RECENT DEVELOPMENTS IN THE STRATEGIES OF THE EUROPEAN MONETARY AUTHORITIES

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Abstract

In the attempt to correct the imbalances in the financial system and sustain economic activity impaired by disturbance of the global financial crisis, central banks, especially those from the developed countries, have expanded the range of monetary instruments by applying unconventional measures. Recent studies noted the short-term beneficial effects of these measures, but also emphasize the existence of their implementation's costs; one of the problems in this context that has yet no solution refers to the way out of "unconventional circle" with minimal cost. Understanding the new environment in which it operates, requires access to more information within a central bank activity and the introduction of new smart statistics information that adds credibility but in the same time supplement the information's novelty. In this article we will focus on achieving fair and suggestive pictures on applied monetary instruments' (prudential, unconventional, and traditional) and banking system's developments.

Keywords: monetary strategies, central banks, European perspective

JEL classification: E52, E58

Introduction

One of the fundamental lessons of the global financial crisis is that the financial stability cannot be treated only in the components of the financial system, ignoring the historical tendency of the system to oscillate between periods of effervescence and decline. Therefore, macroprudential policy is an important pillar in the strategy formulation for a central bank, however non-standard policies, institutional factors, and the role of geopolitical groups may be considered.

Central bank's activity has been the subject to constant challenges that have imposed the need to redefine its role in managing the financial instability. The latest such challenge (the global financial crisis), which meant the outlet of Great Moderates, led the monetary authority rethinking the way of approaching the goal of financial stability (Criste and Lupu, 2014), including the extension of the range of instruments used by the monetary authority. In this framework of extending the range of instruments used by central bank encompasses the issue of applying unconventional policies, those measures applied in order to supplement the standard tools of monetary policy that are "exhausted" by their intensive use during the global financial crisis.

Some empirical studies analyses the typology of non-standard measures, the characteristics framework for implementing these measures (Borio and Disyatat, 2009; Cecioni et al., 2011), other studies describe the impact of non-standard measures at the macroeconomic level (Lenz et al, 2010; IMF, 2013) or investigate challenges posed by unconventional measures (Shirai, 2014), but also limits of their application (Peersman, 2013). As remarked Yellen (2014), some countries, such as Canada, Switzerland, the United Kingdom, have tried to use monetary policy as a tool for promoting financial stability, under "special" conditions by applying unconventional instruments, but eventually they concluded that macro-prudential policy should be the core instrument of financial stability.

Claessens (2014) notes that ensuring secure and stable financial institutions is not a sufficient condition to ensure the stability of the financial system as a whole, requiring a rethinking of policy for financial stability by filling the field with a systemic approach. Borio (2003), Borio and White

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(2003), White (2006) stressed even before the crisis the need for a macro-prudential approach to financial system, with two categories of tools: the soft type (communication and market discipline) and hard type (higher capital requirements). These concern both strengthening the financial system and reduce the accumulation of systemic risks. Schoenmaker (2011) and Obstfeld (2014) draw attention to the financial manifestation of the so-called financial trilemma, resuming the ideas set out even before the financial crisis by Thygesen (2003) and Schoenmaker (2005). They raise the (im)possibility of managing the financial stability under an integrated financial market functioning and with a financial supervisory policy at national level, the idea which is confirmed by the reconfiguration of the financial stability framework in the euro area.

Problem description and the approach

The global financial crisis considered a manifestation of the financial instability changed the operating framework of the monetary authorities. Constrained by the new challenges, they have extended the range of monetary policy instruments and tried to redefine their role in the financial system. On the one hand, some central banks have used mostly unconventional monetary policy measures, other focused mainly on the implementation of macro-prudential measures. The literature considers the problem of the relationship between the type of economy (developed and emerging) and inclination to use macroprudential policies, pointing out that emerging countries have a longer history in their use. On the other hand, the challenges posed by the global financial crisis led to a growing interest of the monetary authorities from developed countries to enforce these measures in terms of financial instability.

In their attempt to correct the imbalances in the financial system and sustain the economic activity affected by disturbance of the global financial crisis, the central banks, especially those from developed countries, have reduced more or less aggressively the interest policy rate, reaching their lower limit (zero lower bound). In this setting of monetary policy, the monetary authorities have expanded the range of instruments through the use of unconventional measures. Recent studies noted the beneficial effects of these measures in the short term, but points to the existence of their implementation costs (Williams, 2014). One of the issues arising in this context and which has not been found yet a solution refers to the modality of finding a way out from the "unconventional circle" with minimum cost.

