CONCEPTS ON THE APPEARANCE AND EVOLUTION OF THE MONEY-CURRENCY MARKET

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Abstract

In this article, the authors sought to focus on presenting the currency-money market that developed in close consistency with the evolution of the social system, being determined of course by the functioning of the free market, the emergence and development of the banking system, internal and external payments, money, international exchanges, and so on No country can develop autarchically, it must adhere to international exchanges, cooperation and technical-scientific economic collaboration. Of course, since ancient times, the exchange of commodities at a price that provides the economic money-money-money or commodity-money-commodity circuit, depends on how we want to interpret, a currency-currency market has played an important role. The banking system had a special effect because it mediated the interchange that has developed over time and represented the prospect of improving it. The authors emphasize the presentation of the monetary-currency market based on the national currency, which, although undergoing some transformations, had to be reconciled with the international monetary and foreign exchange market. The possibility and the need to control the correlation between needs and money supply were the national bank that consistently pursued its correlation. Of course, the money-market is also analyzed in the context of specific free market elements, such as inflation, which sometimes leads to real concrete results that can only be appreciated after they are definitive. In this way, we are aware of a concrete evolution that has manifested itself in the market, the need for additional monetary mass or, on the contrary, the withdrawal of some of the money. We know that those financial and economic crises are also determined by the fact that in the free market, the money-market has a larger mass than necessary, which leads to the explosion of inflation and consequently to the possibility of triggering irregularities that the market

. Of course, in the strategy that needs to be matched to the money-market needs of the money market, it is the national bank that plays an important role internally and externally. The operational independence of the national bank ensures the consolidation of credibility, the establishment of the financial sec- tor, the substantial mitigation of fiscal domination, and the strengthening of the effective forecasting capacity of the inflation rate, which is at the basis of ensuring real values in the money-market. The authors resort to a closer analysis of the latest issues that have emerged in the money-market and in this way come to the present day as a participant in the European Union, Romania has to acquire a series of elements deriving from EU directives as such as the monetary policy rate, the level and control of inflation, international reserves and many other elements that are specific to the money-market.

Keywords: *exchange rate, currency, money supply, economic growth, interest rate*

JEL Classification: E43, E51, F31

Introduction

In the study of the evolution of the currency-exchange market it was taken into account that Romania participates in a series of international transactions, at a series of exchanges, in which the national currency (the leu) is correlated with the other currencies. The assessment of a country's level of development is done through purchasing power parity, in which context the real wage in a deflated country is consistent with the same size expressed in a single currency, to say dollars for all the analyzed countries so that the level of evolution of each country results, to the extent that this evolution of each country ensures stability and a possible increase in the standard of living. Of course, the exchange rate policy of the national bank is important in that it ensures that exchange rate flexibility is maintained over a longer period of time by discouraging speculative capital inflows and consequently securing foreign exchange reserves. The commercial banks' policy is coordinated by the national bank, which is why most of the features of the monetary-foreign exchange strategy go from the need to set inflation forecasting and targeting strategy so that the real value of monetary-currency resources does not deviate from the needs of the economy and, above all, to ensure that macrostabilization is a continuous process, and in this way avoid sliding in one direction or another. Of course, the authors also focus on the leverage of the interest rate that is used in the strategy, taking into account the context of the intensification of financial flows that impose some monetary restrictions in a broader sense. Liberalization of the capital account was also achieved in Romania, but with more delay than other Central and Eastern European countries, so it helped to maintain disturbances even putting into question macroeconomic stability.

