

Using moral suasion in monetary policies of emerging economies: the case of Romania

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Abstract: In implementing monetary policies, the central banks could resort to moral suasion for influencing the behavior of various categories of economic actors. Among the quite frequent forms of moral suasion applied by the central banks there are forward guidance and the negotiations with commercial banks or other financial institutions. In the case of monetary policies from some emerging economies, various circumstances could bring some particularities to moral suasion. This paper approaches the moral suasion in the monetary policy of Romania during two periods: the transition from socialism to capitalism and the years that followed the adhesion to European Union. At the beginning of transition when, because of the high inflation and of the national currency devaluation, the credibility of the central bank authorities was at a low level, making the forward guidance very difficult. Instead, for the central bank, that was de facto subordinated to the Government it was quite easy to negotiate with state-owned commercial banks. As the reform of the banking system progressed and a relative monetary stability was achieved, the forward guidance became an important tool of the monetary policy, especially after the central bank had explicitly adopted the inflation targeting. After the transition, in a complex context, the moral suasion remained an important tool of the monetary policy.

Keywords: monetary policy; moral suasion; emerging economies

JEL: E50, E52, E58

1. INTRODUCTION

In the field of economic policy, the concept of moral suasion refers to the attempts of the governmental institutions to persuade various categories of economic actors to adopt a desirable behavior (e.g. Romans, 1966). When it is used by a central bank, the moral suasion has to be adapted to some circumstances such as the macroeconomic context, the particularities of monetary policy strategy (the use of rules or of the discretion, the main targets etc.), the banking system characteristics (proportions of the state-owned banks and of the foreign capital banks, the regulations etc.), the central bank autonomy etc. (e.g. Chant and Acheson, 1972; Borio 1997, Demiralp, S. and O. Jorda, 1999; Fratzscher, 2008; Hetzel, 2008; Kohn, 2010; Campbell, 2013; Bernanke, 2020; Svensson, 2020). There are two main ways in which a central bank resorts to moral suasion: by negotiations with commercial banks and other financial institutions or by forward guidance. By negotiations, the

representatives of a central bank could persuade the representatives of commercial banks or other financial institutions to adopt certain behaviors in various aspects of their activities: interest rates establishing, buying or selling on the foreign exchange market, financial resources providing to some sectors of economic activities, rescuing of a commercial bank or a financial institution that is too-big-to-fail etc. (e.g. Neufeld, 1958; Aschheim, 1961; Mayer et al., 1981; Hester, 2003). During these negotiations, which are very often confidential, the central bank could offer incentives or could threaten. According to some opinions, such practices are impediments to the monetary policy transparency and to the free competition within the banking system (e.g. Friedman and Schwartz, 1963; Kane, 1973; Breton and Wintrobe, 1978; Chant, 2003; Furfine, 2006; Acharya et al., 2011).

The forward guidance (also named “open mouth operations”) is a form of moral suasion that appeared quite recently, and it refers to the use of communications frameworks by the leadership of a central bank in order to influence the behavior of various categories of economic actors. For many decades, the central banks used to keep secrecy about many aspects of their decisions (e.g. Brunner, 1981; Cukierman and Meltzer, 1986; Goodfriend, 1986). Since the 1990s, in many developed countries, this practice was replaced by a significant degree of transparency regarding targets and instruments of the monetary policies. The new policy was justified by the major impact that central bank statements had on expectations about the inflation or interest rates evolutions (e.g. Guthrie and Wright, 2000; Demiralp, 2001; Thornton, 2004; Ehrmann and Fratzscher, 2007; Feroli et al., 2017). There are many ways in which the messages could be sent: press conferences, speeches, periodically reports on the monetary policy etc. (e.g. Blinder et al., 2008; Bernanke, 2020). The impact of the forward guidance it is hard to be quantified. Its efficacy depends on some circumstances such as the central bank reputation, the monetary policy credibility, the financial markets development, the characteristics of other tools used by the monetary policy etc. (e.g. Rogoff, 1986; Cukierman, 1992; Blinder, 2000; Faust and Svensson, 2001; Bassetto, 2019).

