The History of Romania's Relations with the International Monetary Fund

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Abstract: The International Monetary Fund aims primarily at ensuring the stability of the international monetary system more specifically the international payment system which allows countries and their citizens to buy, sell goods and services between them. This is essential for sustainable economic growth, improvement of life standards and reducing poverty all around the world. The goals of Romania's agreements with IMF subscribe these parameters, mostly the current one, this being emphasized by the economic recession and the necessity of reducing fiscal imbalance in order to attain a deficit with normal values acceptable in the EU. These include: maintaining the inflation at the range aimed by RNB, ensuring a sufficient external financing and improving credibility, the attempt to amortize the effects of severe capital absorption and resolution for Romania's external and fiscal imbalances and consolidation of the financial area.

Keywords: economic agreement; external financing; economic reforms; stand-by arrangements; special drawing rights

JEL Classification: N00; N10; N13

The International Monetary Fund is the main organization which reunites 186 member states and it was founded in order to promote international monetary cooperation for contributing to the economic growth more of the states in economic difficulty by giving them temporary economic and financial assistance (V.Domescu, 2008, Iasi). The necessity for creating the International Monetary Fund, known as well as IMF or the "Fund", was initially spread in July, 1944 during the Conference of the United Nations which took place in Bretton Woods, New Hampshire (United States), by the representatives of the 45 member states. The delegates agreed to establish a framework for economic cooperation in order to prevent a reiteration of the economic crisis from the '30 when the economies of the majority member states were significantly affected and disrupted the economic and financial balance both at global and state level. Consequently, in December, 1945, the institution of the International Monetary Fund began to function.The IMF formation process was rushed so that the end of the Second World War not to take by surprise the economies of the belligerent states and those of the neutral ones, the transition from the war production to that of peace being utterly risky in the context of commercial exchanges disorganization from the half of the century. Also, among the targets of the Big Three expressed with the occasion of various meetings during the war, there is included responsibility assumption with respect to ensuring support to the states which underwent major economic and material losses after the conflict aiming that in the future no other country imbalance the world. In order to attain these goals, the members states had to agree upon respting mutual obligation like:

1. Transparency of the economic data necessary to conducting operations specific to IMF;

2. Elimination of restrictions regarding payments and transfers of current international transactions;

3. Elimination of discriminatory monetary practices;

4. Convertibility, on demand, of the currency sums owned by other states (Brezeanu & Poanta, 2003)

Romania has been a member of the International Monetary Fund since 1972, currently having a contribution of 1030, 2 mil. SDR or 0,47% from the total share. Romania owns 10 552 votes, representing 0, 48% out of the total. Within the framework of IMF, Romania has been included in the category of constituent countries along with Holland, Ukraine, Israel, Cyprus, Moldavia, Georgia, Armenia, Bulgaria, Bosnia Herzegovina, Croatia, Macedonia and Montenegro. This group of countries is represented in the Executive Council of IMF by a Dutch executive director. Within the office of the executive director, Romania has a representative who is the councilor of the director. Romania's governor at IMF is the governor of RNB; the alternate governor is the State Secretary from the Ministry of Economy and Finances. Romania accepted the obligations stipulated in the Article no. VIII of the IMF status, on March 25, 1998 (Moisuc & Gurgu, 2006). After Romania's adhesion to IMF, our country has become an active member in the reform of the international monetary system and in its status modernization as well.

Through this, Romania plight not to resort to the introduction of restrictions with respect to payments and transfers for current international transactions and not to participate to discriminatory exchange arrangements or multiple practices without the approval/consulting of IMF.

From 1991, the financial assistance given by IMF materialized through the approval of eight stand-by arrangements. On May 4, 2009 the Council of Executive Directors of IMF approved Romania's solicitation with respect to closing the agreement for a periode of two years amounting to 11,4 billions SDR. (approximately 12,9 bn. Euros or 17, 1 bn. USD) and the release of the first block amounting to 4, 37 bn. SDR (approximately 4,9 bn. Euros or 6, 6 bn. USD). At the beginning of 2008, RNB overhauled through buying the sum of 75, 95 bn. SDR (representing the allocation of SDR, meaning special drawing rights received from IMF during 1979-1981 and used in 1990). As a member state with full rights, Romania give to IMF information and makes annual consulting with this international financial organization in compliance to the articles of IMF status.

IMF resources reside from the member states, mainly through the payment of taxes which generally regard the economic potential of every particular state. The annual cost for the institution administration covers principally the difference between the income from interests (for arrear credits) and interests payments (on evaluation used to finance at the level "of reserves" for loans). However, the member states agreed recently to adopt a new model of incomes which. Member states pay 25% out of the subscription quota in SDR or in international currency such as the American Dollar or Japanese Yen. (Brezeanu & Ponta, 2003)

Each states' quotas are determined by their position in the world economy, the bigger the economic results are, the higher the commerce volume is, the more significant the quotas will be. From the moment of the adhesion to IMF, every country contributes with a certain sum of money called "quota subscription". After the revaluation from 1998, quota subscription increased with 45% amounting to 216.75 bn. SDR (approximately 323.31 bn. USD) IN January 1999. The revaluation from 2003 did not bring any quota modifications. In 2006, the quotas were risen with 1.8, this action being registered in a program of reforms which unfolded on a period of two years. In 2010, the total quotas was amounted to 217.4 bn. SDR approx.. 346 bn. USD. (Dornescu, 2008)