Literature review

Anghel (2015) conducted a study on the evolution of the indicators of the structure of the money supply in Romania. Anghel (2015) analyzed the monetary aggregates in Romania and studied the correlations between these and some macroeconomic variables. Anghel (2015) analyzed the main monetary policy instruments. Anghelache, Jweida, Popovici and Stanciu (2016) studied the link between foreign direct investment and export to Romania. Anghelache, Burea and Ursache (2017) analyzed the interconnections between balance-of-payments indicators and output indicators, using relevant statistical and mathematical relationships. Belongia and Ireland (2015) pointed out that all monetary disturbances have an important quantitative component, which is captured by movements in a properly measured monetary aggregate. Anghelache, Anghelache and Anghel (2016) analyzed Romania's international trade over the past years, highlighting the data segments describing the most favorable evolutions of the analyzed indicators. Anghelache, Anghelache, Panait and Jweida (2016) have studied the recent developments in international trade in Romania, the contribution of external partners to the achievement of the recorded results, measured by relevant indicators, the dynamics of the foreign trade financial balance. Anghelache, Anghelache and Anghel (2014) studied the indicators of the budgetary and monetary situation of Romania. Belongia and Ireland (2006) looked at issues related to money transmission channels. Doepke and Schneider (2017) discussed the optimal choice of „currency zones" when there are variations in trade intensity within and between regions. Primiceri (2005) studied the possibility of using autoregressive vectors in monetary policy. Woodford (2008) considered it necessary to assign an important role to the pursuit of monetary aggregates growth when deciding on monetary policy.

Research methodology, data, results and discussions

The money-currency market developed in close consistency with the evolution of the social system, being determined by the functioning of the free market, the existence of the banking system, the practice of internal and external payment methods, the need for money, in a narrow and wide sense, of currency-monetary arbitrage operations.

Since ancient times, it has been the practice of exchanging commodities for a price that in this way provides the money-money-money or commodity-money-commodity economic circuit anyway we take it because it is a flow within the national economic cycle which imposes a certain strategy, a certain balance and, in this way, the realization of trade, the making of internal and external payments.

Since the emergence of the banking system, as it developed and strengthened, the question of the existence of currencies, which represented the national currency of each country, was covered by the national currency reserves, with a general understanding of the coverage in a quantity Golden.

The national currency must be adjusted to the value of the international market. This is done through the exchange rate.

The interchange was developed even before 1918. At the reunification of the Romanian state, they became more and more necessary as the exchange of goods and services existed, developed and consolidated.

Regardless of the level recorded in the economic evolution of each state, without the possibility of autarchic development, international exchanges have developed and become necessary.

Monetary money is the amount of national currency domestically at a time. From the financial and banking point of view, it should be analyzed as M1 and M2. Irrespective of the form in which money is on the market, excess money supply can cause inflation, and shortage of money makes it harder to trade in the open market, and it is necessary to supplement the money by drawing extra money from the central bank.

Monetary and foreign exchange markets existed before World War I, and in the interwar period, after the Second World War, and in the socialist system between 1945 and 1989.

The national currency has undergone reforms at all of these stages, because the evolution of the goods and services market has to be reconciled with the internal and external marketing opportunities.

There is always the possibility of considering the money in line with the requirements of the internal market. We can appreciate that forever money-market strategies have been used, and then we can talk about monetary-currency market policies in this area.

If we question the deeper analysis, we believe that monetary and foreign exchange, domestic and international policies and markets have played a decisive role in the evolution of the economy.

In 2007, Romania joined the European Union, which has been confronted with the elaboration and implementation of a monetary policy that has been influenced, sometimes provoked, by numerous events that have made its mark.

The monetary policy implementation environment was initially unmatched, with three periods unfortunately: a pre-crisis period, 2007-2008, a crisis period, the years 2008-2009 and a post-crisis period. At these times, when the economic and financial crisis has put its mark on global developments, the question of reconfiguration, at least theoretically, of how monetary policies are formulated and the role of these policies in the mix of money policies to ensure macroeconomic and financial stability.

The rethinking of monetary policies has always been influenced and urged by the economic crises that have occurred and have had overall effects. The conventional thinking framework has been unconvincing and that is why the issue of coordinating macroeconomic (monetary, fiscal and revenue) policies has been prudent in order to ensure economic and financial stability (macrostability).