Campbell et al. (2012) made a distinction between two forms of forward guidance: Delphic and Odyssean. The Delphic forward guidance consists mainly in forecasts (but not promises) about the evolutions of some macroeconomic variables and monetary policy actions. The Odyssean forward guidance implies the disclosure of some plans made by the monetary policymakers (Federal Open Market Committee in the case of monetary policy from United States) and a commitment to stick to those plans. According to Evans (2017), the Delphic policies are appropriate in normal times, while the Odyssean policies could offer solutions for extreme circumstances.

Some particularities of an emerging economy could have a major influence on the ways in which the moral suasion is applied by the central bank. In this paper we approach the forms of moral suasion used in the monetary policy from Romania during two periods: the transition from socialism to capitalism and the years that followed the adhesion to European Union.

2. SOME PARTICULARITIES OF THE MORAL SUASION APPLIED BY CENTRAL BANKS FROM EMERGING ECONOMIES

There are many studies associated to central banking literature that revealed the differences between the monetary policies from developed economies and those from emerging economies (e.g. Bloomfield, 1957; Chandavarkar, 1996; Frankel, 2010; Chinn, 2014). Many central banks from emerging economies admitted explicitly that moral suasion is among their main tools for the monetary policy. This situation is justified by the low effectiveness of some other tools. For example, the use of the Open Market Operations could not lead to desirable effects in the countries where the bond markets have a low degree of development.

In the last decades, in many emerging economies the central banks adopted monetary policy strategies based on explicit nominal anchors. In such strategies the forward guidance is supposed to play a major role. However, in the case of some emerging economies, the low level of credibility could undermine the possibilities of a central bank to influence the monetary expectations (e.g. Mishkin, 1999; Mishkin and Savastano, 2002; Frankel, 2010).

In many emerging economies, the national currency stability could be a major challenge. Quite often, to achieve this goal, a central bank uses not only the classical foreign exchange intervention but also moral suasion by forward guidance or by negotiations. The monetary authority resorts to forward guidance by announcing the exchange rates targets. In the case of moral suasion by negotiations, a central bank could threaten dealers with the foreign exchange license cancellation or with changes in the foreign exchange regulations (e.g. Canales Kriljenko, 2003; Archer, 2005).

Some central banks from emerging markets use moral suasion to influence the lending operations in various directions: restricting the general volume of credits or providing funds for certain sectors of the national economy (e.g. Masha, 1983; Chie, 2013; Padayachee, 2014; Pérez Caldentey and Vernengo, 2020; Adhiambo, 2022). Usually, the demands to commercial banks to provide the needed credits to some enterprises have the official justification of national economy development stimulation. However, sometimes they only cover a systemic corruption, and some central banks were accused of turning a blind eye to such practices (e.g. Kane, 1977; Goel & Hasan, 2011; Chen et al., 2015; Barry et al., 2016). In such situations an important aspect is the degree in which a central bank is exposed to political pressure or to Government intervention (e.g. Maxfield, 1998; Binder, 2021). In the last decades, in many emerging economies there were applied reforms that included some modifications of legislation to ensure the central bank independence. However, this legislation could be made ineffective by the informal relations between the politicians and the central bank leadership (e.g. Eijffinger and De Haan, 1996; Loungani and Sheets, 1997; Polillo and Guillén, 2005).

Special circumstances occurred in some countries from Central and Eastern Europe, where the communist regimes collapse was followed by a complex period of transition from socialism to capitalism. The prices liberalization and the relaxation of government control on the foreign exchange market led, in many cases, to a substantial inflation and a significant devaluation of the national currency. In many countries, the reorganization of industrial

sectors caused the increase of unemployment. The public institutions weaknesses facilitated the corruption proliferation in various sectors including the banking system. In these circumstances, the implementation of reforms became very difficult (e.g. Blanchard, 1997; Abed and Davoodi, 2000; Roland, 2002; Svejnar, 2002). There were two main approaches regarding the speed of reforms in the former socialist countries: the “Big-bang (shock therapy)” and the gradualism (e.g. Sachs and Woo, 1994; Balcerowicz, 1995; Havrylyshyn, 2007). The “Big-bang” implied a rapid elimination of the price controls, consistent measures to reduce the public deficits and active policies to stimulate the privatization. The gradualism proposed a slow reform with the argument that liberalization and privatization should be preceded by the market economy institutions consolidation.

