MONETARY MARKET OPERATIONS INITIATED BY THE NATIONAL BANK OF ROMANIA IN 2015-2020

IRINA-ELENA CHIRTOC
LECTURER. PHD. "CONSTANTIN BRANCUSI" UNIVERSITY OF TARGU JIU, ROMANIA
e-mail: irynavoica@yahoo.com

GABRIELA BUȘAN
LECTURER. PHD. "CONSTANTIN BRANCUSI" UNIVERSITY OF TARGU JIU, ROMANIA
e-mail: gabriela_busan@yahoo.com

Abstract
In order to achieve the main objective of the European Central Bank and implicitly of the national central banks that make up the European System of Central Banks, the Governing Council of the ECB bases its decisions on a two-pillar monetary policy strategy and implements them both through ordinary monetary policy, as well as through unconventional measures.

Monetary policy is the set of actions by which monetary authorities monitor and regulate the amount of currency in circulation, the level of interest rates, exchange rates and other economic and monetary indicators in order to achieve the general objectives of economic policy.

The main monetary policy instruments used to achieve the objectives are market operations, permanent facilitation and the establishment of minimum required reserves.

Keywords: *monetary policy, repo operations, liquidity*

JEL Clasifications: *E52, E58*

1.INTRODUCTION

In its capacity as the central bank of the state, the National Bank of Romania conducts the monetary and credit policy of the state. The implementation of monetary policy measures through which a central bank exercises its influence at the national level is achieved through the use of a set of instruments. The monetary policy instruments used by central banks can, on the one hand, be generated by their own actions, and on the other hand, they can generate monetary influences as a result of the actions of credit institutions in the system.

By using and controlling monetary policy instruments, the central bank as a state bank seeks to manage liquidity in the economy. The efficiency of using these tools is determined by the way credit is multiplied. Depending on the impact it has on monetary variables, monetary policy instruments can be classified into direct instruments and indirect instruments.

Indirect monetary policy instruments (Figure 1) are classified as follows:

- money market operations,
- minimum required reserve
- permanent facilities - through these operations the Central Bank aims to inject and withdraw liquidity from the market in the very short term (overnight).

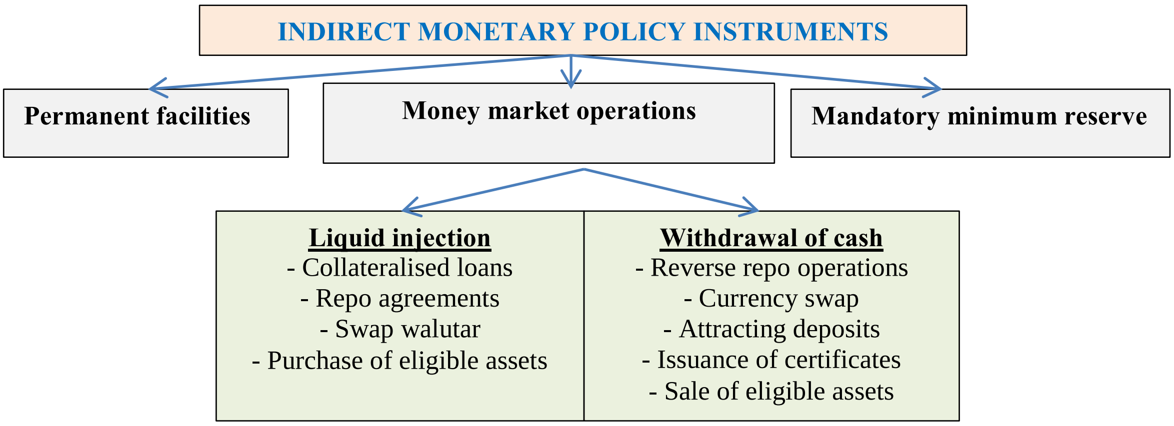

Figure 1 Indirect monetary policy instruments

According to the legislation in force, the money market operations of the National Bank of Romania are carried out on the basis of the following types of transactions:

a) reversible purchases / sales - repo / reverse repo - of assets eligible for trading;
b) granting collateralized loans with assets eligible for guarantee;
c) sales / purchases of assets eligible for trading;
d) issuance of certificates of deposit;
e) currency swap;
f) attracting deposits.

Money market operations may be conducted by tender or by bilateral procedures.

2. MONETARY MARKET OPERATIONS IN THE PERIOD 2015-2020

Money market operations are a monetary policy tool that plays a key role in promoting monetary policy by the central bank. This tool is used to set interest rates, manage liquidity in the market and also as an indicator of status in monetary policy decisions.