The monetary-foreign exchange policy has put the question of practicing a strategy that focuses on inflation forecasting, so that the float exchange rate regime and the convertibility of the national currency have a stabilizing effect on the domestic market.

In the post-accession period, it has been pointed out that monetary policy has an anti-cyclical character, that is, it must take into account the possibility of occurrence of events in the financial-currency market, which must take into account the elements that give the economy macrostability.

The inflation rate is also an important element, because actual, real results can be appreciated only after deflation, which highlights the concrete evolution that has taken place in the market.

Economic and financial policy is also essential in determining monetary policies. Most of the time, the characteristics of the monetary-foreign exchange strategy stem from the need to establish a strategy for direct inflation targeting.

The adoption of the new monetary policy strategy is imposed by weakening the relationship between monetary aggregates and the inflation rate in the sense that the money supply needs to be matched with the demands of the free market, ie the supply-demand ratio.

The inflation targeting strategy is, in fact, the commitment to pricing as the primary objective of monetary policy, on the basis of which the Central Bank assumes responsibility for controlling the money-market so that it does not destroy the internal market.

The National Bank's strategy is to consider the full operational independence of the National Bank, to strengthen credibility, to stabilize the financial sector, to substantially reduce fiscal domination and to strengthen the effective targeting of inflation.

With regard to the exchange rate, it should be noted that it is necessary to maintain a controlled float of the national currency so that excessive situations can be mitigated. The objectives of the exchange rate policy of the National Bank were to maintain both-way exchange rate flexibility in the long run, to discourage speculative capital inflows and to secure foreign exchange reserves.

The interest rate leverage was used more after the strategy was set, given that, in the context of increasing financial flows, some monetary restrictions in the broad sense are also required. Thus, some reserve mechanisms have been used, it has been the question that these foreign exchange reserves are consistent with the involvement of commercial banks in the market and, lastly, the diversification of the instrument at the disposal of the Central Bank in order to avoid market-speculative speculation.

Liberalization of the capital account was carried out in Romania with a lot of delay compared to the other countries in Central and Eastern Europe. Postponement or delay was driven by a strategy that used, firstly, a gradual approach to structural reforms and macro-stabilization programs.

Liberalization of the capital account was postponed until the banking system was consolidated, the financial sector consolidated / strengthened so that the capital flows had a potential for reversibility. It was also necessary for the central bank (BNR) to reach a satisfactory level of coverage of foreign exchange reserves. This objective was achieved only in the decade 2001-2010.

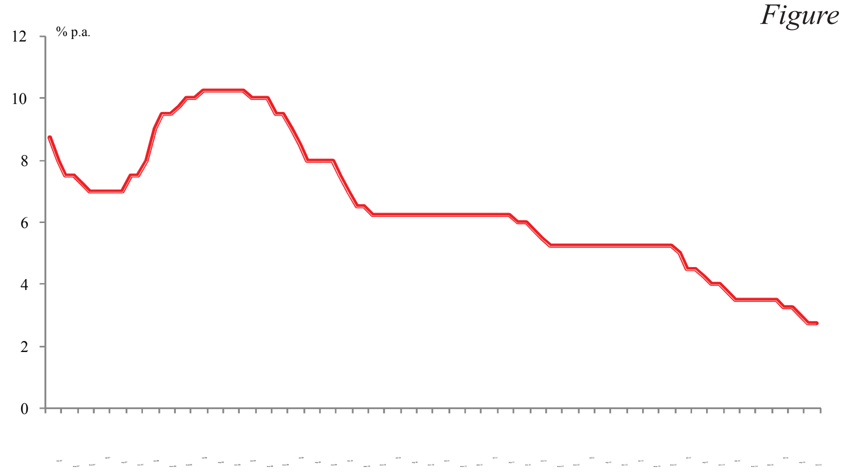
The last stages of consolidation of capital account liberalization were based on principles such as: liberalization of capital inflows and outflows; liberalization of medium and long-term flows; liberalization of direct investments; respect for succession banks - companies - households, all of which had to be brought to the same denominator.

