INTERNATIONAL POST-CRISIS COORDINATES THAT MAY AFFECT THE CONDUCT OF MONETARY POLICY

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Abstract:

Generally, the macroeconomic policies, the monetary policy included, are considered to have structural elements which offer them resistance and functionality, irrespective of the internal and international context or coordinates. However, these coordinates may play a basic role in the manner of designing and directing the macroeconomic policies. This article aims to identify the main international coordinates that may facilitate understanding the future directions and challenges of the monetary policy, particularly of the Romanian monetary policy. During the 2007-2014/2015 period of crisis, the risks inflamed or loosened, and they are now considered manageable in terms of financial stability.

Key words: international conjuncture, monetary policy, financial stability

JEL classification codes: E44, E58, F01

Introduction

The integration of the world financial markets and the possibility of contagion, as well as the world and regional economic conditions, often bring into discussion the way in which the international financial and monetary system is organised. The literature and the public discourse also deal with the manner in which the authorities should implement their actions so as, on the one hand, the interests for the international coordination and cooperation, in mater of monetary policies included, don't endanger the interests of a particular country or region of the world and, on the other hand, the local, punctual interests don't affect the mechanism and the benefits of the system of international cooperation. However, beyond the manner of designing a plan for international cooperation, the manner in which the international realities or coordinates influence the decisions of the conduct of monetary policy, must also be taken into consideration.

Description of the problem

Although it is believed that the macroeconomic policies, the monetary policies particularly, are properly shaped and calibrated to fit the domestic and international economic context and the possible asymmetric macroeconomic shocks, the fast or sudden changes in the local and international context may challenge them seriously.

If we refer to the monetary policies, they too can feel the possible adverse effects of the external coordinates such as: the geopolitical situation from the Middle East and the terrorist attacks within the heart of Europe, which can seriously endanger the economic structure of the Euro zone, the still difficult situation of Greece, as well as the existence of a possible risk of contagion from the Greek banking system, the uncertain world economic growth, the break of the bubble from the Chinese stock market and the slow-down of the Chinese economic growth, the state of the world financial system, the lack of synchronization of the European Central Bank and Fed monetary policies, the local and international conduct of the investors, the possible adverse effects of the Brexit and the structural and conjectural flaws of some European economies (particularly of the southern EU member states).

Methodology and data sources

The article uses the comparative and integrative method relying on IMF, BNR and World Bank reports and studies covering the 2000-2015 period, to provide accurate and complete analyses.

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Results obtained

The international economic and financial conditions degraded in terms of higher incertitude about the future evolutions in Greece and China, but the effects on the Romanian economy and on the Romanian banking system seem difficult to identify and quantify, seeming to be somehow mixed. The army conflict from Ukraine added tension to the international context, which is already difficult.

At the same time, the crisis of Middle East immigrants is not something to be cast aside, particularly because it adds pressure to the economic, social and politic system from the most powerful states of the Euro zone and European Union. On the one hand, the labour market will probably feel a pressure by increasing unemployment rates, particularly among the immigrants, and because of the unused local, young labour force, which cannot be absorbed on the labour market despite the increasingly integrated EU social policies. On the other hand, the unceasing wave of immigrants from Eastern countries has and will certainly have a considerable impact on the budget. The budget deficits and the public debts will increase, which will probably determine the governments to increase the taxation rates throughout the entire EU. Furthermore, with the purpose of counteracting the budgetary-fiscal imbalances, despite the necessities imposed by the economic growth, the monetary policies will gradually become more restrictive. We must equally not neglect the recent terrorist threats, in the most important and powerful countries of the Euro zone which, beyond the human, social, political, geo-strategic and cultural consequences, inflict losses and raise restrictions in terms of businesses and public policies configuration, the monetary policy included. Because the budgets for security will be increased, the public budgets will probably increase, which will add pressure on the monetary policy from the Euro zone, towards slowing down the phenomenon of quantitative easing.

Because of this reason, the monetary policies, rather heterogeneous and even diverging, of the main world central banks, are no reasons for relaxation in terms of the capacity for a synergic response to the challenges to the international and regional financial stability, particularly in the Euro zone. Hence, the problem of the financial stability either monitored or not by the monetary authorities, is increasingly incorporated within the objectives of the world central banks. According to the BNR 2015 Report of the financial stability, the "European Central Bank (ECB) continued in 2014 to expand the set of instruments aiming to stimulate credits to the real sector, while decreasing the monetary policy interest rates at historical low rates through: (i) Targeted Long Term Refinancing Operations, (TLTRO) and through (ii) the inclusion of new assets within the program of assets purchasing (total value estimated to 1,140 billion Euro, by the end of 2016). ECB and Fed decision of monetary relaxation relied on the concerns of maintaining a too low level of the inflation rate for too long. ECB aimed mainly to reduce the real interest rates, the debt burden of the population, companies and governments and to cut the financing costs of the banking institutions". There is, however, the possibility that the Fed still keep the reference interest rate for a little while in an accommodative range, subsequently increasing it as the US labour market revives.

