MONETARY STABILITY AND UNEMPLYMENT IN AN EMERGING ECONOMY. THE CASE OF ROMANIA

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A typical feature of an economic crisis, as is the case of the last economic and financial crisis, is the rise in the unemployment. This phenomenon represents one of the most serious aspects of an economic recession implying additional constraints for the policy makers and increased social and economic distress. In this paper we approach the issue of unemployment dynamics for Romanian economy. Modern economies must cope with the challenge of achieving financial stability, given that the globalizing financial environment is becoming more complex due to globalization, to theintersection of the monetary and financial market, and to the financial industry innovativeness. Although this evolution of the markets encourages more efficient allocation of global capital resources, allowing the ways of financing to adapt more quickly to the needs of the real economy, "the financial sector is not exempt from tensions and destabilizing movements, which generate risks not only for the players of the financial sector, but also for the economy as a whole".
Keywords: monetary stability, unemployment, emerging economy, Phillips curve
JEL Classification: E52, E58, E61, G01

I. Introduction

Ensuring financial stability represents a natural concern of central banks, result of some of its specific functions: lender of last resort, regulation and supervision of the banking sector, regulation and monitoring of the economy payment systems and the function of foreign currency center. In the last years, ensuring financial stability became a major concern of central banks, due to the fast propagation of financial crises, their negative effects on financial markets and the macroeconomic perspectives, but also due to the conomic and social costs that they imply. In comparison to price stability, considered easy to define and quantify, financial stability is a complex concept (due to the complexity and dynamics of the financial system) and up today there is no generally-accepted definition or a synthetic indicator for its quantification.

For example, ECB defines financial stability as the situation in which *„the financial system – comprising of financial intermediaries, markets and market infrastructures – is capable of withstanding shocks, thereby reducing the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities"* [European Central Bank, 2009].

II. Data and methodology

For this analysis we looked at statistical data from Romania between 2000 and 2012 – from National Bank of Romania and World Bank Statistics. We have used a generalized linear model – (Quadratic Hill Climbing)-and for estimation of inflation-unemployment correlation we have use the Huber-White method - Huber-White standard errors are standard errors which have been adjusted for specified assumed-and-estimated correlations of error terms across observations.

We have used the Consumer Price Indicator *vs*. F (inflation expectancies [commercial, consumers, industrial and services], Core1, Core2, adjusted Core 2 + unemployment rate + unemployment gap[t_{n+1}-t_n]).

Dependent Variable: IPC
Method: Generalized Linear Model (Quadratic Hill Climbing)

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Sample (adjusted): 2007M01 2011M12
Included observations: 60 after adjustments
Family: Normal
Link: Identity
Dispersion computed using Pearson Chi-Square
Coefficient covariance computed using the Huber-White method with

Observed Hessian
Convergence achieved after 1 iteration

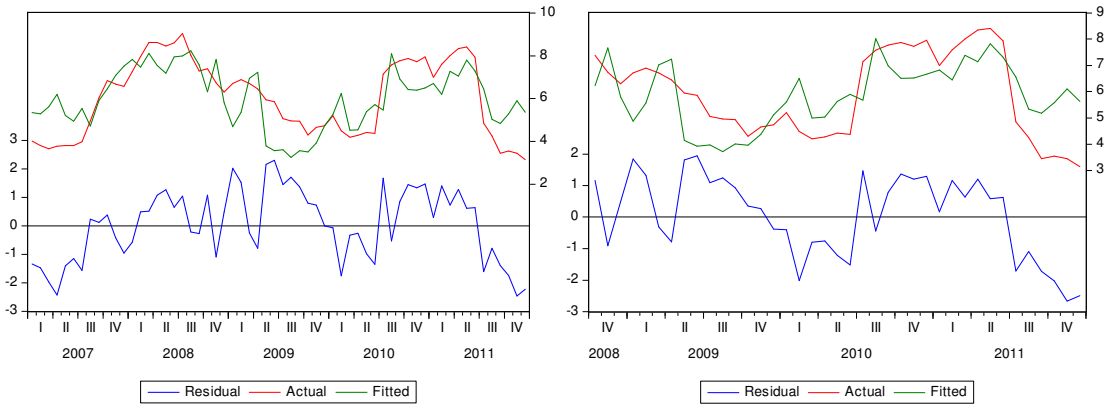
Variable	Coefficient	Std. Error	z-Statistic	Prob.
EXPCOMER(-1)	0.121830	0.009802	12.42975	0.0000
SOMAJ(-1)	0.352673	0.055954	6.302853	0.0000

