# ANALYSIS OF RELATIONS BETWEEN ROMANIA AND IMF IN THE CONTEXT OF GLOBALIZATION

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**ABSTRACT**
*The objective of this paper is to analyze the relations between Romania and the IMF in the context of the IMF member state status of our country. Romania is a member of the IMF, full in 1972. Since then Romania has obtained a series of rights and at the same time must comply with certain obligations arising from these rights. The IMF is an international organization which has 183 member countries, founded in July 1944, at the end of a monetary conference, organized in small town Bretton Woods. The conference ends with the drafting of the IMF status draft, which will become a reference text for the functioning of the international monetary system. The broad guidelines given to the Monetary Fund at the end of this conference, in general, are still valid today. and for providing temporary financial assistance to countries, under appropriate security conditions to help adjust the balance of payments*

**KEYWORDS:** *Romania, monetary fund, globalization, loans*

## 1. INTRODUCTION

The Monetary Fund was set up to promote international monetary cooperation, currency stability and systematic currency agreements, to stimulate economic growth and high levels of labor use and to provide temporary financial assistance to countries, under appropriate security conditions to help when adjusting the balance of payments.

The goals pursued by the IMF have remained the same since its inception. The operations include financial supervision and assistance, which have evolved to meet the demands of the changing world economy.

Currently, political changes in Central and Eastern Europe are profound, so a return to communist governments and the system of command economy can be ruled out. The transformation strategies implemented by these countries are marked by what is known in the literature as "IMF conditioning", as a result of the policy promoted by the IMF through the stabilization programs it has imposed for decades with member countries with monetary imbalances, most of them belonging to the third world, to which the IMF and the World Bank have granted loans to support their weakened national currency.

The present degree work focuses on a theoretical approach, through an adequate analysis of the economic trends and of the related factors, both regarding the subject of the evolution of the Romanian economy and that of Romania's relations with the International Monetary Fund. In this regard, volumes of economic profile were used.

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## 2. INFLATION AND DEFICIT

The current account deficit increased by 68% compared to 2017, decreasing its share in GDP to 8.8% in 2017, but it did not constitute a factor of pressure on the external balance, being covered almost entirely by capital transfers, direct investments and portfolio investments.Romania is on a positive direction in terms of inflation: since 2000, the disinflationary process has slowed down. At the same time, for the period 2013-2019, a tight fiscal and monetary policy was envisaged, aimed at controlling inflation, given that "economic growth is expected to be close to potential GDP, ensuring long-term economic stability.

**Table 1. The evolution of inflation and the current account deficit**

| Indicators | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Inflation (Dec/Dec - %) | 40,7 | 30,3 | 17,8 | 14,1 | 9,3 | 8,6 | 5,5 | 4,5 | 3,5 |
| Current account deficit (%PIB) | -3,7 | -5,5 | -3,3 | -5,8 | -8,4 | -8,7 | -8,7 | -8,6 | -8,2 |

*Source:* National Institute of Statistics, National Forecast Commission, 2019

It also aims to reach the medium-term objective, namely to reach a level of inflation comparable to that of the European Union, an objective supported by "reducing inflationary expectations, in particular by adopting the monetary policy strategy of direct targeting of inflation, increasing more moderate of the regulated prices compared to the previous periods and of the continued appreciation in real terms of the national currency against the Euro, but also of the Government's commitment to a prudent wage policy (Jianu et al., 2019).

The construction and execution of Romania's budget have undergone evolutions over time, especially in the period 2015-2017. On the one hand, the budgetary construction was marked by the need to support structural reforms in general and the social measures generated by the recalculation of pensions and granting salary increases, as well as to cover the need for funds to finance activities and structures with deficiencies in preparation for the process. of accession to the European Union (Burlacu et al., 2018a, b), expenses incurred by some health recorelations as well as the elimination of the effects of the floods (Profiroiu et al., 2019).

