



## EVALUATION OF THE NATIONAL MONETARY POLICY WITHIN THE CURRENT CONTEXT IN ROMANIA

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Silviu-Marius ŞEITAN, PhD.\*

### **Rezumat**

*Noțiunea de evaluare, în general, face trimitere la activitatea post-factum prin intermediul căreia se apreciază gradul în care funcționarea unui anumit sistem a îndeplinit obiectivele prestabilite. Această apreciere poate fi de natură calitativă și de natură cantitativă.*

*În ceea ce privește sistemul de referință utilizat pentru evaluarea funcționării sistemului analizat, acesta poate fi reprezentat de obiective și criterii prestabilite în cadrul strategiei interne a sistemului sau de obiective și criterii stabilite de către evaluator, conform principalelor caracteristici și principii de funcționare ale sistemului în cauză.*

### **Abstract**

*Generally, the term of valuation refers to the already-done activity which contributes to the appreciation of the functioning level of a named system in direct relation to some established objectives.*

*As some points regarding the reference system used for the analysed system valuation, this could be represented by already established objectives and criteria, as they are mentioned inside the system strategy or as they are established by the valuation analyst according to the main characteristics and functioning principles of the analysed system.*

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\* Scientific researcher III, Centre for Financial and Monetary Research “Victor Slăvescu”, Romanian Academy

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### **Introduction**

The present study has the following aims:

- To propose technical-methodological elements to evaluate the components of a system whose real representation is the administrative system of the macroeconomic policies;
- To reveal some elements to evaluate the national monetary policy corresponding to the current internal and international circumstances.

We propose to use a reference system represented by objectives and criteria set by the evaluators and, as variant of approach, we propose as general objective of the study to develop an evaluation methodology whose specific elements fit the real case of the national Romanian economy within the current macroeconomic circumstances.

The monetary market is part of and assembly of macroeconomic policies which function under conditions of integrated system, the system components being coordinated to achieve the same objectives and correlated to implement the same elements of the plan of action using specific measures and elements.

### **General characterization of the current international conditions**

The phenomenon of international economic crisis developed due to the powerful outrun of the macroeconomic administrative capacity (in terms of legislation, institutions and methodologies) by the microeconomic capacity of development of the real economy. This imbalance lead to serious functional misbalances both to macroeconomic level, and the microeconomic level (generically, these are variants of the imbalance between needs and resources), misbalances which also threaten the operation of these systems;

essentially this is a threat to the sustainability of the macroeconomic and microeconomic systems, with serious consequences on the costs and terms of restoring the balance.

Under such circumstances, incomparably more serious than any previous historic situation (both in terms of span of the crisis phenomenon, and in terms of deepness of the impact and temporal perpetuation of the effects), the operation of the administrative system of the macroeconomic policies becomes the key element of keeping the economic crisis under control.

### **Strategic elements of the system of macroeconomic policies**

First, in order to talk of a system of macroeconomic policies, their functioning must fit such a system, all the components of the system must coordinate their actions towards accomplishing the same objectives and correlate their activity towards determining the necessary moments of intervention by specific measures. Such kind of operation requires the development of an adequate legislative, methodological and institutional framework.

The coordination of the parts composing the system of macroeconomic policies presumes the overall strategic elaboration of all the components, while designing the relations of inter-conditioning and causality between them.

The correlation of the parts composing the system of macroeconomic policies presumes the determination of the moments or types of moments which require specific actions which must be conducted in coordination.

The main reason of promoting the idea of higher efficiency of such a functional system is that according to which the general strategic objective of the system – ensuring the sustainability and function of the system – is easier to achieve by the coordinated action of all the components of the system while taking into consideration absolutely all the system components.

The action of the system components towards meeting the sustainability goals presumes that every component considers all the system variables, even if in the functional model each of these variables has a different degree of importance at a particular moment.

The following considerations can be made with these working hypotheses:

$f_i(x_j)$  = function associated to a regulation component of the system;

where:  $1 \leq i \leq n$  and  $1 \leq j \leq m$   
 $x_j$  = system variables;

where:  $n$  = number of regulation components of the system;  
 $m$  = number of the variables describing the system

According to the working hypotheses, the regulatory function of the system can be described as:

$FR(f_i(x_j))$ ,

The condition of system sustainability is that according to which the values of the regulatory function, at any moment of the system functioning, ensures the optimal operation which can be described by the following accumulation of conditions:

- Balance between requirements and resources;
- Economic efficiency;
- Long-term of functioning.

#### **Matrix of the conditions of sustainable system administration**

The sustainability of the general activity of system administration presumes achieving several administrative conditions.