Understanding the new operating environment in which monetary authorities ask the access to more information within a central bank activity and the introduction of new "smart" information that may ad credibility but also supplement the information novelty. The focus is on getting an accurate and suggestive image about the evolution of the applied monetary instruments (prudential unconventional, traditional) and of the banking system.

Besides the series of viewpoints and open problems in this area, there are a number of controversies: unconventional policy (quantitative easing or negative real interest rates, under the inflation rate) vs. conventional policy (traditional); customize the economic problems by countries (issues concerning internal and external balance, public debt, the usefulness of negative interest rates, aging population, the financial structure of savings etc.); monetary policy as economies' recover solution (instead of structural reforms); preserving the independence and fair treatment for all market participants in the event of disturbance (e.g. excessive change for the exchange rate for a currency); price stability vs. financial stability; economic cycle vs. financial cycle; regulation-deregulation in the financial system; regulated banking system vs. shadow banking system and banking intermediation prospects.

There are numerous studies that deal with the way in which central banks have changed their strategy after the financial crisis outbreak, but they take into account especially those monetary authorities systemically important (Fed, Bank of England, European Central Bank, etc.). In this study, however, we intend to identify the reactions of European central banks from emerging countries after the global financial crisis outbreak and the extent to which these monetary authorities have applied special instruments during this period. To this end, we selected several central banks (from Bulgaria, Estonia, Lithuania, Latvia, Czech Republic, Poland, Romania and Hungary), whose reactions were interpreted on the basis of annual reports, for 2008-2012 period (considered the period of global financial crisis manifestation).

The analysis sought to highlight the type of tools used in managing the financial crisis:

- anticyclical instruments (AIC) - those that correct the trends in the financial markets (changes in the monetary policy rate, the rate of minimum reserves, sterilization operations/absorption, liquidity injection, etc.). These instruments regard the sense of the longer-term financial flows (periods of risks accumulation);

- financial infrastructure consolidation tools (FICT) - aimed at improving the structure of the financial system;

- communication tools and expectations formation tools (CTET).

We chose a regrouping of the tools used by the central bank in this period according to the objective pursued, and not the already classic conventional-unconventional-macroprudential grouping.

Results

The results obtained from the analysis of information and after grouping them based on the described model were synthesized in Table 1.

Table 1

The instruments used by the analysed central banks, depending on the purpose

Central banks' attitude	National Banks from:							
	Bulgaria	Estonia	Latvia	Lithuania	Czech	Poland	Romania	Hungary
AIC	▓		▓					
FICT	▓	▓		▓		▓	▓	▓
CTET		▓		▓	▓			

Source: Authors' representation based on 2008-2012 annual reports of selected central banks

Note: The fields marked with grey shows the predominance of those instruments

The attitude of the Bulgarian National Bank is both offensive (observed by the predominance of "countercyclical" instruments for counteracting the tendencies) and defensive (to strengthen the financial system infrastructure), being the only one of the eight central banks that focuses on both instruments.

National Banks of Estonia and Lithuania have also joint conducts, applying tools to strengthen the financial system infrastructure, and tools for communicating with the public, this tool being one of the most effective when the central bank is limited by the currency board strategy. After 2008, the prevailing instruments for the National Bank of Latvia are of the offensive type, which is explained by larger and more pronounced challenges Latvia's economy has faced after the occurrence of the global financial crisis.

It is interesting to note that banks having as a strategy the inflation targeting (National Banks of Poland, Hungary and Romania) had the same attitude to strengthen the financial system infrastructure, but this has been intensified by the monetary authority from Hungary. Czech National Bank, although it has the same monetary policy strategy, has focused this time on the application of communication tools, a type of instruments that rely on advanced techniques of financial research. For example, starting with 2008 the Bank produced the Czech interest rate path forecast, and from 2009 published the forecasted evolution of exchange rate of national currency against the euro. Communicative attitude shows in the case of the Czech National Bank the existence of a

consolidated communications infrastructure at the bank, but also a high credibility of this monetary authority.

Conclusions

The picture of instruments used by central banks after the global financial crisis is quite varied, but one can notice a tendency to use instruments that strengthen the financial system's ability to withstand shocks. Communicative prevailing attitude is also observed with the Czech National Bank, but also for the National Banks of Estonia and Lithuania. If in the case of the latter trend is determined by the existence of a not wide set of available instruments at the disposal of the central bank to intervene on the structure of the financial system and to counter the trends of financial flows (due to limits imposed by currency board strategy) in case of the Czech National Bank the preference for this attitude is reinforced by the existence of a communication infrastructure at the central bank, but also by the high credibility of this monetary authority.

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