An important component of the transition was represented by the banking system reform. In a planned economy, the commercial banks had to provide financial resources to support the state-owned enterprises activity. In some countries, where “Big-bang” reforms were adopted, a consistent autonomy was granted, by law, to the central banks even in the first years of transition. State-owned banks were privatized, and foreign banks were encouraged to establish local presences (e.g. Cardenas et al, 2003; Sherif et al, 2003; De Haas and Naaborg, 2006). The gained real autonomy allowed central banks to implement monetary policy strategies based on nominal anchors (e.g. De Melo and Denizer, 1997; Wagner, 1998). As the inflation was reduced, the central banks credibility increased. In that context, a central bank could use forward guidance to influence the economic actors behavior.

In the countries where the reform was applied with a low speed, the banking sector was, for a long period, mainly state-owned as the authorities didn’t rush the privatization of the commercial banks inherited from the communist regime or to allow foreign banks to establish local branches. The central bank autonomy was limited, and the government was able to impose objectives and constraints for the monetary policy. In many of these countries, the central banks acted as a de facto governmental agency that had to transmit to the commercial banks the government’s demand (e.g. Alesina and Summers, 1993; Maliszewski, 2000; Lybek, 2004). With a limited autonomy, a central bank was unable to adopt viable strategic approaches to the monetary stability. Usually, in the first years of transition, the authorities’ reputation and credibility were at low levels as they proved to be unable to maintain the monetary stability. In such a complex context, for a central bank it was much easier to use moral suasion by negotiations rather than forward guidance.

For many countries that had chosen a gradual reform, the macroeconomic situation worsening imposed the request for help from international institutions. In many cases, among the conditions that had to be fulfilled to obtain financial resources from the International Monetary Fund it was a structural reform of the banking system that included a large autonomy of the central bank and the privatization of the state-owned commercial banks. In the new conditions, as their credibility increased, central banks could resort to forward guidance.

3. MORAL SUASION IN ROMANIA DURING TRANSITION (1990 – 2006)

In December 1989, the communist regime that ruled almost four decades in Romania was overthrown. The new authorities chose to implement reforms with a low speed. This period could be divided into three sub-periods:

- 1990 – 1994, the years of major imbalances;
- 1995 – 2000, when NBR obtained its first successes in disinflation;
- 2001 – 2006, when the monetary policy passed to a new phase by inflation targeting adoption.

3.1. The years of major macroeconomic imbalances

In the first years of transition, the state-owned commercial banks continued, mainly, their practices from the communist regime years. Each of them was specialized in certain operations: foreign trade, investments, agriculture, savings etc. (Dumitriu et al., 2013). Some private banks with Romanian capital appeared in this period but they ended in bankruptcy.

In this period the national economy of Romania was affected by major imbalances. The industrial production experienced a severe decline while, to gain electoral support, the Government granted substantial advantages to population. The imports increased and the exports decreased. In these years, the inflation was at high levels and the national currency (Romanian Leu - ROL) experienced substantial devaluations (Table 1). The Government reached some agreements with IMF, but it failed to fulfill some assumed important obligations.