The monetary policies of Sweden, Denmark and Switzerland, and of the Euro zone, which have recently pushed the interest rates to very low, even negative rates, contributed to the loss of bond yield, thus aiming to support more their economies. Overall, maximizing the quality of the debts, the financial-banking system was and will continue to have vulnerable structure of its balance, the economic consequence being the incapacity of the commercial banks to grant loans to the real economy, thus bringing again the world economies within a new boom and bust cycle (BIS, 2015, 85th Annual Report). At the same time, driven by ECB announcement on the possible expansion of the quantitative easing (QE) within the Euro zone, the central banks of the Northern countries mentioned above (notably, Sweden), also announced boosted programs of governmental bonds purchase. This phenomenon seems to be the perfect recipe for a future disaster, particularly because the danger of speculative side slip on the markets of real estate, and of other financial and non-financial assets, is again ignored, as it was with the recent world crisis. The indebtedness seems to be the most agreed mechanism of blocking the economic growth regionally and internationally, while driving inflation towards parameters that are stimulating the economy, despite the disastrous effects shown by the crisis and even post-crisis period (after 2012).

Up until now, the world central banks cannot bring clear justifications in favour of the measures of quantitative easing, the effects being rather inverse than the expectations. A proper solution might be to monitor the structural difficulties of absorbing the liquidity; therefore, the possible decisions must understand deeply the mechanisms of monetary impulse transmission (given the phenomenon of liquidity illusion – when liquidity is injected massively, on the market of the bonds included, and they seem to "evaporate" fast in the periods of tension on this market, thus failing to meet their purpose) and clearing the "vents" so as the liquidities circulate towards the real economy.

An extremely low rate of the monetary policy has several advantages, but after crossing the zero lower bound, it may reduce the efficiency of the monetary policy impulse transmission and may rapidly and strongly reverse the interest rates on the market, thus increasing the volatility and yielding important risks within the system.

Generally, an extremely low interest rate may be a weapon that might fire back. On the one hand, it may motivate the population, the companies and the government to get loans, creating an illusion of cheap loans on the medium or long-term, minimizing the credit risk and stressing on the stock of debt, which may make paying back more difficult; on the other hand, it may help increasing the investments in high yielding assets which are, however, highly vulnerable in terms of risks and liquidity. The possible shocks of the interest rate might make it very difficult to pay back the loans, particularly for the population, the SMEs and the medium-size companies; even the state might incur severe losses if the public debt stock increases.

The low profitability of the European banking groups and the need to recover the losses and to clean the balance sheets, therefore to cut down the nonperforming loans (NPLs), put a lot of pressure on the economic and financial conditions from the European monetary market and, thus, from the Romanian monetary market, which resulted in a lower rate of increase of the banking credits. Furthermore, despite an increasingly better solvability and liquidity, the international banking sector, notably the European one, is confronted with a low level of the interest rates and with an international environment which is still dominated by the lack of trust. The lower interest rates, already almost imperceptible, cannot redress the financial state of the international banking system; the only solution is a deep reorganisation, analysing the strengths and the weaknesses of the system, and the removal of the "malignant bumps" which caused this state of facts. In search of increasing profits or trying to cover the losses, the international banking system seeks, and often manages to duck the legislative strategies of the world central banks which aim to establish an institutional structure and a framework supporting the policies of financial stability.

Regarding the situation of Greece, at the end of June, beginning of July 2015, the pressures of the Greek budgetary context imprinted their mark on the financial markets. Within this atmosphere, the yields of the long-term state bonds from the Euro zone decreased, phenomenon also fuelled by the evolution of the Chinese stock market starting with the second half of August 2015, and the exchange rate of the Euro appreciated considerably during this period on the background of the fragile emergent markets and of risk aversion (BCE, Economic Bulletin Nr. 6/2015).