This study proposes a matrix model of these conditions assigned to several groups:

- **Conditions regarding the assembly of the regulatory components:**

○ number „n” of the regulatory components of the system is necessary and sufficient to accomplish the strategic objective of system sustainability;

- the organisation of the assembly of regulatory components is done on the basis of the principle of mutual completion of their impact on the system variables, in agreement with the necessary of regulation;

- **Conditions regarding the function of the regulatory components within the assembly of these components:**

- The operation of the assembly of regulatory components relies on the coordinated operation of the components towards the accomplishment of the same general strategic goal of sustainability and on the correlation of the actions presumed by the functioning of each regulatory component: determine the moments and the group of actions associated to each moment in strict agreement with the needs of intervention by regulatory activities;

- Elaboration of the strategy of functioning by regulatory component on the basis of the general strategy for the functioning of the assembly of regulatory components;

- The elaboration of the strategy of functioning by regulatory component is done in strict agreement with the elaboration of the strategies for the other regulatory components so that the assembly of regulatory components functions under conditions of correlation and coordination;

- **Conditions regarding the function of each regulatory components:**

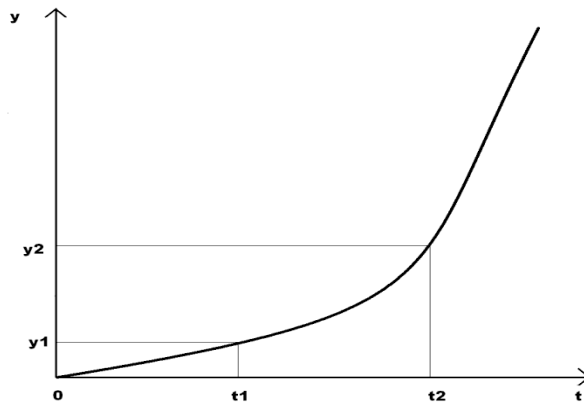
- The functioning of each regulatory component must be the optimal of all the hypothetical variants of intervention of the same type;

- The functioning of each regulatory component impacts on a wide range of system variables, so that the operation of the assembly of regulatory components impacts on all the system variables;

- One variable of the system is influenced directly and strongly by the function of one regulatory component and partially by the operation of the other regulatory components.

### Condition of system sustainability

We propose an approach according to which system sustainability is associated to a growth, ultimately maintenance, function of the system variables value.



The theoretical condition for system sustainability is:

$$y_2 \geq y_1$$

This becomes a condition for the administration of the assembly of regulatory components, the values of the target variables changing in time in agreement with the optimal functioning of the system.

### Evaluation of a regulatory component activity

The methodology and activity of activity evaluation start, in general, from the requirements for the accomplishment of the strategic objectives.

As manner of approaching the strategy, the strategic objectives are achieved when the general and secondary strategic objectives are accomplished.

Following is a synthesis of the main items of evaluation:

<b>Checking</b>	<b>Answers to the questions:</b>
<b>The functioning of the evaluated regulatory components from the adopted strategy</b>	
- strategic goals	- what ?
- objectives	- how ?
- action plan	- with what means ?
<b>Integration of the adopted strategy at the level of the evaluated regulatory component within the general strategy of the system administrated by the assembly of regulatory components</b>	
- agreement with the strategies of the other regulatory components of the system	- coordination ? - correlation ?
- correspondence with the general strategy of the system administrated by the assembly of regulatory components	- agreement of the objectives ?
<b>Joint operation with the real elements of the system administrated by the assembly of regulatory components</b>	
- level of system sustainability due to the impact of the regulatory components on the real elements of the system	- which is the efficiency of communication between the system components?
<b>Utility of the system administrated by the assembly of regulatory components for the real elements of the system</b>	
<b>Observance of the principles required by the functioning of the regulatory components of the system</b>	
- coordination with the other	- are there common

components of the regulatory system	objectives between the regulatory components and common objectives with the general strategic objectives?
- correlation with the other components of the regulatory system	- do the action plans stipulate specific measures of intervention at particular moments correlated with the intervention of other regulatory components?

**Correspondence between the objectives of this study and the main elements of the international circumstances**

In agreement with the title of the study, we will have to evaluate the monetary policy from the perspective of the accomplishment of the objectives of nominal and real convergence.