In the post-accession period to the European Union, the National Bank imparted to monetary policy as far as possible anticyclical, ie it was considered that developments are among the most clearly expressed and correspond to the criteria of liberalization of capital inflows and outflows.

Therefore, the reserve requirement mechanism imposed over the years 2007-2008 continued to be the control element of the capital movement consolidation activity. In 2007-2008, when triggered by the negative effects of the economic and financial crisis, the effect was devastating compared to other countries in Europe or elsewhere in the world.

Dynamics of the monetary policy rate

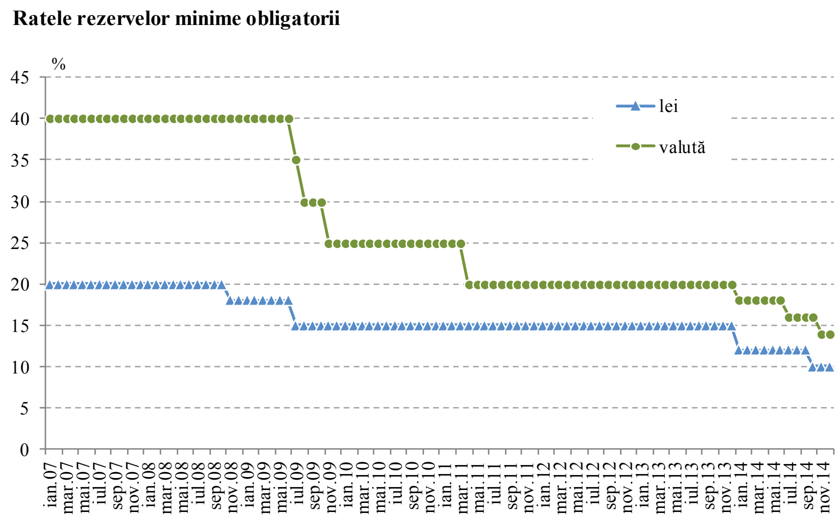
Figure 1



Sursa: BNR

Evolution of reserve ratios

Figure no. 2

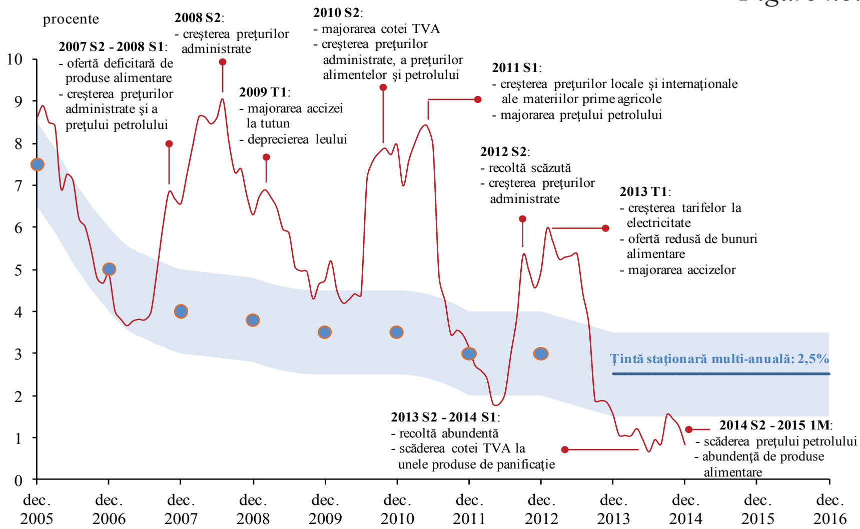


Sursa: BNR

From the study of the two charts, the oscillating evolution of the inflation rate, marked by the multiple market shocks, the reduction of the macroeconomic activity and other similar phenomena, is also clear.

Dynamics of inflation in Romania during 2005-2016

Figure no. 3



Notă: Lăţimea intervalului de variaţie este de ±1 punct procentual.