**Table 2. Financial indicators**

| Indicators | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Government debt % | 24,7 | 24,3 | 23,8 | 20,7 | 18,0 | 15,2 | 15,1 | 14,6 | 14,6 |
| Budget expenditure with interest | 3,8 | 3,2 | 2,2 | 1,6 | 1,3 | 1,2 | 1,1 | 1,0 | 1,0 |

*Source:* Ministry of Public Finance

## 3. THE GENERAL CONTEXT OF ROMANIA'S RELATIONSHIP WITH THE IMF

Romania became a member of the IMF on December 15, 1972 and as such has benefited from loans and exercised some rights. Thus, our country has made use of both current loans in installments, as well as stand-by loans and compensatory financing (Ionita, et al. 2009a, b). Holding, according to the statute, a number of votes corresponding to the participation quota, Romania contributed to the IMF's

decision in the Board of Governors, in which the Minister of Finance is the governor for our country, and the Governor is the Governor of the National Bank.
Our country participated actively in the work of the Committee of the 20 for the reform of the monetary system during 1972-1974 and then in the work of the Interim Committee for the changes of the IMF status (1974-1976). After resuming normal relations with this institution, realized in 1990, Romania concluded four stand-by arrangements with the IMF, in 1991, 1992, 1994 and 1997. Each of the objectives of these agreements corresponded to a special conjuncture of the respective period. Thus, the first two were aimed at a strong attack against inflation, while the last two aimed at restoring the economy and especially the agricultural sector (Bran et al., 2018a).
Immediately after the abolition of the communist regime, Romania began to face the problem of a large external deficit (Burlacu et al., 2018). Estimated at about $ 1.5 billion annually, it represents about one third of the country's annual exports, thus reaching the critical threshold of foreign financing capacity.
This extremely serious situation was caused by a complex of internal and external factors that acted convergently to the detriment of Romania (Rădulescu et al., 2018a, b):

- the abrupt, unprecedented collapse of the Romanian exports under the conditions of the disintegration of the Eastern economic bloc and of the voluntary reduction of the deliveries to the weak developed countries, which are in technical incapacity to pay;
- the increased rigidity of imports, which remained at over $ 5 billion annually, despite poor production performance in general and exports in particular;
- the urgent need to cover through imports the necessities of basic foodstuffs. Especially in 1991 and 1992, the country's agricultural production decreased considerably, both as a result of unfavorable climatic conditions, and, especially, due to the rapid disintegration of the property relations in agriculture, whose clarification dragged on more. than anticipated
- the unfavorable international situation, marked by the recession in the main industrialized countries, by the Gulf crisis, which strongly affected the commercial and financial flows of the country, as well as the embargo imposed on Serbia by the United Nations.

In this extremely critical situation of the balance of payments, the conclusion of agreements with the IMF appeared as a pressing necessity, in order to allow, without major convulsions, the difficulties of external payments, caused mainly by the degradation of the trade balance. After the foreign exchange reserves were exhausted, the agreements with the IMF allowed the avoidance of the cessation of foreign payments - which would have had a dramatic effect for the credibility of Romania.
Each of the agreements with the IMF also aimed to support the internal effort of reform and economic restructuring, both through the direct financial leverage, represented by the foreign exchange resources made available by the Fund for Romania, and - perhaps more importantly - by the "green wave" given to the investors. foreigners and the international financial community. It should be mentioned that the economic programs that were the basis of the arrangements with the IMF and which, through the approval of the Romanian Parliament, gained legal power, constituted the coherent core of measures that allowed the reform and cooperation between the main financial institutions.
The International Monetary Fund occupies a special place among the external creditors of our country, not so much because of the volume of credits that Romania has benefited and benefits from, especially the message that this specialized institution of the United Nations sends to other international bodies, banks and, not lastly, to capital investors and other businessmen regarding the state of the economy, finance and national currency.

### 3.1.The financial assistance granted to Romania by the IMF

The financial assistance for Romania has materialized in loan programs of the Stand-by Agreement type. Since 1972, Romania has used IMF resources on twelve occasions (detailed below) as financial support for the government's economic programs. However, the stand-by agreement approved in July

2004 and the one in March 2011 were of preventive type, for 24 months, from which the Romanian authorities did not intend to draw.

On May 4, 2009, the IMF Board of Directors approved a new 24-month stand-by agreement, amounting to DST 11.44 billion (EUR 12.95 billion)" as part of an international financial package that includes another EUR 5 billion. Through the European Union's facility to support the balance of payments, EUR 1 billion through World Bank DPL programs and EUR 1 billion from other international institutions.

On March 25, 2011, on the occasion of the seventh assessment under the Standing By-Agreement 2009-2011, "the Romanian authorities informed the Board that the last tranche, the eighth installment, worth 874 million. On the same occasion, the Board approved the request for a new Stand-By Agreement, for a period of 24 months, amounting to DST 3090.6 million, respectively 300 percent of the quota. The authorities have expressed their intention not to draw from this new agreement. The total of the loans not repaid at the end of February 2011 amounts to DST 10569 million, respectively 1025.52% of the share.