Given both the international situation generally characterized by the evolution of the economic crisis phenomena – evolution associated to the prolongation of the general state of international economic crisis by the immediate and subsequent development of other stages of economic crisis; considering the test of sustainability of the legislative and methodological pillars supporting the construction of the European Union (for instance, there are opinions that the Maastricht criteria didn't prove their sustainability under the current conditions of the economic crisis); we propose to reanalyse the objectives of this study as follows: evaluation of the monetary policy from the perspective of attaining the macroeconomic sustainability. For that, we will have to define criteria to evaluate the monetary policy in terms of macroeconomic sustainability. These criteria will be developed starting from the analysis of the viability of the nominal and real convergence criteria transposed to the current situation and to the prospective situation of the general phenomenon of macroeconomic crisis – phenomenon which requires a proper approach by the system of macroeconomic administration with the view to implement viable programs. In other words, we undertake to identify, analytically, some elements of monetary policy strategy.



Thus, we propose the following approach: the major objective for Romania is the economic sustainability based on the following criteria of nominal and real convergence and on the conditions of sustainability analysed in this study.

### **Criteria of nominal convergence**

#### ***Theoretical approach***

The criteria of nominal convergence – inflation, long-term interest rate, public debt, fiscal deficit and exchange rate stability – can be fulfilled by implementing monetary policies and fiscal policies.

In this chapter we will discuss the set of reference indicators that can be accomplished by measures of monetary policy: the criteria of nominal convergence regarding the inflation, long-term interest rate and exchange rate stability.

- the inflation must not exceed by more than 1.5% the average inflation from the three member states with the lowest inflation rate, which also validates the criterion of the long-term nominal interest rates (ten years), which must not exceed by more than 2% the three lowest long-term nominal interest rates;

- participation for at least two years in ERM-2, which presumes the variation of the exchange rate on a lane of plus/minus 15% around the central parity – this criterion became rather flexible if we consider the revaluation, on fundamental bases, in two stages, of the central parity in the case of Slovakia which, cumulated represents 15%.

### **Criteria of real convergence**

#### ***Theoretical approach***

The Maastricht Treaty doesn't mention explicit criteria for the real convergence, which presume smaller gaps between the member states in terms of productivity and prices, implying the increase of incomes in the developing countries towards the level of the developed states.

The real convergence consists, mainly, in the economic and social development quantified by the following minimal indicators:

- The increase of the GDP per capita to a level as close as possible to EU average;
- Other criteria of real convergence regarding the unemployment rate, the structural reforms and competitiveness (although hard to quantify).

The real convergence depends crucially on the capacity to benefit from technological innovations by drawing direct foreign investments. The theory according to which the open economies should converge relies in the hypothesis according to which the technologies are identical and they represent an exogenous factor. Thus, the countries with lower capital and income per capita should have a higher marginal productivity and a higher yield of the capital; in consequence, an open economy should follow a process of convergence towards the EU, because the foreign capital will be attracted by the countries needing capital and which ensure higher yields. This should lead to faster accumulation of capital and to a stronger economic growth, while the work productivity and the income per capita should converge towards EU level.

The analysis of the above criteria provides the following set of criteria.

***Correlated criteria of economic sustainability***

- Inflation must not exceed a maximal admitted value thought to be sustainable;
- The exchange rate must evolve within a tunnel of limit values which ensure sustainability;

The following measures are required for the attainment and maintenance of sustainability.

***Set of conditions required for the economic sustainability***

- **Conditions regarding the increase of the public administration capacity:**

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○ Conditions to ensure a minimal level of the operational framework of the administrative system of the macroeconomic policies:

- Provide a consolidated legislative framework;
- Provide a consolidated methodological framework;
- Ensure a necessary and sufficient configuration of the institutional framework of the administrative system of the macroeconomic policies;

○ Conditions for the operation of the administrative system of the macroeconomic policies:

- Identify the necessary and sufficient composition of the administrative system of the macroeconomic policies;
- Provide a consolidated legislative framework;
- Provide a consolidated methodological framework;
- Ensure a system for the strategic implementation of the programs associated to the functioning of the macroeconomic policies under conditions of coordination and correlation;

- **Conditions regarding the establishment of a climate of normality for the development of the real economy:**

○ Conditions in the field of ensuring the development facilities;

- Provide a consolidated legislative framework;
- Provide a consolidated institutional framework for monitoring activities;

○ Conditions promoting the development:

- Activation of the stimulating characteristics of the real economy, of the macroeconomic policies;

**- Conditions regarding the establishment of a permanent balanced relation between the needs and resources:**

- Conceptual level – permanent correlation of the concepts and strategies underlying the functioning of the system of macroeconomic policies with the necessity of accomplishing the objectives subordinated to the general strategic goal – sustainability;
- Evaluation level – permanent provision of necessary resources and means resulting from the development of the real economy, while preserving the general strategic goal of sustainability;

**- Condition of existence of a self-regulation and feedback system associated to the system of macroeconomic policies administration:**

- Qualitative and quantitative evaluation of the correspondence between the results of macroeconomic policies administration and the sustainable requirement of real economy development.