Through money market operations, the Central Bank of Romania changes the reserves of banks and thus influences the amount of money in circulation. When the central bank sells securities, there is a withdrawal of liquidity from credit institutions, thus reducing the supply of currency in circulation. When buying securities, the central bank "injects" liquidity, thus increasing the money supply.

The categories of money market operations [11] performed by the National Bank of Romania in the period 2015-2020 were:

• repo operations. Through these reversible transactions, the National Bank of Romania aims to inject liquidity on the market. They occur when the NBR buys from credit institutions assets eligible for trading, with their commitment to repurchase those assets at a later date and at a price set on the date of the transaction.

• attracting deposits are transactions with a predetermined maturity, with the aim of absorbing liquidity, in which the central bank attracts deposits from credit institutions.

In the period 2015-2020, the NBR's monetary policy continued to consistently pursue and maintain price stability over the medium term, corresponding to the stationary inflation target of 2.5 percent ± 1 percentage point, representing the best contribution it it can lead to sustainable economic growth; over the medium to long time horizon.

In 2015, the NBR actively used the components of the monetary policy operational framework, in order to adapt real monetary conditions in a broad sense from the perspective of meeting the monetary policy objective, as well as to continue their gradual harmonization with European Central Bank standards and practices. and other central banks in the Member States of the European Union. [3]

During March-August, the NBR carried out a series of liquidity injections, through one-week repo operations, organized through a fixed-rate tender and full allocation. This injection of liquidity was characterized by the occurrence of certain dysfunctions in the redistribution of liquidity on the interbank money market, associated with the deterioration of the situation in Greece.

In 2016, the parameters of the main monetary policy instruments remained unchanged. However, the central bank continued to harmonize the minimum reserve mechanism with the relevant standards and practices of the ECB and other EU central banks. [4]