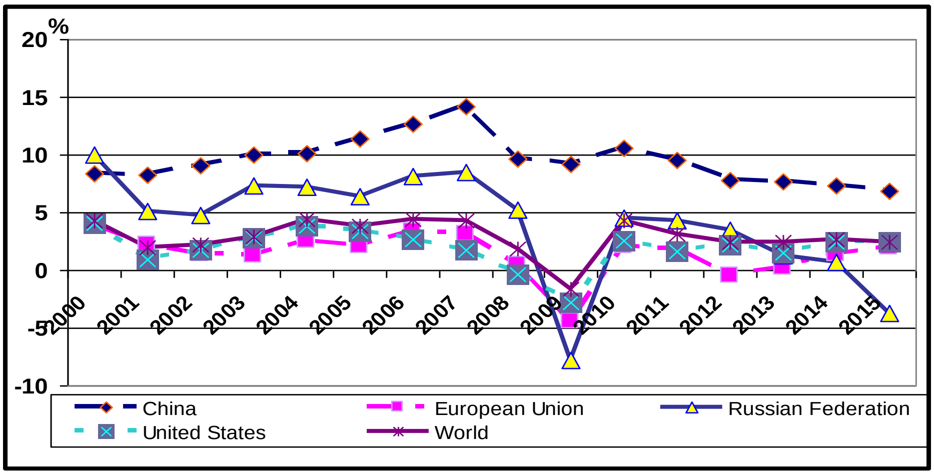
According to BNR 2015 Report on the financial stability, the impact of the Greek sovereign debt crisis on the Romanian economy is limited. Because the banks with Greek capital can't put serious problems to the Romanian banking system; the commercial exchanges with Greece being rather modest, and the companies with Greek capital have a modest number of employees in Romania and have an all too modest contribution to the gross added value within the Romanian economy. In Romania there are just four banks with Greek capital, which hold a low proportion of assets within the total Romanian banking system. Their prudential indicators are improving, and their credit portfolio has a proper quality.

According to IMF, in *World Economic Outlook: Adjusting to Lower Commodity Prices*, from October 2015, the world economy is undergoing changes, the forecast for world economic growth decreasing to 3.1% in 2015, with a modest increase up to 3.6% predicted for 2016, which is insufficient to reduce world poverty and decrease the unemployment rate, the important inequalities between world regions and countries lingering. According to IMF report, the developed countries will catch up slightly the rate of economic growth, while the developing countries or the emergent economies will probably slow their rate of growth on the background of lower prices for raw materials, of lower inflows of foreign capitals, of the pressure on the exchange rates and of the volatility of the financial markets.

If we consider GDP growth worldwide (Figure 1), according to World Bank data, we may notice that the Chinese economy grows at a lower rate and that, despite this seemingly unfavourable aspect, the Chinese economy displays a growth trend increasingly closer to those recorded in the US, EU and the world average.

The emerging economies, the Chinese one particularly, also send numerous signals of worriment by flaming up a set of macroeconomic problems such as slowing economic activity, dramatic decrease of the stock exchange value, redirection of the investors towards particular classes of assets, deterioration of credit portfolio quality, etc. these vulnerabilities and imbalances of the Chinese economy are transmitted through the channel of commercial exchanges towards the partner countries worldwide, such as the industrialized countries from the Euro zone, affecting adversely the economies of these countries, in the near future. Indirectly, this effect may reach Romania too. Hence, to support the Romanian economy, it would be useful to review the support of the economic growth at several levels (particularly through investments), the trade level being extremely volatile and vulnerable because of the current international and regional context.

Figure 1 – Annual rate of GDP increase in some countries worldwide, in 2000 - 2015



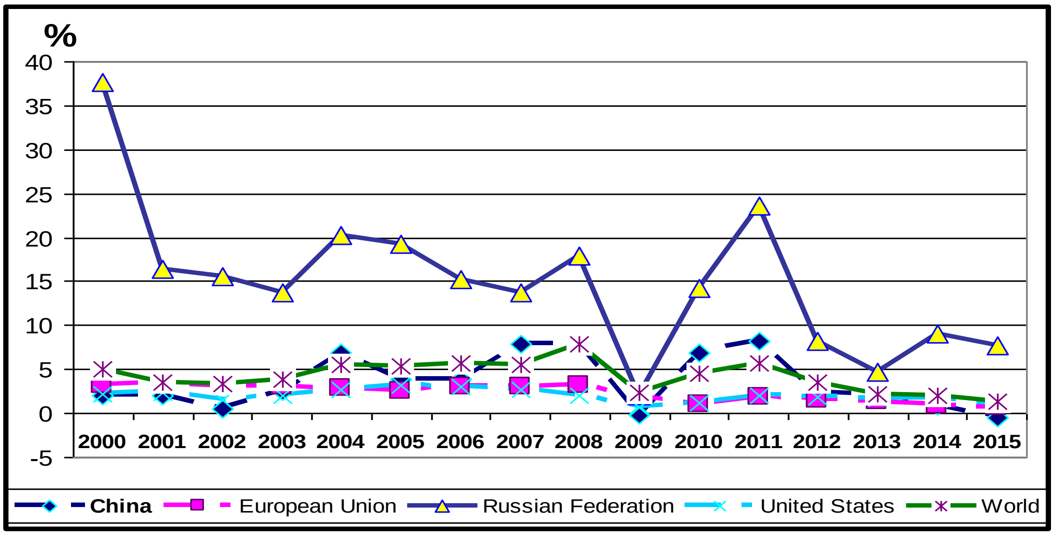
Source: World Bank, World Development Indicators, data updated on 10/08/2016