Having mentioned all these aspects we can now determine the evaluation grid.

**EVALUATION GRID FOR THE MONETARY POLICIES**

**Strategic general objective:** contribution to the provision of sustainability

**Levels of evaluation**

- Precedent period;
- Current period;
- Perspectives;

**Level of integration within the administrative system of the macroeconomic policies**

- Joint strategic coordination with the other components of the administrative system of the macroeconomic policies;
- Correlation of the specific actions with actions of the other components of the administrative system of the macroeconomic policies;

**Efficacy of the specific programs implementation**

- The targets of the monetary policy have been accomplished;
- The accomplishment of the target-objectives of the monetary policy contributed, coordinated with the target-objectives accomplished for the other components of the administrative system of the macroeconomic policies, to the achievement of the general strategic goal – sustainability;
- The specific results of the monetary policy programs implementation, correlated with the implementation of the programs specific to the other components of the administrative system of the macroeconomic policies, contributed to the achievement of the general strategic goal – sustainability

**Efficacy of the monetary policy**

- The efficiency of the monetary policy specific programs development was/is/will be higher due to the integration of the monetary policy within the administrative system of the macroeconomic policies (knowing that the monetary policy efficiency is directly proportional with the level of coordination and correlation within the administrative system of the macroeconomic policies, within other macroeconomic policies – reference is made particularly to the fiscal, budgetary, wage, social protection and investment policies – all the macroeconomic policies which may impact on the demand/consumption, offer/production);

### **Conception underlying the monetary policy strategy**

- The obtained/predictable results are within the trends of attaining the general strategic goal – sustainability;
- The general coordinates of the specific programs observe the principles of coordination and correlation within the administrative system of the macroeconomic policies.

## **CASE STUDY – THE CURRENT MACROECONOMIC SITUATION OF ROMANIA**

### **General characterization of the monetary policy**

#### ***Main strategic elements***

##### ***- Inputs -***

The monetary policy strategy of the National Bank of Romania, BNR, is the direct inflation targeting.

This strategy was adopted in August 2005, upon the end of a process of preparation, whose final stage was the establishment and testing of the framework for economic analysis and monetary policy decision-making specific to the direct inflation targeting. BNR adopted the direct inflation targeting strategy as a superior stage in mastering the inflationist phenomenon. At that moment there were several variants available: targeting the monetary aggregates or freezing the exchange rate. The other requirements and criteria required by this strategy have also been met:

- ix. Decreasing the annual inflation rate below 10%;
- x. Building up a gain of credibility of the central bank and its consolidation;
- xi. Strengthening the *de jure* independence (by the enforcement of the new BNR status of 30 July 2004);

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- xii. Limiting the fiscal domination, implementation of the process of fiscal consolidation and improved coordination between the fiscal and monetary policies;
- xiii. Relative flexibilization of the exchange rate of the national currency and decreasing the vulnerability of the national economy to the fluctuations of this variable;
- xiv. Recovery and strengthening of the banking system and increase of the banking intermediation;
- xv. Increased transparency and accountability of the central bank and of the area and intensity of BNR communication with the public and the financial markets, and in relation with the new strategy of monetary policy;
- xvi. Sharper outlining of the macroeconomic components and of the operational economic mechanisms with the view to identify and improve the efficacy of the channels of monetary transmission.

The strategy of direct inflation targeting adopted by BNR is characterized by:

- vii. Express the inflation target in terms of headline inflation, given the familiarity of the public with this indicator and the need for transparency and credibility of the monetary policy decisions;
- viii. Set the target as a central point having an interval of variation (+/-1 percent points) for the efficient anchoring of the inflationist anticipations;
- ix. Setting annual inflation targets for a longer interval (2 years initially), which stresses the need for a medium-term perspective of the monetary policy;
- x. Continue the use of the floating exchange rate system;
- xi. *ex ante* definition of a narrow set of circumstances ("exceptional circumstances"), independent of the monetary policy influence, which condition BNR responsibility to achieve the inflation target;

xii. BNR must set the inflation target in agreement with the Government.

**- Analysis -**

This study promises the following approach for the characterization of the main elements of the monetary policy strategy: direct inflation targeting versus other strategic variants: analysis of the possibilities to answer the question “Is inflation targeting a proper strategy under the current macroeconomic and circumstantial conditions? Are there other strategies with a higher level of correspondence with the characteristics of the current period?”

