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EXECUTIVE SUMMARY

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Banking Financial Culture. National and European Restrictions Challenges

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EXECUTIVE SUMMARY

The fundamental objective of our research was an analysis of the measures taken by the Central Banks to properly operate the markets and their effectiveness. Therefore, we assume that an intervention of the Central Banks during a financial crisis, whem markets are malfunctioning, is crucial, that their management policies could be more effectivefor restoring and stabilizing the financial system, that some elements of the institutional framework for monitoring and managing the financial crises could save things or hinder the recovery.

While in the last thirty years the mission of the Central Banks was based on the neoclassic synthesis, the fundamental postulate of which was that economic growth is linked to the prevention of price movements, namely the control of the inflationary process, the events of the last years – extended to the present – posed new challenges to the monetary authorities, which has changed the paradigm for ensuring financial stability. Therefore, the Central Banks had to face new challanges, besides the traditional ones, i.e. *ensuring financial stability by creating and maintaining a stable financial environment and a suitable framework for macroeconomic stability.*

The study of the way of creating, using and rendering effective the unconventional monetary policies implemented by the Central Banks in order to quickly eliminate the effects of the economic crisis and re-start the economic cycles was what motivated us to choose this research theme.

Chapter 1. ***Extending the role of the Central Banks in eliminating the effects of the contemporary financial crisis and re-starting the economic cycles*** consists in analysing and interpreting in a personal way the roles the Central Banks took over and played during the financial crisis triggered in 2007 – 2008 and afterwards, which made people see the Central Banks as the only rescuers from the economic collapse and credible institution able to re-start the economic cycle.

The Central Bank took both classic monetary policy measures and unconventional measures to manage malfunctioning banks and prevent the blocking of the banking financial system. We analysed some of these measures taken by the Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan as well as the National Bank of Romania. The impact of the NBR's measures was analysed in the economic context in our country.

In **Chapter 2**.- ***Measures taken by Federal Reserve, European Central Bank, Bank of England, Bank of Japan and National Bank of Romania*** we focused on the study of the Central Banks' interventions for a proper functioning of the markets and on the effectiveness of these interventions. While during the previous crises the Central Banks confined their efforts to the role of last resort lender, now – besides conventional monetary policy measures (interest rate, liquidity control and minimum compulsory reserves) – they have also adopted unconventional measures and policies in order to stop disturbances in financial markets. As the crisis was expanding, the Central Banks worldwide diminished the interest rate continuously; thus the Federal Reserve, the Bank of England, the Bank of Japan, the Bank of Israel, the Central Bank of Canada and the European Central Bank diminished the interest rate close to zero.

The National Bank of Romania implemented a prudent policy trying mainly to prevent a speculative attack in 2008, thus hindering capital withdrawals by diminishing the exposure of the parent banks in the Romanian branches – the Vienna initiative, extention of the guarantee for bank deposits, extention of the repo facility. It is worth mentioning that the NBR used the monetary policy interest rate conventionally, and the rate increased slightly soon after the beginning of the crisis (to avoid the liquidity trap and to hit the inflation target); then it diminished the level to 3.25% in August 2014. This prudent policy caused many controversies not only in the economic literature but in the whole society, people arguing that non-banking entities and natural persons with debts had to pay the cost at higher interest rates. In our opinion the NBR's policies were implemented in an economic context specific to Romania soon after the accession to the European Union, in conditions of incresing inflation, speculative attacks, massive withdrawals of foreign capital and a slow transmission of the monetary mechanisms.

Chapter 2 points out that – in the context of increasing role of the Central Banks in managing the effects of the financial crises and re-starting the economic cycles – the unconventional measures have become efficient tools for attaining the objectives.