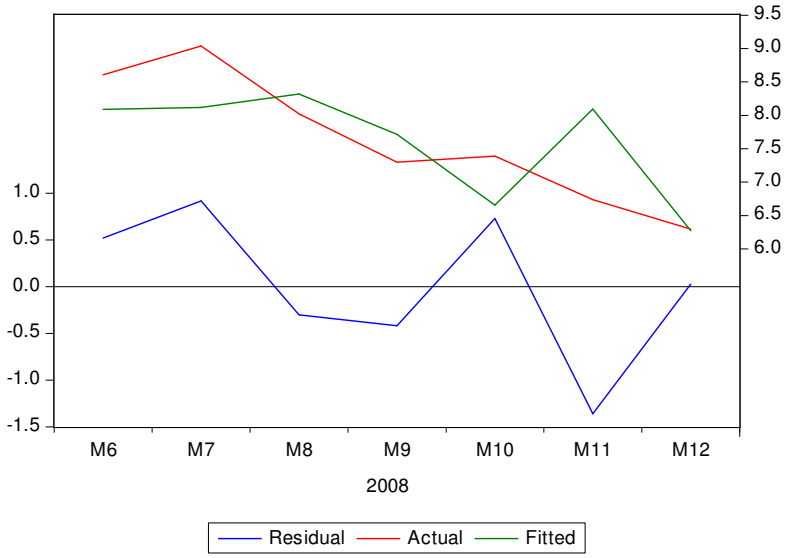
Mean dependent var	6.041167	S.D. dependent var	1.757305
Sum squared resid	93.63233	Log likelihood	-98.50429
Akaike info criterion	3.350143	Schwarz criterion	3.419955
Hannan-Quinn criter.	3.377450	Deviance	93.63233
Deviance statistic	1.614351	Pearson SSR	93.63233
Pearson statistic	1.614351	Dispersion	1.614351

As main results, we have found the following:
In our opinion, there is a transition in Romania from the adjustable inflationist expectations (in which the future value is just determined by its past values, the time horizon used depending on the memory of the individual), by the rationale inflationist expectations.
Furthermore, in Romania, the inflation expectancies are adaptive, based on the past observed realities. They are not made up of around NBR's inflation target, but are heavily influence by the high level of past consumer prices.

III. Empirical results

The Phillips curs, in our opinion, shows a really weak correlation betwenn the unemplyment and the CPI for Romania - specially caused by structural disbalances - to be seen the 2008 octomber.

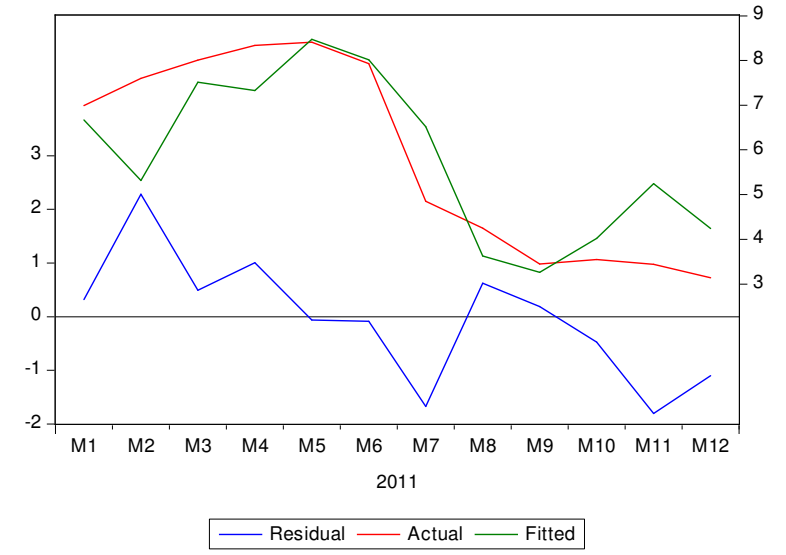




For Romania, there is a alomost unexistind corellation between unemplyment and the rate of oinflation - mainly caused by the government decision of reducting the bugetary employers.

2011:

Variable	Coefficient	Std. Error	z-Statistic	Prob.
EXPCOMER(-1)	0.228203	0.029139	7.831435	0.0000
SOMAJ(-1)	-0.145950	0.145098	-1.005873	0.3145



We cab observed in the above graphic the almost unexisting correlation between the unemployment rate and the inflation rate in Romania (stressing the Romanian Government policy of reducing the budgetary employment).

IV. Conclusion

From the standpoint of monetary policy, the reaction of central banks to the financial imbalances that broke out from August 2007 was different, depending on the particularities of the economic and financial structure of each state. However, the objective was the same and namely, to restore the health of the financial system, in such a way that economic growth and price stability at middle and long term will not be jeopardized.

At the same time, the present financial disruptions highlight the necessity that central banks give more importance to the price of assets, as they represent the main channels, through which monetary policy measures are transmitted onto the real economy.

These results indicate that the National Bank of Romania should change the instruments of monetary policy in order to give a more „eclatant" character to the inflationist anticipations (especially in the services and prices of final consumption) based on previous developments of overall pricess.

Placing rational expectation in a macroeconomic model mai dramatically affect the governemnt (or central bank) ability to aply efficiently the economic policy. As a result, the monetary base increase affect only the inflation rate, without any interfierence in the overall production or employment.

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