To give an answer to this question, we propose to reveal the main features of the following coordinates of the analysed system:

- The macroeconomic situation and the international circumstances;

- The direct inflation targeting strategy,

The main features of these coordinates are:

**- The macroeconomic situation and the international circumstances:**

- Decrease of the level of liquidity in the real economy;
- Decrease of the demand due to the shrinking purchasing power due to:
  - The higher fiscal pressure;
  - Decreasing wages;
  - Change of the consumer behaviour in agreement with the risks perceived at the macroeconomic level;
- Risk of the start and evolution of a new stage of the economic and financial crisis, which might determine effects such as energetic crisis, food crisis;



- Drastic reduction of the predictable time horizon due to the increased level of the general international macroeconomic risk – direct effect of the imbalance between the necessities and resources, on the one hand, and the capacity for real economy development and the capacity of macroeconomic administration by the state, on the other hand;

- Higher volatility of the international financial markets, which induces higher levels of risk in the international financial relations;

**- The direct inflation targeting strategy**

In order to analyse the veracity of this type of strategy in relation to the current circumstances, we propose to analyse the possible categories of inflation and their potential impact on the current state of the Romanian economy; thus, we have:

- Inflation by demand, which is generated by an imbalance on the market of goods and services; the increase of prices is due in this case to the increase of the global demand for goods and services, in relation with a global offer lacking elasticity; the increase of the demand (consumption goods, investment goods, export goods) may have different consequences:

- If the offer is perfectly elastic, i.e. it can be increased while maintaining the same prices, there will be a phenomenon of expansion; the excess of demand reverberates entirely on the amount of exchanged goods and services;

- If the offer is perfectly rigid, i.e. the amounts of goods and services on the market cannot be increased, the excess of demand reverberates entirely on the prices.

- Inflation by costs, which is an expression of the imbalance on the market of the production factors; it originates from the will of a social group to change the distribution of the national income; the wage, as main factor of the price of cost, creates the premises for higher prices when it increases. The inflation by costs is the cause of obvious inflationist processes and the increase of the cost of life trigger new claims for higher wages. The inflation by costs is characteristic to the countries showing economic growth. The

mechanism is the following: the economic growth presumes distortions within the economy because it produces an important increase of productivity in some sectors and branches (up to 10-15%), while the tertiary sectors are close to zero. The transfer of the advantage of the progress within each society can be done in two ways:

- By decreasing the prices, the wages remain constant. In this case, the decrease of the prices can have a depressing effect because it cannot stimulate production and may cause unemployment;
- By increasing the wages and incomes in function of the increase of productivity, the prices remaining, as much as possible, stable;

In such a situation, the society will most probably prefer the solution of the wage increase, which introduces distortions, particularly when the monetary policy and wage policy are not coordinated. Potentially, in many sectors, the higher wages will increase the cost of the goods and services which they produce;

- Important inflation – depending on the extent to which a national economy is influenced more or less by the international flows of values and by all the characteristics which they bring along and implement on the national markets; one of the routes of access of the external influences is the import of products, in general of raw materials, in special. Under such circumstances, each country may receive inflationist stimuli from the exterior depending on how much their economy relies on imported raw materials: the production costs increase and exert differential adverse influences on the national economy, depending on their utilization.

- Structural inflation – one cause of the structural inflation resides in the rigidity of the economy which appears in moments of economic growth when, for instance, there is a tendency for full employment; the actual situation may differ from one economy to another, but the essence is that when there is this trend for full employment, the costs will increase due to such rigidities.

Analysing the main features of the macroeconomic situation and of the international circumstances, it results the necessity to develop

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a variant of strategy (by the administrative-conceptual level of the system of the macroeconomic policies) which ensures both the possibility to reduce the important risks and the possibility to absorb the shocks. This is the sustainable stimulation of the economic growth from internal resources.

Commenting the current situation of the economy in terms of Fisher's equation of the macroeconomic equilibrium:

$$M \times V = P \times T$$

where:

M = monetary mass in circulation;

V = speed of money circulation within the economy;

P = level of prices in economy;

T = level of production in economy,

and setting the condition of equilibrium for a developed economy:

$$V = ct.$$

and:

$$\frac{P \times T}{M} = ct.$$

we can make the following comments on the current aspects at the macroeconomic level

1. The level of prices in the economy is increasing, exceeding the inflation targets particularly due to unforeseen factors pertaining to aspects such as:

- Drastic and forced modification of the consumer behaviour;
- Dysfunction of the coordinated and correlated system of the macroeconomic policies administration;
- Important inflation due to the higher dependency of the national economy, of the productive sector mainly, on the foreign markets – situation which creates chain effects when the national economy persists in the lack of performance;

2. The level of production in the economy tends to decrease because of the lower demand and of the diminishing general economic capacity of the market actors;

3. The monetary mass in circulation is the variable element available to the monetary policy to maintain a balance.

Within this mechanism of relative balance at the macroeconomic level and potential mechanism of sustainable economic revival, the key-element is the demand; on the side of the macroeconomic administration this means the stimulation of the demand in order to preserve a balance throughout the entire stages of such a program, which is to be accomplished by improving the relations of coordination and correlation at the administrative level of the system of macroeconomic policies.