Chapter 3. ***Central banks in relation to the tasks of governments in ensuring financial stability.*** Even if before the present financial crisis, Governments did not easily accepted a gradual increase in power of the Central Banks, now they agree to compensate for the deficiencies of their economic policies – even at the risk of causing a deficit in democracy by transferring the task of formulating economic policies to an institution whose leadership is not elected by universal vote. Therefore, while other bodies in charge of formulating and implementing several economic policies were hindered by political polarization – both nationally and regionally – the Central Banks of the developed countries had to resort at their relative political independence and their great operational autonomy in order to gain time and allow the other authorities to take action.

In **Chapter 4. - *The evolution of the bank supervision in the European Union in relation to the contemporary financial crisis*** we study the changes in the role of supervision and regulation within the European Union, determined by the shortcomings revealed by the contemporary financial crisis.

Finally the paper includes ***conclusions***. The main concern of the Central Banks to ensure economic stability is to be found in their specific tasks regarding the formulation and the implementation of the monetary policy.

The evolution of the global economy, the instability of the financial systems and the uncertainty, caused by the propagation of the negative effects of the sovereign debt crisis, determined the expansion of the Central Banks' role. Therefore, to attain the main objective and ensure price stability and financial stability, the Central Banks systematically monitors and assess the financial stability requirements in order to identify the main sources of risk and vulnerability of the financial systems and the microeconomic environment.

For formulating monetary policies, the Central Banks should consider the close interconnections between price stability and financial stability. The objectives of the theory of economic policy and international practice can be attained by means of a mix of prudential and procyclical macroeconomic policies; so the monetary policy needs support from other policies, especially from the fiscal policy and the income policy. The monetary policies are important for solving the global crisis, but themselves cannot attain the objective of balanced growth restoration without support from other economic policies.

Before the present global financial crisis, the Central Banks transmitted the orientation of the monetary policy only through the reference interest rate, and for applying the monetary policy decisions they made use of conventional tools of monetary policy. In the present international context – a less favourable one – structural changes in the financial systems were made and then propagated through the global financial system, and these changes determined the Central Banks to take measures (called unconventional) to manage failing banking systems and prevent the blocking of the financial banking system.

The unconventional monetary policy measures taken by the Central Banks expanded their role in world economies, both by quantitative elements – considerable expansion of the Central Banks' balance sheets and increase in their weight in the GDP and by qualitative elements – assuming increased role and taking unconventional monetary policy measures, which can be effective on short term. By their role, the Central Banks are considered as rescuers from the economic collapse and as credible entities able to re-start the economic cycle.

Analysing the changes and the trends in the components of the monetary policy we may say that (although financial instability is still present and the Central Banks' balance sheets underwent changes and reached unprecedented levels in history) the unconventional measures taken by the Central Banks have restored the functionality of the financial market up to normal parameters and the capacity of the monetary policy to effectively send signals in real economies, especially through the interest rate channel. But the potentially negative feedback, caused by tensions in the financial markets that slow down the economic activity, amplifies the monetary policy risks and challenges. Markets face major risks although the Central Banks took aggressive action through the monetary policy aiming to reduce liquidity tensions and prevent systematic risks. They were several systematic accidents, more losses and deterioration of the balance sheets, which caused a severe contraction of credits. This amount of reactions (shocks) hindered the monetary policy decision – making, which should provide creative and durable solutions by available tools in order to overcome the financial crises.

In Romania, the historical records of the inflation level is the indisputable expression of the effectiveness of the monetary policies formulated by the NBR in order to attain the fundamental objective. The NBR steadily pursued the inflation target and did not consider a support policy for hiding the economic ineffectiveness of the national economy. And it was not wrong. The NBR played the role of an expert, pedantic, omniscient but mainly exacting and authoritarian mentor who did not allowed that the performance be influenced by a temporary palliative for the failure to deal with the fundamental problems of the Romanian economy.

The effectiveness of the measures taken by the NBR soon after the crisis started was fully demonstrated by the stability at the macro financial level: there was no bank bankruptcy, the state had to rescue no bank, inflation was kept at level never met in the Romanian economy, the financial crisis was not accompanied by a foreign currency crisis, although there had been several speculative attacks.