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ANALYSIS OF MONETARY POLICY INTEREST RATES' EVOLUTION

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Abstract: *This research aims to analyze the evolution of monetary policy interest rates in the Romanian banking sector, in the period 2021-2023. It is also analysis interest rates for Lending facility and Deposit facility, throughout the same period. Starting 1 September 2011, the National Bank of Romania's reference rate is the monetary policy rate. One of the most important instruments of monetary policy is the NBR's standing facilities offered to credit institutions. The main monetary policy instruments used by National Bank of Romania are open market operations, standing facilities and reserve requirements.*

• Introduction

The fundamental objective of the National Bank of Romania is to ensure and maintain price stability.

Achieving financial stability at national level requires a cross-border approach, due to the nature of Romania's open economy. As a monetary and prudential supervisory authority, the Central Bank must identify the risks and vulnerabilities of the entire financial system. The effectiveness of this strategy is conditioned by the following:

- reducing the annual inflation rate below 10 percent;
- accumulation of a gain of credibility by the Central Bank;
- strengthening the independence of the Central Bank;
- the restriction of fiscal dominance;
- improving coordination between fiscal policy and monetary policy;
- flexibility of the Leu exchange rate;
- strengthening the banking system and increasing bank intermediation;
- enhancing the transparency and accountability of the Central Bank.

The most important monetary policy instrument of the National Bank of Romania is represented by money market operations (open market operations). These operations are attached to the monetary policy interest rate.

• Material and method

The evolution of monetary policy interest rates and rates of permanent, lending and deposit facilities, the data and indicators presented in the interactive statistics on the website of the National Bank of Romania, were used for the structural and dynamic analysis.

The scientific research methods used in this paper are: identification of the problem subject to research, delimitation of the relevant research horizon, analysis of the history of the evolution of banking data and indicators, selection and collection of relevant data and information, systematization, classification according to the importance of the identified criteria, definition of concepts, comparison, selection of banking regulations regarding the issues addressed in the research, analysis and synthesis, generalization and scientific abstraction, induction and deduction, and others, as well as professional reasoning.

• Results and discussions

The analysis shows a continued and sustained increase in monetary policy interest rates from 1.75% in November 2021 to 7.00% in January 2023. The National Bank of Romania has set his huge increase in the monetary policy interest rate as a measure to counteract the high inflation index. Effective management of financial stability has forced the Central Bank to establish drastic monetary policy measures.

Interest rates of permanent lending facilities increased from 2.50% as of November 10, 2021, to 8.00% as of January 11, 2023. This huge increase in interest rates on credit facilities highlighted "policy of expensive money" approached by the Central Bank. The measures taken by the National Bank of Romania were aimed at countering inflation. During the analyzed period, the interest rates on lending facilities increased by 5.5 percentage points, compared to the interest rates on deposit facilities, which increased by only 5 percentage points.

Through this specific monetary policy transmission mechanism, namely the channel of interest rates, the National Bank of Romania aims to target inflation directly and ensure financial stability.

• Conclusions

The most important monetary policy instrument is represented by money market operations (open market operations). The monetary policy interest rate is attached to these operations.

From the research conducted regarding the analysis of the evolution of monetary policy interest rates and interest rates related to permanent lending and deposit facilities, there is a continuous and sustained increase in them, during the years 2021 - 2023.

The National Bank of Romania decided the increase of the monetary policy interest rate to counteract the high inflation rate and to effectively manage financial stability.

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