Tab. 1. Annual values of the inflation rates and official exchange rate in Romania from 1991 to 1998

| Year | Inflation, consumer prices (annual average) [%] | Official exchange rate (annual average) [ROL/US\$] |
|------|---|--|
| 1990 | 5.1 | 22.43 |
| 1991 | 170.2 | 76.39 |
| 1992 | 210.4 | 307.95 |
| 1993 | 256.1 | 760.05 |
| 1994 | 136.7 | 1655.09 |

Source of data: National Institute of Statistics from Romania

In 1991, a law regulating the central bank (National Bank of Romania - NBR) responsibilities was adopted. Its autonomy was limited as the members of its Council of Administration had to be proposed by the prime minister of Government (and later approved by the Parliament). NBR was empowered to authorize, regulate, and supervise the activities of the commercial banks. It was also made responsible for the monetary policy formulation but in “the framework of economic and financial policy of the state”. In these circumstances, the Government’s interference in NBR’s monetary policy was substantial. Despite pressures from IMF, the Government was reluctant to grant the central bank’s independence.

During this period, two major tasks were assigned to the banking system: to provide financial resources for the state-owned enterprises and to finance the imports. Quite often, the Government pressed the banks to give loans, in very favorable terms, to the state-owned enterprises viewed as “strategic”. Some local politicians also urged the banks to provide financial resources for enterprises from their electoral fiefs. Later investigations revealed that many state-owned banks granted loans in very favorable conditions to some politicians and some new businessmen. Such situations made very difficult the monetary aggregates control. Faced with this complex context, NBR chose to use an exchange rate anchor to fight against inflation. However, this strategy aggravated the foreign trade deficits (Isărescu, 2006).

By the new law, NBR received the responsibility of Romania’s foreign reserves that, until 1991, were administrated by BRCE (Banca Română de Comerț Exterior, a commercial bank that, in the 1980s, had the responsibility to finance the foreign trade transactions). During the communist regime, this bank was controlled by the secret police and, as it was revealed later, its leadership remained closed to the new secret services in the first years of transition (e.g. Oprea, 2008; Stan, 2007; Stanciu, 2014; Oprea, 2021). The administration of foreign reserves (which, at the end of 1989, exceeded one billion US\$) between 1990 and 1991 wasn’t yet completely elucidated. The fact is that in 1991 those funds disappeared. While the NBR representatives continued to declare the foreign reserves were consumed to finance Romania’s strategic imports, some inquiries concluded there were also corruption acts (e.g. Stan, 2007; Mucibabici and Hostiuc, 2020; Oprea, 2021; Vasilescu 2021).

At the beginning of transition, there were forms of cooperation between NBR and state-owned commercial banks that could be associated to moral suasion by negotiations. This cooperation could be viewed as normal since NBR was, de facto, subordinated to the Government. After many years, a testimony about the collaboration between NBR and BRCE appeared. It was in 1991 when, faced with serious problems in the repayment of some foreign credits, NBR’s leaders worked together with BRCE’s leaders (Mucibabici and Hostiuc, 2020). This cooperation could be linked to the fact that NBR, although empowered with the supervision of the banking system, didn’t intervene in the corruption acts from BRCE (Stan, 2007; Oprea, 2021).

In this period, NBR didn’t resort very often to the forward guidance. In fact, Romanian central bank wasn’t very interested to influence the behavior of economic actors since it could establish, by administrative ways, the official exchange rates, and the interest rates. Anyway, because of the high inflation and of the national currency devaluation, the Romanian authorities credibility was at a low level. However, there were attempts of some NBR’s officials to explain the monetary policy directions.

3.2. The first successes in disinflation

Faced with a major monetary instability between 1991 and 1994, Romanian authorities had to accept substantial measures to control inflation. NBR was allowed to apply a tight money policy that, together with more commitment from the Government to reduce public deficits, led, for 1995 and 1996, to annual inflation rates under 100%. In 1996, the

general elections were gained by a political alliance that assumed “Big-bang” reforms. A new agreement with IMF, stipulating the acceleration of structural reforms, was signed. The reforms caused a recurrence of an inflation rate up to 100% and a substantial devaluation of the national currency. After this episode, two years of disinflation followed (Table 2). In this period, NBR announced the adoption of monetary base as an intermediate target while maintaining a consistent intervention on the foreign exchange market.

In 1998, a new law that specified the central bank’s responsibilities was voted. De jure, NBR gained a significant autonomy as the members of its Council of Administration were elected by the Parliament. However, de facto, the Government maintained a sort of influence over the monetary policy.