Reverting to the evaluation of the current trend of the macroeconomic policies, a monetary policy based on the direct inflation-targeting strategy, particularly in combination with a fiscal policy based on a strategy of austerity and increased fiscal pressure (in compensation with the institutional dysfunctionalities and the lack of methodological performance at the level of collecting the revenues to the budget), will only lead to further constraints on the national economy and to a higher dependence on the foreign markets, the main transmission mechanism of the advanced imbalances, with the following coordinates:

- Import major risks from the international markets which are submitted to imbalances due to the international economic crisis and to the increased development and dependence at the level of the international relations:

- Imported inflation;
- Financial volatility;
- Imbalance due to the deficit of the foreign balance of payments;

- Drastic reduction of the national economy capacity to build the foundation for mechanisms of economic growth and shock absorption.

In antithesis with such philosophy of the monetary policy strategy and because the principle of correlation must be applied first with the fiscal policy, in antithesis with the current philosophy of the fiscal policy, starting from the key-element of the sustainable macroeconomic refreshment – **ensuring a sustainable level of demand** – we propose the following model based on the necessity to increase the purchasing power:

**Monetary policy**

- Sustainable provision of liquidities;
- Decrease of the monetary policy interest;
- Loosening of the conditions of assuming the collaterals;

**Fiscal policy**

○ Decrease the fiscal pressure according to the following stages:

- Substantial, short-term reduction of the fiscal pressure, in coordination with the monetary policy and with labour and social protection policies and in combination with the consolidation of the regulatory legislative framework and with the consolidation of the institutional and methodological framework of monitoring and collecting the revenues to the budget;

- Gradual return to a sustainable level of the fiscal pressure, while maintaining the aspects of legislative, institutional and methodological consolidation.

Reverting to the main current characteristic of the monetary policy, of adopting a strategy of direct inflation targeting, taking into consideration the necessity to implement urgently an administrative macroeconomic model of economic revival, we may say that the inflation is inherent to such a complex program (this can also be observed from the unanimously accepted differences between the macroeconomic models and the economic reality); the point of view of this study is:

- In terms of value, inflation must have a sustainable value;

- In terms of time, of intensity and of associated effects, the inflationist phenomenon must also be sustainable.

On the basis of these elements of analysis, as first conclusion, we will mention several weaknesses of the current monetary policy:

- Association to a macroeconomic general strategy based on the idea of constraints of the phenomena and processes generated by the evolution of the real economy, in the direction of observing the criteria imposed by the European monetary convergence; as **proposal**, the current stage (both national and international) experienced by the national economy requires a macroeconomic general strategy of collaboration between the macroeconomic administration and the real economy for the configuration of an efficient system targeting the general sustainability – system which must have the following strategic coordinates:

○ The priority objectives of the macroeconomic administration should be directed towards stimulating the real economy whose development must be coordinated towards the accomplishment of the strategic general objective of sustainability, by:

- Adopting adequate strategies and associated programs;
- Consolidating the legislative, methodological and institutional frameworks towards the configuration of a proper regulatory and monitoring framework;
- Change the present idea of constraint, imposed implicitly through the objectives of economic convergence, with the idea of controlled flexibility – approach considered to have a higher level of correspondence with the general objective of sustainability, in the meaning of this study, by a more efficient revelation of the mechanisms of incentives for the real economy and of the regulatory mechanisms if adverse shocks or effects appear;

○ This study proposes as strategic direct inflation-targeting goal of the monetary policy, an analysis which is required more so as the degree of predictability of the international macroeconomic evolutions is decreasing dramatically and as the possibility of the unforeseen intrusion of disturbing factors within the

