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THE EFFECTS OF THE LOW INTEREST RATES ENVIRONMENT ON THE ECONOMY

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ABSTRACT

Since the mid-1980s, real interest rates have continuously declined across all economies, with significant implications for the economic stability. This effect has culminated in recent years, with rates reaching historic lows, very close to zero or even crossing into negative territory. In this context, this thesis delves into the significant economic implications of the prolonged period of low interest rates in Romania, compared to other three selected CEE countries, namely Hungary, Poland and Czechia.

The first section of the thesis applies an event study approach to analyse the Romanian and CEE markets' reactions to the announcement of changes in monetary policy, revealing the cautious stance of markets in a low interest rate environment. The second section employs a two-step ECM approach and a Bayesian TVP model to estimate both the immediate and long-term pass-through rates of interest rates to the banking sector, as well as the evolution in time of these parameters. This analysis underscores the significant influence of low interest rates in stabilizing pass-through coefficients and highlights their variability over time.

Furthermore, the third section compiles various studies conducted by the author during her doctoral research, each contributing to a deeper understanding of the multifaceted effects of low interest rates on the economy. By examining these impacts through diverse models and approaches, the thesis provides comprehensive insights into how prolonged low interest rates shape economic dynamics in Romania, compared to the CEE region. This work contributes to the academic literature by focusing on the CEE region and also offers valuable information for policymakers and financial market participants navigating the complexities of a low interest rate environment.

KEY WORDS: Central and Eastern Europe, interest rates, low interest rate environment, monetary policy, financial crises

CONTENTS