Tab. 2. Annual values of the inflation rates and official exchange rate in Romania from 1991 to 2000

| Year | Inflation, consumer prices (annual average) [%] | Official exchange rate (annual average) [ROL/US\$] |
|------|---|--|
| 1995 | 32.3 | 2033.28 |
| 1996 | 38.8 | 3084.22 |
| 1997 | 154.8 | 7167.94 |
| 1998 | 59.1 | 8875.58 |
| 1999 | 45.8 | 15332.84 |
| 2000 | 45.7 | 21708.72 |

Source of data: National Institute of Statistics from Romania

An important part of the agreement with IMF consisted in solving the problem created by the state-owned banks that accumulated substantial non-performing loans. In 1998, “Banca Română de Dezvoltare”, an important state-owned bank was privatized. There were also preparations for the privatization of other state-owned banks. A special situation was at BRCE which, from 1995, changed its name in “Bancorex”. In 1997 Romanian authorities admitted that bank was in a critical situation because of the non-performing loans. Some enquiries revealed the bank granted loans in very favorable terms to policemen, politicians and businessmen linked to the political parties (e.g. Stan, 2007; Oprea, 2021). Two years later, Bancorex assets and liabilities were transferred to a governmental agency and to another state-owned bank, “Banca Comercială Română”. This process could be viewed as a moral suasion by negotiations in which NBR and Romanian Government convinced the leaderships of two commercial banks to accept a fusion.

The new context facilitated the forward guidance use by NBR. The successes of disinflation and its role in negotiations with IMF increased the credibility of the Romanian central bank. Its leaders took advantages by that situation, and they tried to strengthen population’s trust in NBR’s capacity to continue the disinflation. The officials of the central bank organized regularly press conferences in which they explained the monetary policy coordinates. NBR started to publish periodical reports about the evolution of main monetary variables. Such approaches contributed to the improvement of central bank’s reputation.

3.3. Passing to the inflation targeting

The process of disinflation was amplified between 2001 and 2006. In 2005 and 2006 the objective of a single-digit inflation was achieved. The trend of national currency's devaluation was reversed from 2004 to 2006 (Table 3). These evolutions allowed NBR to gain a significant credibility.

Tab. 3. Annual values of the inflation rates and official exchange rate in Romania from 2001 to 2006

| Year | Inflation, consumer prices (annual average) [%] | Official exchange rate (annual average) [ROL/US\$] |
|------|---|--|
| 2001 | 34.5 | 29060.79 |
| 2002 | 22.5 | 33055.43 |
| 2003 | 15.3 | 33200.07 |
| 2004 | 11.9 | 32636.57 |
| 2005 | 9.0 | 29136.53 |
| 2006 | 6.6 | 28089.83 |

Source of data: National Institute of Statistics from Romania

In this period, it was continued the banking system reorganization. Three important state-owned banks were privatized: "Banca Agricolă" in 2002, "Bancpost" in 2003 and "Banca Comercială Română" between 2003 and 2006. In 2004, a new law regarding NBR's statute enlarged the central bank's autonomy. It specified that NBR had to support the general economic policy but "without prejudice to its primary objective of ensuring and maintaining the prices stability". The tools of moral suasion by negotiations became more complex in the new circumstances, as NBR and many important commercial banks were supposed to be independent from the Government.

As in the case of other country from Central and Eastern Europe, after years of successes in disinflation, the central bank prepared the official adoption of a new monetary policy strategy: the inflation targeting. The preparations included some forms of forward guidance as NBR tried to signal to the economic actors its willingness to focus on the target of inflation. Since 2000, NBR announced publicly its objectives of inflation. Although during some years the targets proved to be too ambitious and they had to be revised, this practice proved the central bank's commitment to pursue the price stability. In March 2005 it started the process of national currency redenomination, as ROL was replaced by RON (the new leu). Among the purposes of this act, it was the one of sending a signal to the Romanian population that years of high inflation were gone.