Sursa: INS, BNR

The exchange rate policy is one of the most interesting faces that Romania has had in the period since 1990 to the present. The challenges were so great that the exchange rate had particular fluctuations, causing the devaluation of the national currency that, in 2005, had to be denominated.

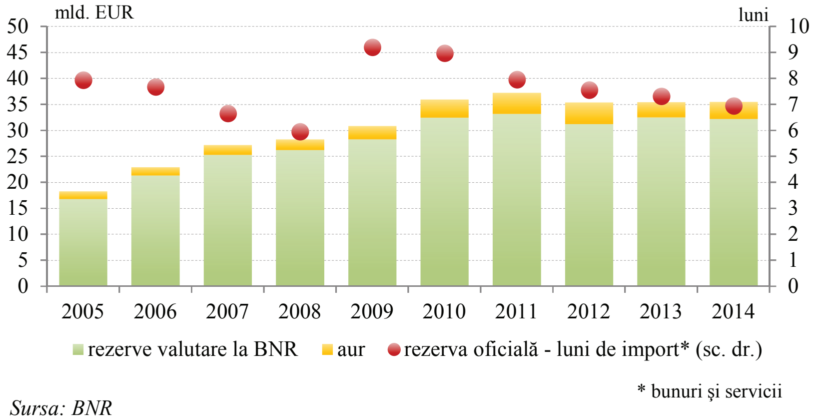
The constraint on large capital inflows was strong enough to put the Central Bank in a position to control the controlled leu floating regime and then to impose a strategy of direct inflation targeting. We know that inflation is most often determined by the ratio between the monetary mass in circulation at national and international level and the way to offer goods and services at this level in the market. The degradation of the ratio in favor of monetary mass inevitably leads to an increase in inflation. That is why the central banks have to maintain the balance that must exist permanently between the money supply and the volume of goods and services on the market.

Against this background, after the global crisis triggered, the NBR's foreign exchange interventions aimed firstly at avoiding too high a depreciation of the exchange rate in order not to compromise the value and stability of the national currency. If we had a fixed exchange rate, the real sector of the economy would have borne the burden of economic adjustment, but with disastrous social effects.

The reserves set up by the National Bank have evolved since we are considering the international reserves that Romania created during this period.

Romania's international reserves

Figure no. 4



Sursa: BNR

In the general policy of the National Bank, the whole policy of pursuing the exchange rate, in order to protect the stability of the national currency and to ensure macro-stability, was made in parallel with the policy of inflation targeting. Thus, besides the calculated data provided by the National Institute of Statistics, the National Bank of Romania, in turn, pays attention to the analysis and forecast of the evolution of inflation. This was a permanent character and was achieved as a result of a close cooperation policy between the National Bank and the National Institute of Statistics.

Conclusion

The currency-exchange system in any country is an important element that assures a correct appreciation of the results obtained by a country at one time or another, ensures participation in the international economic and technical-scientific flows, ensures through the exchange rate the possibility of to develop balanced international economic relations that eventually reflect in the balance of the economic and social system materialized by gross domestic product, the most complex indicator of results achieved over a period of time. In other news, the money and foreign exchange market is changing, with certain characteristics specific to the membership of the European Union within this system. Of course, EU directives need to be implemented, with Romania still benefiting from some transition periods, but in general terms will have to adapt alignment to these requirements. In particular, Romania needs to adjust its economic and social development so that it meets the criteria to be admitted to the Eurozone. At present, by practicing prices and other economic and social values set in euros then converted into lei, although there is no law that can ... this is a lot of slippages that most often materialize in the indicators we calculate. Ultimately, Romania's monetary and foreign exchange market needs to be connected and closely aligned with the monetary and foreign exchange market in the European Union, Europe and the rest of the countries. Over time there has been a concern to improve this money-market, but it has to be under direct, under direct vision, under the direct control and supervision of the Central Bank.

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