system administered through the monetary policy is increasing. Thus, the direct inflation-targeting strategy presumes setting intermediary objectives, with the central bank focusing on a single price index, or on an array of indices. Characterized by a higher transparency, the monetary policy thus applied by the central bank aims to determine a specific interval of the inflation which the monetary authority is to accomplish. The public will thus know beforehand which is the direction of action of the central bank. Because any factor can influence the level of prices in the economy, the central bank must have more information and more variants and associated instruments of administration than in the case of the indirect strategies ensuring price stability. The monetary authority is not able to influence in the same extent all the components of the consumption price index. Other exogenous factors must be also considered, which influence the level of inflation and this is, we think, the sensitive point of this strategy of monetary policy: the current strategy of monetary policy is adequate to the period 2005 – 2008, period in which the priority objective assumed at the macroeconomic level was the economic convergence (even in this situation the risk of inflexibility of the monetary policy strategy is perfectly associated both to the strategic approach of the monetary policy, and to the macroeconomic and circumstantial risks); however, it is not adequate to the period 2009 – present time and for the short-term perspective at least, period in which the priority objective of the macroeconomic administration must be to attain and maintain the state of economic sustainability. Furthermore, the inflation and other exogenous factors-targeting monetary policy is considered a risk factor first for the efficiency of the monetary policy administration, and for the accomplishment of the monetary policy objectives;

- As alternative strategic approach for the monetary policy administration, **this study proposes** to analyse the possibility of adopting a combination of strategies as follows:

- Utilization, as monetary policy strategy, of a variant which is much more flexible and easier to administrate within this internal and international conjuncture: the monetary system based on an implicit monetary anchor, system which involves choosing an intermediate objective in the form of a nominal anchor which is not mentioned

specifically, function of specific conjuncture of the economy; the intermediary target can be modified when the central bank has achieved its objectives of monetary policy and focuses on other monetary problems;

- Additional measures of support for the real economy since the adopted measures don't yield the expected result (loosening of the conditions to assume the collateral from the commercial banking system, swap operations with foreign central banks to provide the liquidity needed on the market – because the financial market stability is a condition for the functionality of such strategy, increased cooperation, correlation of the proposed measures with the fiscal policy – with the view to increase the sustainability of the demand; the employment and social protection policies must also join this cooperative framework);

- The dysfunctionalities in the configuration of the administrative system of the macroeconomic policies and in the coordination and correlation of the policies composing this system lead to:

- A lower efficiency and efficacy of the macroeconomic policies;

- Fewer possibilities to achieve the assumed macroeconomic objectives;

- Higher costs of accomplishing the assumed macroeconomic objectives manifested in the form of adverse reactions and shocks which are hard to control when an administrative system is insufficiently configured.

From these points of view, the evaluation of the current situation generating the following results:

- The increased fiscal pressure particularly under conditions of insufficient efficiency of the system collecting the revenue to the budget and the regressive policies in the field of labour and social protection “de-stimulate” the evolution of the real economy, being in complete disagreement with the supposed objective of the economic sustainability and with the specific objectives and the strategic approach of the monetary policy which thus requires more effort and runs a higher risk of instability of the target-market leading (as it



already happened) to the impossibility of accomplishing the assumed targets. From this point of view, one can notice a very low level of coordination and correlation of the main components of the administrative system of the macroeconomic policies.

- Regarding the components of the administrative system of the macroeconomic policies, this system is much too simply configured, both as number of components, and as the legislative, institutional and methodological foundation required for an efficient functioning. This system might roughly be described as follows, as priority functional link of the central public administration:

- Monetary policy;
- Hard currency policy;
- Budget policy;
  - Revenue policy;
  - Expenditure policy;
  - Investments policy;
  - Resources policy;
  - Reserves policy;
- Fiscal policy;
- Employment and social protection policies:
  - Wage policy;
  - Job policy;
  - Social protection policy;
- National resources administration policy,

All these policies must be administered under conditions of correlation (of the strategic objectives) and coordination (of implementing the specific programs) to stimulate and orient the development of the real economic systems.

- A weak spot of the administrative system of the macroeconomic policies is the lack of a general strategy in agreement with the main conjunctural internal and international elements. The economic model, which should represent the current manner of functioning of the national economy in order to regulate the dysfunctionalities created along the past 20 years, is the model represented by the establishment, as driving force of the economic evolution, of the system of market actors, characterized by the lucrative purpose of the societies, the macroeconomic administrator playing the role of creating the conditions for macroeconomic development, inducing

thus implicitly and discretely, the development objectives at the national level. The strictly required condition for the functioning of the model is the organisation and operation of an efficient system of the macroeconomic policies on its three basic pillars: institutional, legislative and methodological. Such functioning of the system of macroeconomic policies presumes:

- Institutional pillar:
  - Correlated functioning of the macroeconomic policies;
  - Ensure a permanent relation between each macroeconomic policy and its environment of action;
  - Ensure the functions of:
    - feed-back;
    - control;
    - adjustment;
- legislative pillar:
  - consolidate the legislative system to ensure the support required for the efficient operation of the institutional subsystem of the macroeconomic policies;
- methodological pillar:
  - ensure the procedural support to increase the efficiency of the institutional pillar;
  - perfect correlation of the legislative pillar with the methodological pillar, which presumes checking to see that the legislation is observed.

