Romania's Relationship with the International Monetary Fund and the World Bank

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Abstract

The main mission of the International Monetary Fund is to ensure the stability of the international monetary system, the exchange rate and international payments system that allows countries and citizens to trade with each other. The IMF performs 3 main functions: supervision, technical assistance and lending.

We chose this topic because we believe that Romania has a lot to gain from this collaboration with the IMF and the World Bank. For a more innovative and prosperous standard of living, we appreciate that Romania must strengthen compliance with European norms, be more imposing in achieving the objectives that European partners propose for sustainable development.

Key words: IMF, World Bank, stability of the monetary system
J.E.L. classification: E5, E50, E52, E59

1. Introduction

Founded at the Bretton Woods conference in 1944, the two institutions have complementary missions. The World Bank Group works with developing countries to reduce poverty and increase shared prosperity, while the International Monetary Fund serves to stabilize the international monetary system and The World Bank Group provides financing, policy advice and technical assistance to governments and also focuses on strengthening the private sector in developing countries. The IMF keeps track of the global economy and in member countries. loans to countries with balance of payments difficulties and provides practical assistance to members.Also, countries must join the IMF to be eligible to join the World Bank Group. Currently, both institutions have 189 member countries.

The World Bank Group is one of the largest sources of funding and knowledge in the world for developing countries. Its five institutions are committed to reducing poverty, increasing common prosperity and promoting sustainable development.

Together, the International Bank for Reconstruction and Development - IBRD and the International Development Association - IDA form the World Bank, which provides financing, policy advice and technical assistance to governments in developing countries. IDA focuses on the poorest countries in the world, while IBRD helps middle-income and poorer credit countries.

The International Finance Corporation - IFC, the Multilateral Investment Guarantee Agency - MIGA and the International Center for the Settlement of Investment Disputes - ICSID focus on strengthening the private sector in developing countries. Through these institutions, the World Bank Group provides financing, technical assistance, political risk insurance and dispute resolution to private enterprises, including financial institutions.

The International Monetary Fund - IMF works to encourage global monetary cooperation, ensure financial stability, facilitate international trade, promote high employment and sustainable growth and reduce poverty around the world.

The main purpose of the IMF is to ensure the stability of the international monetary system - the system of international exchange rates and payments that allows countries and their citizens to trade with each other. It does this by tracking the global economy and the economies of member countries, lending to countries with balance of payments difficulties and providing practical assistance to members.

2. Literature review

The main mission of the International Monetary Fund is to ensure the stability of the international monetary system, the exchange rate and international payments system that allows countries and citizens to trade with each other (Ilie D., 2012).

In order to maintain uniform stability and prevent crises in the international monetary system, the International Monetary Fund monitors Member States' policies and possible economic and financial developments at national, regional and global levels through a formal system known as surveillance (Bran P., Costica I., 1999). The International Monetary Fund provides advice to member countries and promotes policies aimed at fostering economic stability, reducing vulnerability to economic and financial crises and significantly raising living standards. At the same time, it provides regular assessments of the global outlook in the World Economic Outlook, the evolution of public finances in the Fiscal Monitor and the external positions of the largest economies in its report on the external sector, all in addition to a number of regional economic perspectives.

Lending to member countries facing real or future financial problems is a key responsibility of the International Monetary Fund. Individual country adjustment programs are designed in close cooperation with the IMF and are financially supported by the IMF, and continued financial support depends on the effective implementation of these adjustments.

In response to the global economic crisis in April 2009, the International Monetary Fund strengthened its lending capacity and approved a major overhaul of its financial support mechanisms, with further reforms adopted in the coming years.

These major changes have enhanced the IMF's crisis prevention toolkit, strengthening its ability to mitigate errors during systemic crises and enabling it to better adapt its tools to meet the needs of each Member State (Brezeanu P., Simon I., Novac LE, 2005).

Borrowing resources available to low-income countries rose sharply in 2009, while the average limits on IMF-managed concessional lending facilities doubled. The access limits within the IMF's non-concessional lending facilities were again checked and increased in 2016, when the conditions for efficiency for the 14th revision were met. In addition, zero interest rates on concessional loans have been extended until the end of June 2019, and the interest rate on emergency financing is set at zero. Finally, borrowing resources amounted to SDR 11.4 Billion (with SDR 0.4 billion above the target) to support the IMF's concessional lending activities over the next decade.

The IMF provides technical assistance and training to help member countries build better economic institutions and build human capacity. This includes, for example, the design and implementation of more efficient policies for taxation and administration, expenditure management, monetary and exchange rate policies, supervision and regulation of the banking and financial system, legislative frameworks and economic statistics.

