. Otherwise, even if progress is achieved in matter of deflation, its sustainability is not ensured within the context of an unstable financial system. The incapacity to maintain the financial stability may only reignite inflation.

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