In August 2005, NBR adopted explicitly the inflation targeting. The new strategy implied the forward guidance systematic use. In public appearances, the central bank officials expressed their confidence that inflation would be kept in a one-digit form. They also affirmed that RON was a strong currency.

4. MORAL SUASION AFTER ROMANIA'S ADHESION TO EUROPEAN UNION

In January 2007 Romania became a member of European Union. The complex period that followed could be divided into two sub-periods:

- 2007 – 2014, when the Romanian economy was affected by the turbulences from the international financial markets;
- 2015 – 2022, when domestic and external shocks produced a time of troubles.

4.1. Dealing with the turbulences from the international financial markets (2007 – 2014)

Romania's adhesion to European Union implied the obligation to adopt the euro as the sole currency. To meet the Maastricht criteria, NBR had assumed the goals of pursuing disinflation, of lowering the interest rates and of defending the exchange rates stability. However, the substantial turbulences on the international financial markets, caused by the Global Financial Crisis of 2007 – 2008 and by the Eurozone Crisis that followed, made very difficult the achievement of these purposes. There were also domestic circumstances unfavorable for the central bank's objectives: the wage rises and the increase from the aggregate demand that followed the adhesion led to inflationary pressures. Between 2007 and 2011 the inflation rates were higher, each year, than the targets announced by the central bank. In this context, during 2007 and 2008, NBR had to raise the interest rates. After the adhesion substantial deficits of the foreign trade occurred and the central bank had to accept significant devaluations of the national currency. Such evolutions undermined the credibility that NBR had gained in the last years of transition. From 2011 the process of disinflation was resumed, and the central bank was able to lower the interest rates but quite slow because of the external turbulences persistence (Table 4).

Tab. 4. Annual values of the inflation rates and official exchange rate in Romania from 2007 to 2011

| Year | Inflation, consumer prices (annual average) [%] | Official exchange rate (annual average) [RON/EUR] |
|------|---|---|
| 2007 | 4.8 | 3.3373 |
| 2008 | 7.9 | 3.6827 |
| 2009 | 5.6 | 4.2373 |
| 2010 | 6.1 | 4.2099 |
| 2011 | 5.8 | 4.2379 |
| 2012 | 3.3 | 4.4560 |
| 2013 | 4.0 | 4.4190 |
| 2014 | 1.1 | 4.4446 |

Source of data: National Institute of Statistics from Romania

In this complex period, NBR used forward guidance to maintain population's trust in its capacity to defend the monetary stability. At the beginning of Global Financial Crisis, officials of the central bank tried to give assurances that Romania's economy was immune to the turbulences of international financial markets. However, as the crisis aggravated, NBR

had to pass to a new approach, focusing on the central bank's ability to ensure the exchange rates stability. A still controversial episode that occurred between September and November 2008 was used to show NBR's determination to defend the national currency against speculative attacks. In that period, exchange rates and interest rates experienced a high volatility that was explained by NBR's officials as results of speculative trading of some commercial banks that were, finally, countered by the central bank (e.g. Croitoru, 2012). However, some employees of the commercial banks accused by speculative attacks released later their own versions that contradicted NBR affirmations. According to them, that episode was caused by a sharp increase of the demand for foreign currencies and by central bank's inability to organize an effective moral suasion (e.g. Isar, 2013; Negrițoiu, 2013).

In the context of European debt crisis, in many emerging economies from Central and Eastern Europe there were fears that Western banks that owned domestic banks could withdraw their capital and funds. To prevent such situation, the European banks and governments launched in 2009 the Vienna Initiative that involved negotiations between domestic authorities and foreign banks (e.g. Epstein, 2014; De Haas et al., 2015). In that year there were negotiations among NBR officials, representatives of international financial institutions and nine parent banks with subsidiaries in Romania. The parent banks affirmed their commitment to a supportive position for Romania. This episode could be assimilated to the use of moral suasion by negotiations.

