The IMF's Presence in Romania, Need or Opportunity

Senior Lecturer PhD. Cristina Teodora Balaceanu

"Dimitrie Cantemir" Christian University

Faculty of Marketing

Abstract: The beginnings of the transition and the implementation of the market economy principles in Romania are undesirably related to IMF. After 20 years of economic turmoil, following the negative effects induced by the financial and economic crisis, as well as by the discretionary policy measures of the Romanian governors, the return to the IMF economic policy measures shows the incipient development of the Romanian economy. The economic measures imposed by IMF are inconsistent with the anti-crisis measures of a country that is willing to protect the entrepreneurs and economy thereof.

Keywords: economic policy, program of austerity, economic crisis, IMF policies

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. IMF financing is available to give member countries the breathing room they need to correct balance of payments problems. A policy program supported by IMF financing is designed by the national authorities in close cooperation with the IMF, and continued financial support is conditional on effective implementation of this program. To help support countries during the global economic crisis, the IMF has strengthened its lending capacity and has approved a major overhaul of how it lends money. In low-income countries, the IMF provides financial support through its granting lending facilities.

IMF is mainly focused on crediting member countries with balance of payments deficits, regulated by the implementation of economic reforms and structural adjustment. The financial resources granted to the member countries are given in the form of financial assistance programs (financial incentives) for: stand-by

agreements, structural adjustment facilities, extensive facilities, grant compensatory financing facilities, credit lines, facilities to reduce poverty support growth and decrease external debt. IMF also provides technical assistance and financial advice, promote measures of macroeconomic policy (fiscal, monetary, social, foreign exchange liberalization), structural policies to stimulate the economies of member countries and develop social climate, financial and market labor reforms. IMF adjustment programs have their own costs. They cause suffering and hardship to both poor population (no price subsidies, no welfare support or wage increase) and non-producing industries (no budgetary subsidies).

State debt problem, which affected the '80s, appeared as a result of excessive indebtedness of developing countries but also the bankers' tendency to over credit or to sell credit with too much enthusiasm to the amateurs of great risks (Strange, 1997). Debt leverage trend began when OPEC quadrupled oil prices in 1973. Since many developing nations relied on imported oil, their trade balance showed severe deficits. At the same time, OPEC has recorded massive trade surpluses of which some were converted into loans to developing countries being poorly managed. The increase of energy prices in 1979 led to a further debt increase of the developing countries. The severe global crisis that began in 1981 decreased the demand for oil of many of these countries. The creditor banks chose to reschedule payments, causing developing countries to pay interest added to the already existing debts. IMF has played a central role in arranging such rescheduling, new loans and licenses for adjustment policies. These policies are meant to limit the damage and government consumption expenditure and thus increase the probability that loans should be ultimately paid. The critics who contested the role of IMF argued that some of the restrictions imposed by the IMF led to a decrease in investments and concluded therefore that the conditions were unproductive (Lipsay, Chrystal, 1999). Therefore, the IMF and World Bank imposed economic programme packages to the indebted states that required radical reforms carried out in order to create financial discipline designed to cancel external debts and to (re) open national economies to the global economy.

The assistance measures package developed by IMF in order to reduce the macroeconomic disequilibrium includes a system of models and policies derived from heterodox theories, applied depending on the socio-economic realities and needs of each member country. The policies mix includes both the IMF's policies concerning the assistance to redress the balances of payments and the financial facilities regarding the short-term monetary stabilization, as well as World Bank’s policies with respect to the assistance granted to developing countries for structural adjustments and long-term economic development. The stabilization programs assisted by IMF are also supported on long term by the World Bank, following the experience of the countries in transition, being obvious that the monetary stabilization effort may not have conclusive and

sustainable results if not supplemented and supported through structural measures.

The IMF programs include packages of programs and reform measures known as imposed conditions, making a clear distinction between objectives, tasks and instruments (David, 1985). *The objectives* of the programs are: eliminating the inflation and the economic growth, rebalancing of the balance of payments on short and medium term, adjusting the external debts, having the economic stabilization and structural adjustment as *tasks*, namely the adaptation of the aggregate expenditure level to the available budgetary resources level, both structurally and quantitatively, using monetary and financial *instruments,* such as the reduction of the monetary mass, budgetary expenditure, devaluation of the national currency, the consolidation of the financial discipline, the adjustment of the interest rate, of the exchange rate and tax rate, but also structural, such as those regarding the liberalization, the privatization, the trade policy adjustment.

During the '90s there was a great diversity in terms of reform efforts and the performances of the countries in transition to the market economy. Several key factors explain this heterogeneity, especially the substantial differences with respect to the initial conditions of each country in the transition process, the external environment, the willingness and the ability of the national authorities in implementing and maintaining the policies of economic stabilization and structural reform, with or without any support from IMF or from the international financial community as a whole. Since these factors were determinant in the transition process for a lot of countries, the assessment of the contribution of the IMF programs and of the policies thereof is difficult and requires a long time until the economic situation of the respective country improves.