According to World Bank data, the GDP per capita, expressed in US dollars, shows the polarization of world's wealth. Thus the developed regions such as the European Union and the United States exceed the threshold of 30,000 USD per capita, while the average world level oscillates and even converges around the value of 10,000 USD per capita. China rushes towards this threshold, which it will certainly exceed soon enough, reaching the EU level by 2020-2025.

Analysing the world *inflation* situation, according to World Bank data, we may notice three types of evolutions: the European Union is within a process of accelerated decrease of inflation, with a danger of deflation for all European countries, situation also noticed in China; the world and the United States are within a process of stabilization at a reasonable 1-2% rate of inflation, while Russia displays a divergent trend, the inflation rate increasing significantly, even since 2012, towards the level of 8%. Part of this inflation is justified by the trade embargo imposed on Russia after the Russian-Ukrainian conflict, by the exchange rate evolution and by the investment climate, tensed by to the regional perspectives (Figure 2).

Regarding the *labour market,* according to World Bank data for 2000-2014, the unemployment expressed as proportion of the total labour force, maintained worldwide around 6%, with two types of trends: a high unemployment rate in the European Union, with some spikes and a decreasing unemployment rate in countries such as Russia and the United States, where these trends were supported by the concerted actions of the public authorities, implicitly the Fed, the unemployment rate decreasing considerably starting with 2010.

Figure 2 – Annual inflation expressed in consumer prices in some countries and worldwide, in 2000 – 2015 (%)



Source: World Bank, World Development Indicators, data updated on 10/08/2016

The public and private debt increased during the recent years. The stock of debt and the possibility that the financing from banks is substituted by financing from the capital market can generate international, regional and local risks, particularly in the case of a poorly developed financial infrastructure. The public and private debt have direct or indirect impact on the financial-banking system, the interdependence between the public sector and the banking system potentially rising serious contagion risks.

Conclusions

Within the context of globalization, the international post-crisis coordinates can stress their influence and impact on the macroeconomic policies, particularly on the monetary policies. Thus, despite their rather inflexible character of their objectives, the world monetary policies must increasingly take into account the surrounding realities and include these into their strategies. Thus, monetary policies should now take into account the tensed situation from the Middle East, as well as the terrorist attacks from the heart of Europe, the still difficult fiscal-budgetary situation of Greece, and the possible risk of contagion on the financial-banking market. They must also take into account the uncertain world economic growth and the state of the global financial system, of the burst of speculative bubbles and of the slowing Chinese economic growth. Furthermore, the possible adverse effects of the Brexit are yet to be noticed, while the structural and conjectural feebleness of southern European economies (particularly the south EU member states such as Portugal) are expected to emerge. Beyond the evolution of the international coordinates, the behaviour of the national and, particularly, international institutions plays an important role, and their credibility may influence for the better or for the worse the future international evolutions.

In the countries of continental size, the problem of institution credibility is linked to their capacity to manage labour force employment and the fulfilment of several social parameters (such as those pertaining to welfare, education, health, culture, etc.). The small size countries generally calibrate their main objectives in the area of financial-monetary stability and mainly pursue price stability and the fulfilment of the fiscal-budgetary parameters. This confirms the high unemployment rate in the European Union, which imposes a poor integration of the labour force employment strategies of the member states. To the extent in which the European Union will make similar efforts with the large countries of the world, towards a possible Social Union (similar to the Banking Union or to the Pact of Stability and Growth), only then part of labour market problems, as well as other related issues, will find solutions.

The fiscal consolidation is expected to temper down in the advanced world economies, while some fiscal-budgetary expansion is expected in the emerging countries, which to compensate for the slowing economic growth. At the same time, the world economies with fiscal space and with large production gaps or those which have a strong foreign demand for their products, may loosen the fiscal-budgetary pressure and increase the investments in infrastructure, while other countries, which cannot support the investments, may reduce the budgetary expenditure and implement structural reforms in order to increase production, labour productivity and the competitiveness of their national products.

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