**Proposals and comments concerning the functioning of the monetary system based on an implicit monetary anchor under the current conjunctural circumstances**

Theoretically, the use of the implicit monetary anchor, as monetary policy strategy, presumes setting an intermediary objective in the form of a nominal anchor which is not necessarily stated, depending

on a particular conjuncture of the economy. The modification of the intermediary target is possible when the central bank has accomplished its monetary policy objectives, focusing on other monetary problems.

The main characteristic of the current situation is the low level of predictability, which prompts the following practical variant of administering the system based on an implicit monetary anchor: identification of an optimal portfolio of implicit monetary anchors and the alternative selection of intermediary objectives in the form of nominal anchors; the central bank has thus the possibility to use a specific nominal anchor in relation with the particular market conditions, materialized by the common action of the macroeconomic policies existing in the administrative system of these policies.

The main advantages resulting from such a strategic program, as direct result of the higher flexibility of the monetary policy are the following:

- a higher level of flexibility of the monetary policy administration, which leads implicitly to improved capacities of response and intervention associated to the evolution of the real economy; the use of such monetary strategy will also yield a better communication between the administrative system of the macroeconomic policies and the system of the real economy, with the following fundamental observations:

- the establishment of the macroeconomic administration as driving force of development is valid only on a limited period necessary to remove completely the risks of economic collapse and to restore the conditions for sustainable development;

- the establishment of the macroeconomic administration as driving force of development only has administrative connotation, the private property and the private liberty to run lawful economic activities remain valid. The vision of the macroeconomic development is that the real economy must become the driving force, while the role of the administrative system of the monetary policies is to facilitate the development according to the set principles by directing the real economy towards the general strategic targets. This is done using a set of administrative tools such as regulation, monitoring, and legislative, methodological and institutional consolidation.

The improved communication between the components of the administrative system of the macroeconomic policies has direct and immediate effects in the following directions:

- Higher efficiency of implementation of the programs associated to the macroeconomic policies;
- Higher efficiency of the programs of swift reaction to the unpredictable market evolutions.

**Motivation of the proposal**

This choice is motivated by the present need to facilitate the development of the real economy.

The possible points of view in favour of preserving a rigid monetary strategy resulting from the convergence criteria are thought, in the acceptance of this study, to be improper for the present international macroeconomic conjuncture; the priority of the national interests, at the macroeconomic level, presumes the strategic general objective of ensuring sustainability.

The possible points of view against such an approach receive the following answer from this study: in view of the possible European monetary integration, the candidate macroeconomic system must ensure, in a first stage, the macroeconomic sustainability which favours the economic and social progress; the next stage is the macroeconomic stability, whose absence would doom any attempt of integration in a wider macroeconomic system, such as the regional one.

**FINAL CONCLUSIONS**

As shown, the weak spots of the current administrative system of the macroeconomic policies are the lack of a general strategy in agreement with the internal and international conjunctural situation and a low level of coordination and correlation of the programs associated to the system components.

The main risks resulting from the perpetuation of the current administrative state of the macroeconomic policies regard:

- The incapacity of the administrative system of the macroeconomic policies to manage the problems of the real economy:
  - o The low efficiency of the administrative system of the macroeconomic policies:

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- Low capacity to absorb the shocks;
- Low capacity to respond to the inputs from the real economy;
- Low capacity to achieve the sustainability objectives;
- The low efficiency of each macroeconomic policy;
- Deep and hardly remediable economic effects occur within the real economy;
- The lack of communication and collaboration between the administrative system of the macroeconomic policies and the system of the real economy.

The weak spots of the administrative system of the monetary policy are:

- Choosing a strategy of monetary policy (direct inflation-targeting) which is not adequate for the goal of macroeconomic sustainability which must receive priority in front of the objective of macroeconomic convergence – situation which has the following coordinates:
  - Rigidness of the monetary policy strategy:
    - Improper for the international macroeconomic environment, having a low level of predictability;
    - Improper in front of the necessity to have a flexible administrative system of the macroeconomic policies;
  - Rigidity of implementing the monetary policy strategy in terms of the target values of the inflation, thus cancelling the stimulating properties of the inflation;
  - The measures and instruments associated to the monetary policy strategy promote trends which constraint and limit the development opportunities within the real economy;

- Insufficient correlation and coordination of the associated programs with the programs of associated to the other components of the administrative system of the macroeconomic policies;
- Adopt an insufficient fundament for the legislative, institutional and methodological framework associated to the operation of the monetary policy programs – situation which presumes risks associated to the operation of the key-elements of the domestic financial market.