In recent years, IMF has promoted second generations of reforms: the first aimed to establish the principles of market economy and to achieve the economic growth by means of applying the liberalization measures, opening the economy, eliminating the direct control of the state over the economic mechanisms, with benefits for the countries that implemented them (Hungary, Poland, Czech Republic, Slovakia, Slovenia), some countries (Bulgaria, Romania) requiring further reforms in order to complete the transition process and the second generation focuses on restoring the relationships between the public institutions, market and civil society to support the economic growth and development and the social welfare. According to Flemming Larsen (Larsen, 2002), the reforms of the second generation try to correct the market failure in the efficient allocation of the resources and also to redefine the role of the institutions, both in their dealings with the market and also the appreciation of the institutions as an interface between the market and the citizens, in order to reduce the social costs created by competitive mechanisms. Flemming Larsen identifies the main types of reform of the second generation able to achieve the consensus among the civil society, state and market: adapting the institutional reforms to the civil society needs in order to maximize the social and the competitive market

benefits, the implementation of social and economic measures to protect the collective interests, the flexibilisation of the role of the state, the application of democratic and legal principles so as to remove the negative effects of the market.

Nobody likes IMF; if someone liked it, it would be a bad sign, because IMF is the last resort lender of the national governments; it is where they go for funds when they confront with hopeless situations. And the last resort lenders are called to discipline, to offer what one needs, not what one wants, on this occasion forcing one to come to senses and do its duty (Krugman, 2009).

The international financial institution supports some very hard budgetary and monetary policy measures whose results lead to the reduction of the budget and current account deficit without taking into account the structural disequilibrium that it deepens knowingly. The IMF measures are designed to restrict the aggregate demand by reducing the public expenditure on the one hand, and increasing taxation, on the other. Applying these measures in times of economic crisis, when the social vulnerability is very high and the consumption demand is declining due to the depreciation of the purchasing power, following the rise of the unemployment and of the available income, may stop the increase of the short term budget deficit without developing into an economic growth not even on the short term because of the ingravescence of the structural deficits. The IMF rigors lead partly to the stabilization of the exchange rate by widening the action of NBR, which has positive repercussions over the importers or speculative actions. However, the increase of the imports without being accompanied by the increase of the exports, deepen the trade deficit and the external debt. The necessary economic measures under conditions of crisis and for the economic recovery on the medium and long term are outside the IMF's view, as they aim to stimulate the investments through fiscal and monetary support measures. IMF financing supports the economy only on short term and the opportunity cost might be monitoring the income and expenditure flows at the national economy level. However, it is a much too high price!

The agreement with IMF and the European Commission by which Romania contracted a loan of about EUR 20 billion has been long debated, the opposition and some of the business analysts accusing the Government that it runs into debt uselessly and for costs that Romanian taxpayer will bear with great difficulty.

- ✓ the IMF reproached the Government with the impossibility of monitoring the arrears in areas other than the state budget, areas pertaining to the consolidated state budget. The IMF's interest to reduce the arrears is related to the reduction of the public expenditure and in particular the increase of the competition in the public-private sector, as a prerequisite for the markets liberalization.

- ✓ new targets have been set for the public companies expenditure: the IMF has identified along with the Government's representatives ten enterprises, with the greatest difficulties, for which there were set certain targets for expenditure. This is a new requirement included in the Agreement indicating legal changes that allow the Government to closely monitor these companies, in particular regarding the establishment of the wage size and salary increases. This measure is appropriate because the wage pressures in the public sector lead to unsustainable public expenditure, in the detriment of the public investments related to production, having real impact on employment rate. In addition to the reductions of salaries and arrears, the Government should reduce the amount of the expenditure for unsustainable public procurement in order to support business incentive measures.
- ✓ redundancies or the reduction of the wages in the public sector is the Government's option in order to achieve the budget deficit target
- ✓ achievement of the BNR's inflation target.

The use of economic policy measures proposed by the IMF in Romania must not be seen in terms of choice but of necessity. As noted, the IMF financing has a lower cost compared to the attraction of the funds from the international financial markets, under conditions of lack of liquidity. Furthermore, the measures to improve the allocation of the public funds proposed by the IMF are meant to draw attention to the need for the administrative and budgetary reform. Romania should take measures to increase the transparency of the monetary flows, the fiscal predictability, and control of the performance of the financial resources allocation and, perhaps, under such circumstances, the relationship with IMF would become an option. In addition to these measures, Romania needs the stimulation of the entrepreneurship initiative and the measures to support the interest for the market.

Paradoxically, the reform measures recommended by the IMF are more intended to maintain the instability and the economic decline, than to reduce or eliminate them: the taxation increase, the budgetary expenditure reduction, the maintenance of the monetary restrictions are contrary to the policies to support the economic growth. These measures of restrictive economic policy will have the expected effects (reducing the budget deficit, the external balance of payments deficit) if accompanied by structural reforms to improve the real competitiveness of the economy, to facilitate the access to the sale markets for the domestic producers, through the support of the development thereof and the implantation thereof on the markets, through strong

measures to eliminate the subterraneous economy. Moreover, it is currently felt the lack of liquidities in the economy, which entails the need to recapitalize the production national systems by the punctual and timely intervention of the state. This approach is not to please the IMF, as the institution promotes liberal policies, in the view thereof; the state has the role to improve the economic practices with measures pertaining to the equilibrium of the national economy balance.

References:

W. L. David, 1985, *The Macroeconomics of Stabilization, Structural Adjustment, and Economic Development*, Praeger, New York

Paul Krugman, 2009, *The Return of Depression Economics and the Crisis of 2008*, P Publica Publishing House, Bucharest

F. Larsen, 2002, *The Global Financial Architecture in Transition*, OECD, March 11

Susan Strange, 1997, *State and market*, Institutul European Publishing House, Iaşi

Richard G. Lipsay, K. Alec Chrystal, 1999, *Positive Economy*, Economica Publishing House, Bucureşti