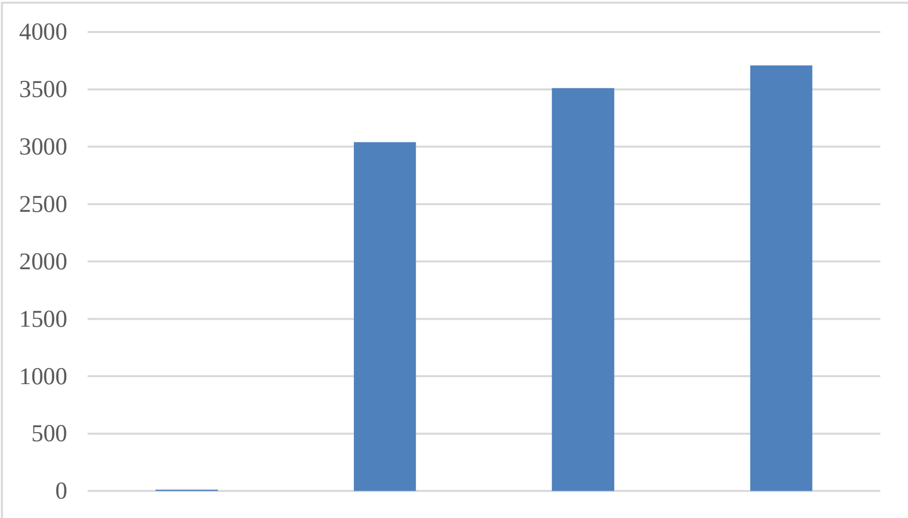


**Figure 1.** List of agreements concluded between Romania and the IMF between 2011-2017

*Source: author*

## 4. CONCLUSIONS

The IMF is quite right in the eyes of most people because it faces serious problems in almost all compartments, from the structure to the success or in most cases the failure of the programs. For these above statements there are some plausible arguments attesting to the above. The first thing that drew my attention, in a negative way, to the IMF was the decision-making method, namely the distribution of the number of votes. Within this institution there are states that have a veto right, a veto right that can often be used to block important decisions, and which are very often used for the benefit of certain groups of states or for the benefit of a state.

This institution also enjoys a record. It is, probably, the only institution where the money has its decisions because for 100,000 dollars paid into the IMF account you get the right to an extra vote. Due to this policy, it has now emerged that there are states that hold about 1/5 of the votes, respectively the US, which holds somewhere around 18% of the voting rights, which gives me the right to believe that institutions like the IMF or the World Bank are dominated or even manipulated by the US. Also, there are at least two principles of the IMF that raise some suspicions, namely increasing the level of trust of the organization, respectively the economic development of all members.

Experts and analysts of critical renown, however, the "double language" of the IMF, an organization currently challenged by many countries, including Russia, China, Brazil, and many states have withdrawn from IMF aid or even left the organization. Also during the Asian crisis of 1997, many countries such as China, Malaysia or South Korea have given up the advice they received from the IMF and used opposite strategies from the IMF to get out of the crisis. All these things are due to the mistrust of this institution and its ability to improve the financial situation in these countries.

The second principle, regarding the economic development of all members, remains an ideal in appearance. This was never really wanted, but it was included in the IMF statute to capture the trust of many members. The objective of the IMF was to prevent the big world economies from falling back into the 1930s, when monetary devaluation and unilateral economic policy decisions aggravated world tensions. So new members like Tuvalu (most recent) do not expect miracles from the IMF.

Many people believe that IMF support can lead to the economic development of a country. Most of the time the IMF "works" with third world countries or poor countries, which most likely have a corrupt government willing to work with the IMF, to get rich. The price paid by these countries to the IMF is very steep. The IMF imposes drastic economic conditions for the countries that appeal to it: privatization, liberalization of capital markets, liberalization of prices and trade liberalization.

After more than 60 years of activity, we look with fear at some failures of the IMF, and we wonder again whether the purpose of the IMF is to maintain a smooth functioning of the international monetary system or to help the stability of large economies. For this question we should list some of the failures of the IMF: Argentina, Brazil, Venezuela, Chile, Mexico, Jamaica, Liberia, Somalia, Zair, Nigeria, Zambia, Sudan, Algeria, Ghana, South Africa, Pakistan, Indonesia, Malaysia, South Korea, Russia (and former USSR states), Iraq, Bosnia & Herzegovina and the list can go on.

Despite these earthquake IMF data, however, many states are currently awaiting an agreement with the IMF, which is unconditionally subject to the IMF in order to obtain those millions or billions of dollars promised.

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