Another way of increasing the trust in exchange rates stability was to affirm Romania's commitment in adopting the euro in a near future. In 2008, the Governor of NBR reiterated that "the objective of joining the euro area in 2014 is within reach" (e.g. Isarescu, 2008). In February 2010, within NBR it was established a "Committee for Preparing the Changeover to the Euro". However, in the next years, Romanian authorities had to admit the initial data for adopting the euro was too optimistic.

In June 2010, as Romania's macroeconomic stability faced serious threats, the Government and IMF agreed a severe austerity program. Although the agreement contributed to the national economy stabilization, the austerity led, in some components of the Romanian society, to a significant unpopularity of authorities, including NBR.

4.2. The time of troubles (2015 – 2022)

Between 2015 and 2022, Romania's national economy was affected by some acute external and internal shocks. The global economy was affected by unprecedented circumstances such as the expectations about a commercial war between USA and China, the impact of Brexit, the COVID-19 pandemic, the 2021 – 2022 global energy crisis or the 2022 Russian invasion of Ukraine. The Romanian Government's decision to cut taxes and to apply substantial increases of wages from the public sector led to a significant increase of the budget deficits between 2007 and 2019. In the years of 2015 and 2016, deflation occurred for the first time from the communist regime falling, while in 2017 the inflation rate was lower than the target assumed by central bank. Such evolutions created the framework for an increase of NBR credibility. However, in the next two years, the annual rates of

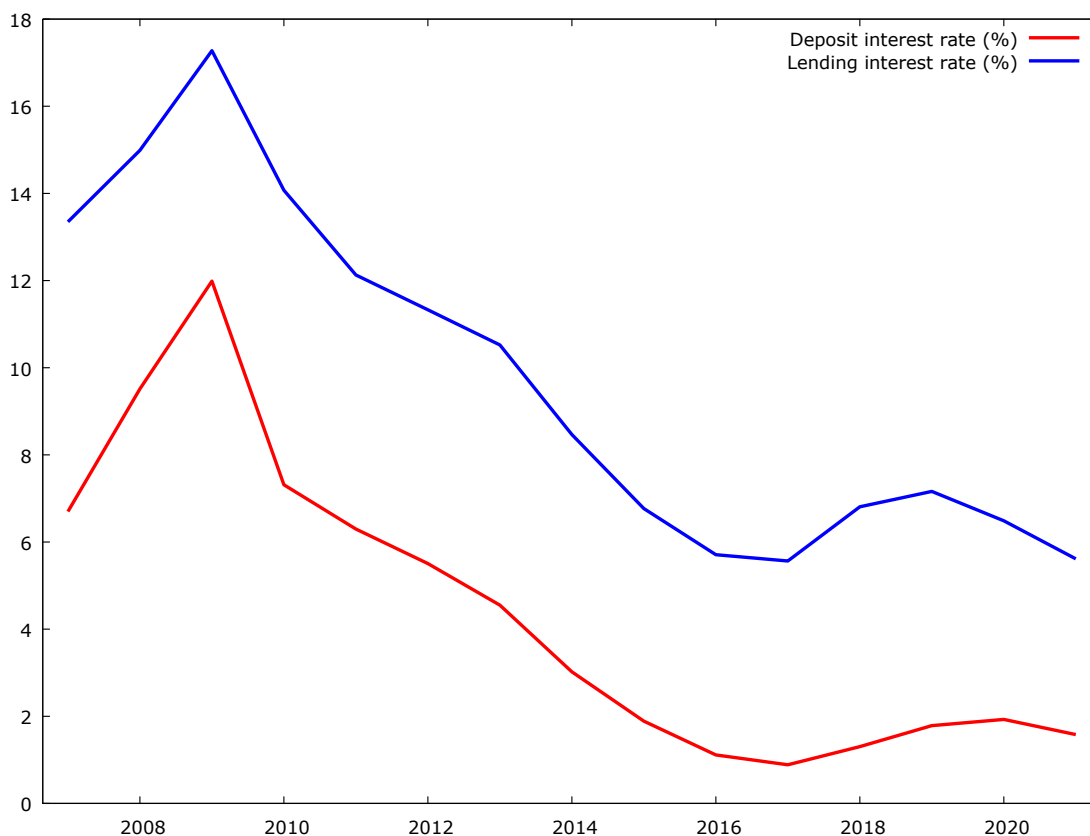
inflation surpassed the targets. The national currency devaluation continued but, in comparison with past periods, with a relative low speed (Table 5).