Most funds given by IMF for loans come from member states, mainly from taxes. The preferential loans and debts abatement for countries with short incomes are financed through trust funds. Each member state receives a quota generally based on the economic dimension in proportion to the world economy determining its contribution to the institution. When a country becomes a member state of the Fund with full rights, it will mostly pay up to a quarter from its quota of largely accepted currency: American Dollar, Euro, Yen and Great Britain Pound or in special drawing rights (SDR). The rest of three quarters is paid in its local currency.

Before 1989, Romania, on terms of criteria fulfilment, succeeded in closing with IMF three stand-by economic agreements, ,according to which it had the right to buy large sums of currency from the IMF during a particular period of time.

During these agreements with the Fund, the Romanian state benefited from loans as follows: on October 3, 1975, Romania received special drawing rights amounting to 95 mil. , the agreement being ended in twelve months, on October 2, 1976. During the second agreement, approved on September 9, 1977 and closed on September 8, 1978 Romania received 64,1 mil. SDR. The third agreement with IMF had in view 1.102,5 mil. SDR but it was voided on January 14, 1984 by the Romanian party which succeeded in drawing approx. 817,5 mil. SDR. However, till the end of the '90, Romania managed to acquit its entire debts to IMF and the other states. After the fall of the communist regime and Romania's adopting the standards of free economic exchange, its relations with the international financial organizations improved substantially. On April 11, 1991 it was closed a twelve months agreement amounting to 380,5 mil.SDR which aimed improve the economic reform, the banking system and to create proper economic and legislative conditions specific to the market economy, goals which unfortunately, did not completely materialized. On may 29, 1992 a second agreement was closed between the two parties, the sum amounting to 314 SDR in ten months, but this did not turn out as expected given the late adoption of specific measures for the liberalization of the Romanian economy. The third financial economic agreement after 1990 was signed on May 11, 1994 for a sum of 3012,5 mil.SDR. The agreement was partially fulfilled in the sense that the targets were not fully accomplished due to Romania having failed to control and decrease the inflation given the planned standards, its delay in restructuring the financial-banking system and the non elimination of the subventions for the inefficient state producers). The fourth stand-by agreement, on April 22, 1997 was closed on a three months period and aimed to draw 5 semestrial portions amounting to 301,5 mil.SDR in order to attain a deficit budgetary bar of 4,5 from GDI, the increase of the RNB reserves, the decrease of the inflation, etc. These goals' non achievement deepened Romania's economic crisis, the low economic performances forcing it to close a new agreement with IMF on August 5, 1999 which was amounted to 400 SDR yet preserving the same economic and financial objectives. On October 31, 2001 Romania closed another agreement of 300 SDR in order to consolidate its economic growth simultaneously with the acceleration of structural reforms. On July 7, 2004 it was closed a 250 mil SDR agreement which would be cancelled in 2005 as a consequence of the divergences between the two parties, thus making the agreement one of preventive supervision. On April 24, 2009 Romania solicited the closing of a new stand-by agreement amounting to 11,443 bn. SDR (approx. 17 bn. USD/ 12,95 bn. Euros). In order to obtain this financing, Romanian authorities presented their arguments for adopting the economic program and described their economic policy objectives. The achievement of these goals depended on:

- a continuous consolidation of the fiscal policy for reducing the financing necessities of the Government and for improving the long term fiscal sustainability;
- maintaining an adequate capitalization of banks and of the liquidities on the national financial markets;
- the assurance of sufficient external financing and the improvement of credibility.

Romania is expected to continue having a good drawback capacity towards IMF. The maximal level of the drawback credit in 2011 will be of 31,6% out of the gross reserves. In 2013 and 2014 the peak payment will be at the manageable levels of 12,8% respectively 14,5 % out of the gross reserves.

Conclusions

Although in comparison to the initial program of the stand–by agreement, the external debt will have a slightly higher level as a percentage from the GDI due to the severe economic contraction, the level of the reserves will be higher as well due a more rapid contraction of de current deficit and of the unexpected evolutions with respect to the capital account. More precisely, till the end of the agreement, the Fund's opening towards Romania is projected to represent approximately 10 % out of GDI, slightly over 30% from gross reserves (comparatively with 40% as stipulated in the initial program).

Though this opening is still large, the risks for non drawbacks are diminished by the relatively reduced level of the public debt. Reportedly the level of the public debt will remain low (under 34% out of GDI), with a peak of the external public debt of approx. 13% out of GDI till the end of 2011. The strong political commitment towards the program sustained by SBA with the IMF and the excellent history with respect to the external obligation service represents a supplementary guaranty for Romania's fulfilment of its financial obligations towards IMF. Even there are many scenarios for Romania's escaping this crisis, it seems that the agreement continuation with the International Monetary Fund is currently the only viable solution.

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