Membership shares are the main source of financial resources for the International Monetary Fund. The share of a member largely reflects its size and position in the world economy (Brezeanu P., Poanta D., 2003).

The IMF constantly conducts general rate analyzes. The last revision (the 14th revision) was completed in 2010, and quota increases became effective in 2016.

This revision doubled quota resources to SDR 477 billion (approximately $ 661 billion). In addition, credit agreements between the IMF and a group of members and institutions provide additional resources of up to approximately SDR 182 billion (USD 253 billion) and are the main fund of installments.

As a third line of defense, member countries have also pledged bilateral loans to the IMF, totaling approximately SDR 317 billion ($ 440 billion).

The International Monetary Fund is responsible for the governments of its member countries.

At the top of its organizational structure is the Board of Governors, consisting of one governor and one additional governor from each member country, usually the top officials of the central bank or the Ministry of Finance. The Board of Governors meets once a year at the annual meetings of the IMF-World Bank.

Twenty-four of the governors are on the International Monetary and Financial Committee or the IMFC, which advises the IMF Executive Board on the oversight and management of the international monetary and financial system.

The day-to-day work of the IMF is overseen by its 24-member Executive Board, which represents all members and is supported by IMF staff. The Director-General is the Head of the IMF and the Chairman of the Executive Board and is assisted by four Deputy Directors.

Founded in 1944, the International Bank for Reconstruction and Development - soon to be called the World Bank - has expanded into a closely associated group of five development institutions. Initially, its loans helped rebuild countries devastated by World War II. Over time, the focus shifted from reconstruction to development, with a strong focus on infrastructure such as dams, power grids, irrigation systems and roads.

With the founding of the International Finance Corporation in 1956, the institution became able to lend to private companies and financial institutions in developing countries.

The establishment of the International Development Association in 1960 put a greater emphasis on the poorest countries, part of a constant shift towards poverty eradication becoming the main objective of the Bank Group.

The subsequent launch of the International Center for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency further complemented the Bank Group's ability to connect global financial resources to the needs of developing countries.

The last 70 years have seen major changes in the world economy. Meanwhile, the World Bank Group - the world's largest development institution - has worked to help more than 100 developing and transition countries adapt to these changes, providing loans and tailored knowledge and advice. The banking group works with governments, the private sector, civil society organizations, regional development banks, think tanks and other international institutions on issues ranging from climate change, conflict and food security to education, agriculture, finance and trade. Political Economy of the World Bank, 2009).

All these efforts support the two objectives of the Bank Group to end extreme poverty by 2030 and to stimulate the common prosperity of the poorest 40% of the population in all countries.

Today, the Bank Group's work covers almost all important sectors for combating poverty, supporting economic growth and ensuring sustainable gains in the quality of life of people in developing countries (Luchian D., 1992). Although the selection and design of solid projects remain paramount, the Bank Group recognizes a wide range of factors that are critical to success - efficient institutions, sound policies, lifelong learning through evaluation and knowledge exchange and partnership, including with the private sector. long-term with more than 180 member states and reaches them to address increasingly global development challenges (World Bank Assistance to the Financial Sector, 2006).

On critical issues such as climate change, pandemics and forced migration, the Bank Group plays a leading role because it is able to convene discussions between its country members and a wide range of partners (Luchian D., 1992). It can help address crises while building the foundations for long-term sustainable development.

The evolution of the Bank Group was also reflected in the diversity of its multidisciplinary staff, which includes economists, public policy experts, industry experts and social scientists, based in Washington, D.C. and in the field. Today, more than a third of the staff relies on offices in the country. Because the demand for its services has increased over time, the Bank Group has grown to meet them. Looking ahead, the World Bank made four loans totaling $ 497 million in 1947, compared to 302 commitments totaling $ 60 billion in 2015.

3. Research methodology

The working method is the one of documentary research in archives, of qualitative and quantitative type. I used the documents archived within the International Monetary Fund and the World Bank. The archive information was supplemented by reading several books and specialized articles, which deal with the topic of research. We also used scientific research papers and interviews with dignitaries involved in Romania's relations with the IMF and the WB in the current period. The statistical information identified in the archive documents was synthesized, analyzed and processed in the form of tables and graphs, which will be found during the research.

4. Romania's relationship with the International Monetary Fund

Romania has been a member of the IMF since December 15, 1972 and is part of the team led by the Netherlands, Anthony de Lannoy is the Executive Director of Romania within the International Monetary Fund.

The fund has had a resident representative for Romania since 1991. As of September 2019, the IMF's resident representative in Romania is Nadeem Ilahi, who previously held the position of head of mission for Bosnia and Herzegovina, Albania and Montenegro.

