

Leonardo Badea: Opening speech - 11th edition of the Annual Scientific Conference of the Romanian Academic Economists from Abroad (ERMAS)

Opening speech by Mr Leonardo Badea, First Deputy Governor of the National Bank of Romania, at the 11th edition of the Annual Scientific Conference of the Romanian Academic Economists from Abroad (ERMAS), Iai, 30 July 2025.

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Honoured speakers and audience,
Ladies and gentlemen,

On behalf of the Board of the National Bank of Romania, it is my great pleasure to welcome you to this year's ERMAS Conference. Together with our long-standing partners – Babe-Bolyai University and the ERMAS Association – we are delighted to open the eleventh edition of this important academic event here in Iai, one of Romania's most prestigious university centres.

In today's world, marked by overlapping crises and growing uncertainty, the ERMAS Conference provides a vital forum for promoting sound public policies and transparent decision-making. The National Bank of Romania has a strong tradition of working with the academic community to advance research and dialogue in key policy areas, especially those related to monetary policy and the banking sector.

This is the second time the ERMAS Conference is being held in Iai, and we are grateful to our host, Alexandru Ioan Cuza University. As the oldest higher education institution in Romania, the university is not only rooted in tradition but also highly dynamic-just like the city of Iai itself, which I encourage you to discover during your stay.

Since its first edition in 2014, the ERMAS Conference has grown into a landmark for the Romanian economic academic community. Each year, it brings together distinguished Romanian economists working abroad in leading institutions-universities, central banks, and research centres-who contribute with cutting-edge research and fresh perspectives on pressing economic and financial topics.

This year's agenda reflects a strong commitment to improve the quality of economic debate. It addresses current challenges with renewed insight and provides policy-relevant recommendations.

We are also honoured to welcome prominent professors from Oxford, UCLA, McGill, the University of Pennsylvania, and the London School of Economics. I warmly greet Professors Adams, Giorcelli, Goncalves, Marinescu, Manelici, and Vasquez, and thank them for their valuable contributions to the field of economics.

Distinguished participants,

The National Bank of Romania has long supported high-quality research as a credible source of policy advice. Our economists actively contribute to academic work, with a

particular focus on monetary policy and financial stability. I am especially proud that four papers presented at this year's conference are authored by NBR staff.

In this context, allow me to briefly address the recent economic developments that shape the current challenges faced by policy makers. We are navigating a period of deep uncertainty, both globally and at home. This stems from recent macroeconomic developments, including inflationary pressures linked to new fiscal consolidation measures.

Moreover, we face growing political and social tensions, making the job of monetary, fiscal, and macroprudential policymakers even more complex.

Uncertainty in policymaking is not a new topic. This discussion was initiated by William Brainard in his 1967 seminal article, *"Uncertainty and the Effectiveness of Policy,"* published in the American Economic Review. There, he formulated the so-called conservatism principle, which requires cautious action when policymakers are confronted with uncertainty. While originally framed in the context of monetary policy, I believe this principle remains highly relevant today, not only for monetary authorities, but equally for fiscal and macroprudential policy, especially given the prevalence of exogenous shocks to the macro-financial system in recent years.

In monetary policy, we have clearly entered a new normal. Gone is the era of ultra-low interest rates. As John B. Taylor has emphasized, effective monetary policy should be both predictable and firm, while also responsive to significant deviations of inflation from its target.

Yet today's world is far from the so-called "vanilla" environment once familiar to markets. The COVID-19 pandemic and the war in Ukraine have pushed nominal interest rates to high or even very high levels-though often still negative in real terms-across both developed and emerging economies.

In this new context, the idea that interest rates must respond strongly to inflation deviations appears to need a reconfiguration.

As Thomas Sargent and Neil Wallace pointed out in their 1981 article *"Some Unpleasant Monetarist Arithmetic,"* macro-financial shocks affect not only monetary but also fiscal policy.

Today, institutions like the IMF and the Federal Reserve are actively debating how interest rates should behave in an inflationary environment driven increasingly by adverse supply-side shocks, or cost-push shocks.

In this regard, I would like to mention a recent contribution by Adam Shapiro, currently Vice President of the Economic Research and Regional Analysis Department at the Federal Reserve Bank of San Francisco. His 2024 article focuses on disentangling the roles of demand and supply factors in inflation dynamics, a question at the core of today's policy challenges.

His work reminds us of the need to revise inflation-targeting strategies as the structure of our economies continues to evolve.

These reflections are timely and necessary across many areas of economics and finance. That is why the topics of this conference are not only relevant but also deeply welcome.

Over the next three days, we will hear and debate over research presentations on a wide range of topics, including green economics, education and financial literacy, inflation and monetary policy, development and inequality, financial markets, and behavioural economics, among others.

To conclude, I look forward to the inspiring discussions, the valuable insights from our keynote speakers, and the opportunities for connection during the social events.

With that, I wish you all fruitful debates and a meaningful experience here in Romania.