THE ACTIONS OF THE IMF IN DEALING WITH MACROECONOMIC IMBALANCES

Cristina Balaceanu[1], Diana Tudor[2]

[1]*UCDC Faculty of Marketing Bucharest, Romania, movitea@yahoo.com*
[2]*UCDC Faculty of International Business Bucharest, Romania, ligdiana@yahoo.com*

Abstract: *Countries that are in difficulties often need loans from the IMF to support adjustment and reform. On the one hand, it should be clear that the IMF loans can be granted on a temporary basis. For example, Romania is a country which has, through the progress in stabilization and reform, to gain access to private capital markets, in terms of getting better. On the other hand, the conditions laid down in the framework of the IMF loan agreements are needed to ensure proper use of the money. In Romania, there are opinions critical of the IMF principles establishing "conditions". Experience shows that economic reforms work best when countries are totally committed to themselves and to strengthen their sense of ownership of the countries on the political programs, the search for solutions to adapt to circumstances specific programmers under each country.*

Key words: IMF, stability, economic crisis, macroeconomic policy

JEL Codes: E02, E44, E52

1. Introduction

The IMF is one of the most important achievements of the Bretton Woods agreement, to support countries facing economic and financial difficulties and, most importantly, ensuring the balance of payments equilibrium. Its main objectives set out in article I of the IMF Charter seeks to promote international cooperation by providing tools for their members for consultation and collaboration on issues of monetary system; facilitating balanced growth of international trade and, thereby, contribute to raising employment, real income and to the development of production capabilities; promoting the stability of the exchange rate, foreign currency and facilitate the discipline to avoid competitive currency downs; supporting multilateral system of payments and transfer of current transactions, trying to eliminate currency restrictions, which prevent the growth of world trade; the creation of financial resources available to members, short-term secured and adequate, enabling the correction of imbalances in the balance of payments without resorting to measures destructive of international and international prosperity; reduce the duration and the size of the balance of payments imbalance.

2. Literature review

Once the transition to floating exchange (substantial contribution of Monetarist School, through his representative, Milton Friedman) that provides free exchange multilateral and freedom for all countries to achieve internal stability according to its own criteria, speculative attacks intensify over the exchange rate movements of hot capital markets financial, exchange rate fluctuations, resulting in many cases of macroeconomic imbalances or mondoeconomic. Throughout its existence, the IMF has faced several crises, some of these consequences and severe mutations in economically and socially. Of these, identify the problem, State debt: dealing with problems related to the transition to a market economy, the Asian crisis and the mortgage crisis in the U.S.

3. Methodology of research

This paper performs a dissertation on the need to develop programs for macroeconomic stability able to stimulate investment, create jobs and growth.

4. Results

The perception that the IMF is intended, on the one hand, to carry out crediting of member countries with balance of payments problems (IMF is the lender of last resort based on implementation of a programme of macroeconomic reforms) and, on the other hand, to intervene in the economy through structural mechanisms in conditions of severe economic and financial crises.

The IMF's lending system is geared towards its main goal, increase international liquidity, by balancing the balance of payments and strengthen the national currency. The IMF is an International Bank, but an international financial institution, it shall not grant loans for the purposes of the banking concept but also make available to the Member States a series of facilities, some being the limit of the quota of participation (cuts, intended to finance balance of payments deficits), others in amounts exceeding these quotas, financing facilities, which are granted to countries which the serious imbalances of the balance of payments as a result of a defective structures of production, trade and prices, as well as of countries with low rates of development or with difficulties in economic development, and in some cases, additional facilities.

The State's debt problem, which has affected the 80s, has emerged as a result of excessive indebtedness of the developing countries but also to the trend of bankers to loan, to sell credit with too much enthusiasm for big risks. The trend of debt amplification began when OPEC quadrupled oil prices in 1973. Since many developing nations relied on imported oil, their commercial balance has recorded severe deficits. At the same time, OPEC has seen massive trade surpluses; some have turned to the loans granted to developing countries being badly managed. Rising energy prices in 1979 led to a further increase in the debts of developing countries. Severe world crisis which began in 1981, fell as oil demand of many of these countries. Creditor banks have switched to rescheduling payments, causing the developing countries to pay interest which is used at the existing debts. The IMF has played a central role in arranging such rescheduling, in hiring new loans and concessions for adjustment policies. These policies intended to limit government spending and consumption and thus increase the likelihood that the borrowing is to be ultimately paid. Critics have questioned the role of the IMF have argued that some of the restrictions imposed by the IMF have led to a decrease in investments and concluded, therefore, that those conditions were unproductive. Therefore, the IMF and World Bank have imposed on the debtor countries ‘economic packages that required carrying out radical reforms in order to create financial discipline meant to annihilate external debts and (re) open national economies to the global economy.