Romania's share of the IMF amounts to SDR 1,811.4 million or 0.38% of the total share. Romania's voting power is 19,579 votes representing 0.39% of the total.

Financial assistance: as a member of the IMF, Romania has used the institution's resources on 13 occasions (detailed below) as financial support for the government's economic programs.

Table no. 1 - Loans granted by the International Monetary Fund to Romania

Type of agreement	Date of approval	Expiration or termination date	Approved amount (SDR million)	Amount drawn (millions of SDRs)
Stand-by	03/10/1975	02/10/1976	95,0	95,0
Stand-by	09/09/1977	08/08/1978	64,1	64,1
Stand-by	15/06/1981	14/01/1984	1.102,5	817,5
Stand-by	11/04/1991	10/04/1992	380,5	318,1
Stand-by	29/05/1992	28/03/1993	314,0	261,7
Stand-by	11/05/1994	22/04/1997	320,5	94,3
Stand-by	05/08/1999	28/02/2001	400,0	139,8
Stand-by	31/10/2001	15/10/2003	300,0	300,0
Stand-by	07/07/2004	06/07/2006	250,0	0,0
Stand-by	04/05/2009	03/05/2011	11.443,0	10.569,0
Stand-by	25/03/2011	15/03/2013	3.090,0	0,0
Preventive stand-by	25/09/2013	24/09/2015	1.751,3	0,0

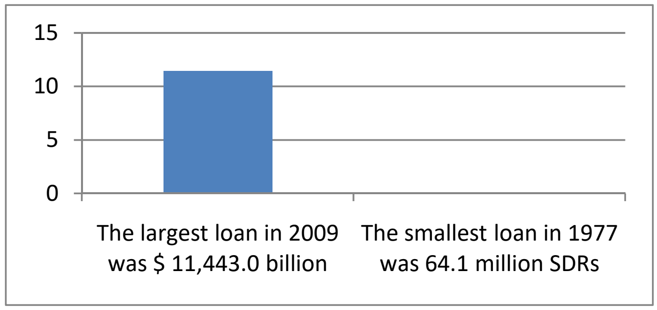
Source: www.mae.ro

The table above shows all the loans granted to Romania by the IMF.

The largest loan granted to Romania was in 2009, when Romania was severely affected by the financial crisis. The IMF granted Romania SDR 11,443.0 billion. Also, the lowest loan was in 1977 with only SDR 64.1 million.

The SDR value is set according to the US dollar, the euro, the Japanese yen and the pound sterling, which represent 44, 34, 11 and 11%.

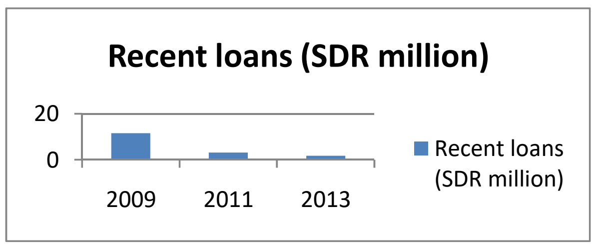
Chart no. 1 - International Monetary Fund Loans



Source: Own processing of statistical data taken from the MFI website

The graph above shows graphically the largest and smallest loan, emphasizing the size of the largest, because without it Romania would have had much bigger problems in the fight to get out of the crisis at the time of 2008-2010.

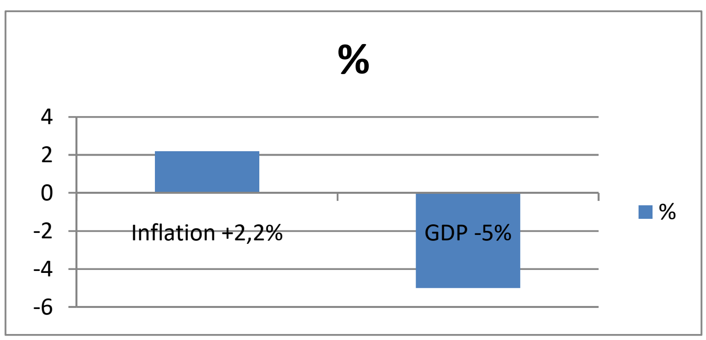
Chart no. 2 - Recent loans



Source: Own processing of statistical data taken from the MFI website

The chart above shows new loans granted to Romania by the International Monetary Fund in 2009, 20011 and 2013, respectively.