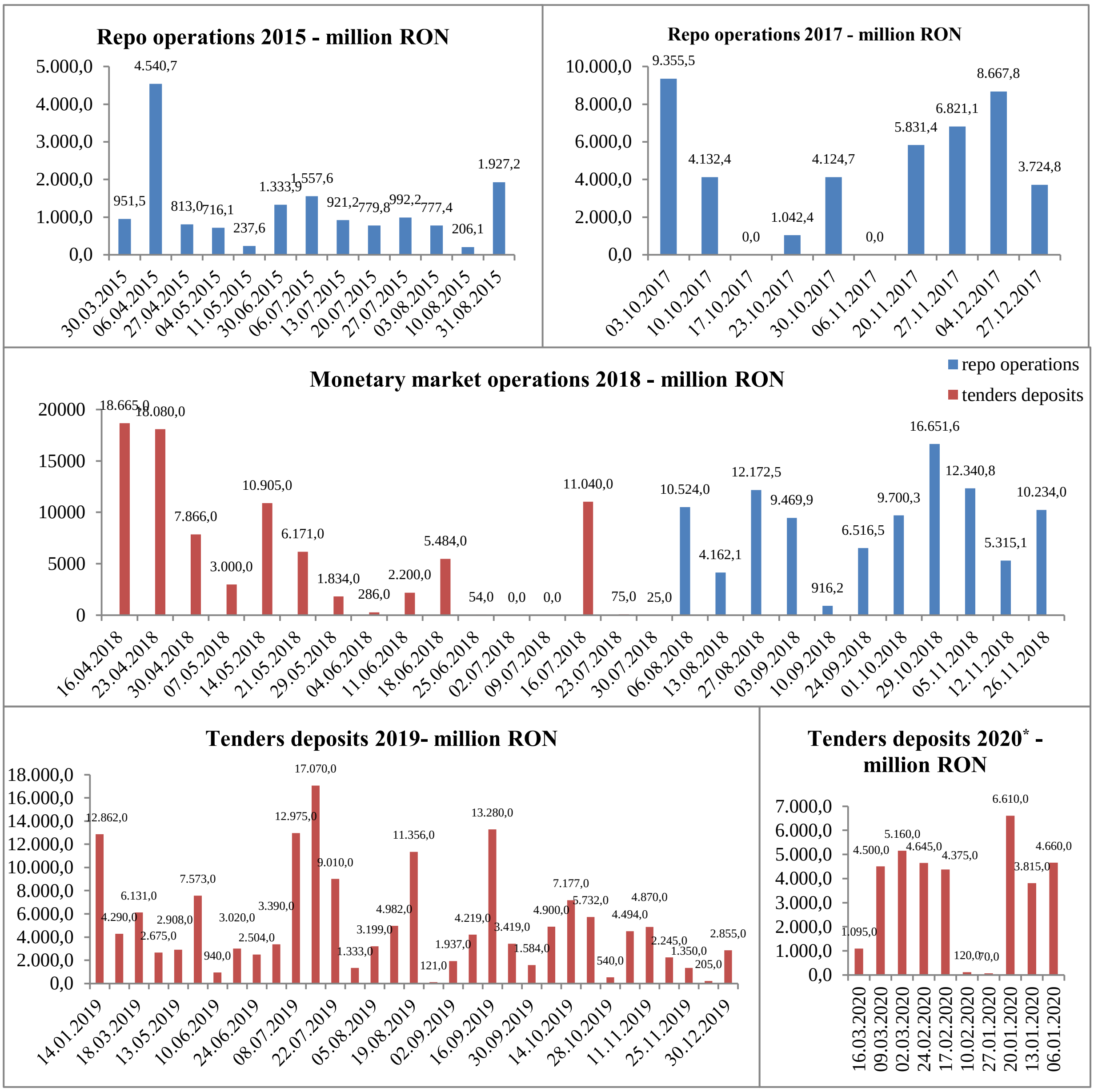

Figure 2 Monetary market operations in the period 2015-2020 (* until 16.03.2020)
Source: BNR

In 2017, in the first three quarters, the central bank continued to drain exclusively through the deposit facility the excess liquidity of credit institutions.

Amid the simultaneous intensification of the contractionary action of the main autonomous factors, the net liquidity position of credit institutions reversed in October, becoming negative again, which is why the NBR resumed in October and then continued to provide liquidity through repo operations within a period of one month. week by auction at a fixed interest rate and full allocation. Towards the end of the quarter, however, these operations were halted, given the reappearance of a large net surplus of reserves, under the impact of liquidity injections resulting from the substantial increase in budget expenditures in the last month of the year. [5]

The liquidity fluctuation was exacerbated in 2018 by the increased impact of the main autonomous factors, in particular of the State Treasury operations occasioned by the budget execution and financing / refinancing of the public debt, as well as of non-residents' transactions on the local financial market. intensively and in a flexible manner both instruments intended to absorb surplus currency from the market and those intended to provide reserves to banks, using both money market operations and permanent facilities offered to credit institutions in both positions. [6]

From mid-April to mid-July, the central bank began conducting fixed-rate, full-rate interest-bearing deposits. After that date, money market liquidity conditions tightened, so that in early August through November, the central bank resumed liquidity supply through one-week repo operations, conducted through a fixed-rate auction of interest and full allocation.

The year 2019 was characterized in principle by a surplus of liquidity, as a result of the considerable injections of reserves generated by the operations of the State Treasury, and the operations undertaken by the central bank on the money market were cash withdrawals.

In January and March, the central bank held three sessions of deposit auctions with a maturity of one week and full allocation, sessions which have since been consistently organized since May. The average monthly balance of deposits attracted by the NBR reached a peak in July (9.7 billion lei), only to gradually decrease - more pronounced in the second half of the fourth quarter - as a result of the temporary restriction of surplus reserves below the contractionary influence of the autonomous factors, causing even a slight tightening of liquidity conditions in December. [7]

At the beginning of 2020 on the interbank money market, in the context of the persistence of the net liquidity surplus, the NBR continued to consistently organize one-week deposit auctions, at a fixed interest rate and full allocation. [8]

In the context of the sharp deterioration of the global and domestic economic picture in the last part of the first quarter, under the adverse impact of the coronavirus pandemic and the measures implemented to limit its spread, it was decided to carry out repo operations to provide liquidity to institutions. credit, as well as the purchase of government securities in lei on the secondary market. These decisions were intended to support the rapid recovery of the economy as a result of the contraction caused by the coronavirus pandemic. [9]

Money market operations play one of the most important roles in guiding interest rates, managing money market liquidity conditions and signaling monetary policy direction.

3.CONCLUSION

Money market operations are the instrument of monetary policy, specific to the central banks of Eastern Europe, to act in the direction of narrowing or expanding the money supply. These operations change the structure of the money supply in circulation to the detriment or favor of liquidity. These monetary policy instruments allow the central bank direct control over the monetary base as well as the reserves of commercial banks. Due to the increased flexibility offered, money market operations have become the main instrument of monetary control of countries.

By constantly acting on the lending policy of commercial banks, the monetary policy policy always affects the bank's over-liquidity, thus giving the central bank the possibility to influence the destination of the respective liquidity surpluses.

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