Tab. 5. Annual values of the inflation rates and official exchange rate in Romania from 2012 to 2017

| Year | Inflation, consumer prices (annual average) [%] | Official exchange rate (annual average) [RON/EUR] |
|------|---|---|
| 2015 | -0.6 | 4.4450 |
| 2016 | -1.5 | 4.4908 |
| 2017 | 1.3 | 4.5681 |
| 2018 | 4.6 | 4.6535 |
| 2019 | 3.8 | 4.7452 |
| 2020 | 2.6 | 4.8371 |
| 2021 | 5.1 | 4.9204 |

Source of data: National Institute of Statistics from Romania

Fig. 1. Lending rates and deposit rates (annual average values) in Romania between 2007 and 2021



Source: World Bank

In this period, the popularity of NBR in the Romanian public opinion was affected by difficulties the borrowers of mortgage loans experienced (e.g. Dumitriu and Stefanescu, 2021). After the adherence to European Union the volume of foreign currency loan increased substantially. In 2015, the borrowers experienced difficulties as the national currency

depreciated against euro and Swiss franc. NBR had warned about the risks, but it was accused that its statements came too late. Between 2017 and 2019, the borrowers in the national currency were affected by the interest rates raise. In these circumstances, it increased the hostility against banks that were viewed as “too greedy”. There were criticized especially for the high values of interest rate spread (lending rate minus deposit rate) that allowed them to obtained substantial profits (Figure 1).

The representatives of NBR used Media Appearance to explain some particularities of the banking activities but, very often, they were perceived as advocates of the “greedy banks”. There were speculations in media that high interest rate spreads were agreed during negotiations in the Vienna Initiative framework. The image of NBR in the Romanian public opinion was also affected by some revelations from Media: the controversial hirings, the discovery of links between the Governor of NBR, Mugur Isărescu, and the former secret police during the communist regimes etc. (e.g. Prisacariu, 2021).

There were other delays of data when Romania would be ready to adopt euro. In 2022, in a more realistic approach, the Romanian authorities admitted the country would not be prepared, soon, to join the euro area.

In the complex period 2015 – 2022, the forward guidance importance in the monetary policy increased substantially. NBR’s officials used extensive communication to explain the decisions on monetary policy and to give assurance that central bank was able to counter the negative impact of external shocks. In August 2022 an opportunity came to improve NBR’s prestige. At the beginning of each month, some sharp increases of ROBOR (Romanian Interbank Offer Rate) caused worries among the borrowers. The Governor of NBR used a press conference to signal the commercial banks exaggerated when they raised their interest rates too much over the central bank’s monetary policy’s interest rate. Next day ROBOR returned to a lower level and the NBR’s spokesman presented this episode as a successful moral suasion.

5. CONCLUSIONS

In the last decades, the use of moral suasion in the monetary policy of Romania experienced significant changes. It is hard to quantify how much the moral suasion by negotiation was applied because of the silence that participants usually keep in such activities. However, there were some well-known situations in which NBR cooperated with the commercial banks. The circumstances of moral suasion by negotiation changed as the reform of the banking system progressed.

The inflation targeting adoption was followed inherently by the forward guidance’s techniques development. NBR’s credibility, achieved by some major successes in controlling inflation, was a major aspect of the new strategy.

In the recent complex context, there are important challenges for the use of moral suasion in the monetary policy of Romania. As it happened during the European debt crisis, some episodes that make necessary the moral suasion by negotiation could occur. In such situations it would be desirable, as in the case of Vienna Initiative in 2009, coordinated efforts of the European institutions. The resort to forward guidance became more difficult as for

2022 double-digit inflation can't be ruled out. In these circumstances, NBR must use the communication tools to defend its credibility and to improve its reputation.

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