Chart no. 3 - Inflation and GDP



Source: Own processing of statistical data taken from the MFI website

According to the International Monetary Fund, Romania entered 2020 with a budget deficit of -5% of GDP and also with an inflation of 2.2%, the budget deficit being higher than the previous year, and the inflation rate lower.

5. Romania's relationship with the World Bank

The collaboration between the World Bank and Romania began in 1972, when Romania became a member of the International Bank for Reconstruction and Development. Our first loan, worth 60 million US dollars, was offered in 1974 for the Tecuci Fertilizer Factory. In 1978, we supported emergency reconstruction after floods and earthquakes, as well as investments in agriculture, energy, water supply and other sectors.

Romania's priorities include investment in infrastructure, healthcare, education, job creation and the development of small and medium enterprises. The country's economic growth has been one of the highest in the EU since 2010.

Major projects funded by the World Bank

a. Complementing EU support for the agricultural restructuring project (CESAR)

Table no. 2 - CESAR project

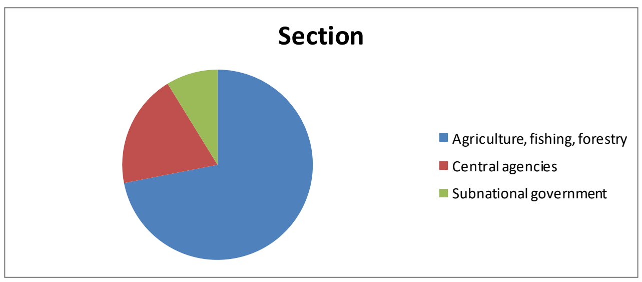
Project ID P100638	Status Closed	Coordinating leader Gabriel Ioniță
The country Romania	Date of approval November 27, 2007	Total project cost $ 70 million
Region Europe and Central Asia	Closing date September 30, 2014	The amount of the commitment $ 65 million

Source: www.worldbank.org

This table presents the official data of the CESAR project, with all the necessary details.

The figure below shows the division of money into sectors.

Figure no. 1 - Money Distribution Sectors



Source: www.worldbank.org

b. Development policy operation - DDO

The objective of the Development Policy Loan with a program of deferral options for Romania is to support the efforts of the Romanian Government to meet the fiscal sustainability objectives defined by the European Union (EU) fiscal package.

c. Health system reform:

- The objectives of this project
- Improving the quality of the health system
- Improving efficiency
- Ease of access

d. The secondary education project in Romania

The development objectives of the secondary education project for Romania are to improve the transition from upper secondary education to tertiary education and to increase enrollment in the first year of tertiary education in the educational institutions supported by this project.

e. Project to improve justice services

The development objective of the project to improve justice services for Romania is to improve the efficiency and accessibility of the justice institutions concerned.

f. Improving the response to emergencies

The objective of the development of the Project for Improving Resistance and Emergency Response for Romania is to increase the resilience of Romanian police facilities, smurd which are essential to respond to emergencies and disasters and to strengthen institutional capacities for preparedness and response to situations emergency.

g. Health

This project is the latest project financed by the World Bank, Romania having at its disposal 558.0 million USD.

6. Conclusions

The International Monetary Fund (IMF) is an international financial institution that brings together 186 member countries, established in 1945, following the United Nations Conference in Bretton Woods (USA). Its main objectives are to promote international monetary cooperation, facilitate the expansion and balanced growth of international trade, promote exchange rate stability, provide assistance for the creation of a multilateral payment system and make its resources available to member countries facing imbalances. of the balance of payments in achieving these objectives.

The World Bank Group is one of the largest sources of funding and knowledge in the world for developing countries. Its five institutions are committed to reducing poverty, increasing common prosperity and promoting sustainable development. Together, the IBRD and the IDA form the World Bank, which provides financing, policy advice and technical assistance to governments in developing countries. IDA focuses on the world's poorest countries, while IBRD helps middle-income and poorer credit countries.

IFC, MIGA and ICSID focus on strengthening the private sector in developing countries. Through these institutions, the World Bank Group provides financing, technical assistance, political risk insurance and dispute resolution to private enterprises, including financial institutions.

We can see all the important sums that the IMF and the World Bank have given to Romania. The largest loan granted to Romania was in 2009, when Romania was severely affected by the financial crisis. The IMF granted DST 11,443.0 billion to Romania. At the same time, the World Bank has financed and is financing various regional and territorial development projects, as well as providing support in the fight against the Covid-19 virus.

Finally, we want to emphasize that Romania has had and continues to have a very good partnership with the International Monetary Fund and the World Bank. One thing is certain, without the substantial loan from 2009, Romania would have had big problems in the short term, but the concluded agreements can damage in the long term, going into inability to pay the debt.

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