

BAYESIAN VAR EVIDENCE ON ROMANIA'S FINANCIAL MARKET MATURITY AND MACROECONOMIC DYNAMICS

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Abstract

This paper investigates the dynamic relationships between financial intermediation, monetary policy and Romania's macroeconomic performance in the context of convergence towards the standards of the Organisation for Economic Co-operation and Development. The study estimates a Bayesian Vector Autoregressive model on quarterly data covering the period 2007Q4–2025Q4, using real GDP growth, inflation, the monetary policy rate and the credit-to-GDP ratio as core macro-financial variables. The methodological contribution of the paper consists in applying a compact Bayesian dynamic framework to the Romanian case, combining stationarity testing, lag-structure diagnostics, recursive shock identification, impulse response functions, forecast error variance decomposition and robustness checks. The results indicate that monetary policy shocks generate a modest negative response of real GDP growth and a more visible negative response of inflation, although the credible intervals suggest that the magnitude of these effects should be interpreted cautiously. Credit-related shocks have a weak and short-lived effect on output growth, while forecast error variance decomposition shows that real GDP growth is explained predominantly by its own innovations. Robustness checks based on alternative lag structures and an alternative Cholesky ordering confirm that the main qualitative conclusions remain broadly unchanged. Overall, the findings suggest that Romania's macro-financial transmission mechanism is present but uneven, with the monetary policy channel appearing more identifiable than the credit-intermediation channel.

Keywords

Bayesian vector autoregression; financial intermediation; monetary policy transmission; impulse response functions; forecast error variance decomposition; emerging markets.

JEL Classification

C11, C32, E44, E52, O16

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