Another key aspect of the involvement of the IMF is to switch from state economy to a market economy. This stage of history does not itself constitute an economic crisis, but the effects of the implementation of the transition programmes of IMF or the fundamentalist doctrine of the market were different from country to country, in some of them, as is the case, we identified issues related to the economic crisis, such as hyperinflation or slumpflation. In any event, it is not the fault of the IMF that those countries have not respected the steps of reform, but the IMF is responsible for having accompanied conditionality to grant funding as well as the negative perception that an investor would relay through its reports and analyses.

At the beginning of the transitional period, the IMF and World Bank economic policies were inspired by neoliberal, the result of cooperation between experts of the two institutions, as a work of Arnold c. Harberger (Economic Policy and Economic Growth), many ideas in this work being undertaken and other economists [2]. Economic policy recommendations contained in the "Washington consensus" (document prepared by the IMF, in collaboration with the World Bank concerning transition countries) were based on the following aspects: introduction of severe fiscal discipline; reforming public expenditure; reforming the tax system; interest rate liberalization, financial policy and exchange rate policy; liberalization of foreign capital investments; the liberalisation of foreign trade; carrying out the reform of property rights, privatisation, deregulation of the economy.

Adoption by the majority of the former Communist countries of the recommendations of the IMF has made the transition to become the most concentrated period of social history, as the French economist J. Segard: "transition to capitalism is in a social framework in which historical period seems, if not suspended, at any rate much less marked than in any other case the transition. This, like the technocratic aspect and the pace of reforms very quickly, giving the Eastern European countries in transition a cvasiexperimental aspect: as if planning to historical continuity, and crushed it to be resumed, now ask to produce something like a social artifact, that would not be the product of a complex social developments, as well as the product of a scientific protocolcontrolled and reproducible". The post-Washington consensus considering the results of the application of recommendations of international financial institutions-IMF and World Bank-economic policy in transition countries in the period 1990-1997 and the change of direction of these two institutions, which begins to recognize the limits of their applicability.

The new Agreement recognizes that a broader set of instruments of intervention of the State to achieve economic growth and that it be linked to a rise in living standards. As judge J. K. Galbraith, the IMF "has seen almost always functions relating to the welfare State is not something that must be protected but, on the contrary, something that must be sacrificed for monetary stability," [3]. It seems that the IMF expressed a desire for change, the revival of his concepts of reform programmes. So, governmental guidance directions proposed by the IMF aimed at repositioning the institution into the equation of responsibilities shared by the IMF and the beneficiary Governments of its financial assistance as well as implementation of the macro-economic recovery programmes. Companies that are created must be democratic, to allow for the participation, in various forms, of citizens in decisions that affect their lives, "to support large international force in the middle of which is a country or another, taken in part".

In recent years changes in the attitude of the IMF confirms the broad reform of the institution, imposed by the new conditions of the global economy and the accumulated experience and aims to adjustment of financial and technical assistance to existing realities, linked with a new vision of conditionality. Premature liberalization of capital markets has led to uncertainty and economic crises, which prevents the implementation of national economic policies. The pressure of financial markets, in particular on the part of IMF austerity policies, generalization (or balanced budgets with deficits increasingly smaller), the Governments of competing with each other in an attempt to convince the financial markets of the soundness of local economies.

In these circumstances, the IMF's attention was directed mainly to ensuring adequate reserves and the management of the reserves, but also on the identification of general principles for prudent foreign debt management. The IMF has also designed to manage monetary policy pressures that may arise over the exchange rate and prudent fiscal reforms. However, the way he managed the Asian crisis has shown once again that the IMF policies too rapid liberalization of financial and capital markets through liquidity depreciating exchange rate hedge and speculative attacks combined with a high rate of short-term indebtedness will cause the exchange rate to be unrealistic, which creates panic among investors but also the necessity of injecting cash into the economy to support the report.

The liberalization of capital markets has left Asian countries discovered in front of investors behavior, facilitating the emergence of speculative bubbles (the surge in prices due to the fact that investors tend to acquire as quickly apparent momentum generated earnings that it manifests a particular market); these balloons break always, and when this happens, the economy collapses. At the time of the crisis, the steady state of Asian States was characterized by reduced inflationary pressures and State budgets in balance or surplus. This had two obvious implications: on the one hand the collapse of currency exchange rates and stock markets, as well as breaking the speculative bubbles in the real estate sector, accompanied by decline in investments and consumption, will push the area into recession; on the other hand, economic collapse led to a dramatic fall in income from taxes, which resulted in the deepening budget deficit.

The crisis in East Asia was, above all, a crisis of the financial system posed by the implementation of a policy of premature liberalisation of financial markets. IMF mistake was the lack of a uniform image of financial markets at the macroeconomic level, as well as ignoring their impact at microeconomic level, IMF officials focusing on stabilization policies, including those based on high interest rates. The IMF strategy for restructuring the financial sector is the basis of the selection problem banks, those with no problems, namely the identification of those banks whose capital identification rate was quite high (identification of capital rate is to determine a ratio between the size of the capital, on the one hand, and that of loans receivable and other assets on the other hand). Once the IMF has applied a flawed strategy because, in a recession, it is impossible to attract additional capital as a result of the obvious risk of inflation, depreciation of the exchange rate and reduced production boosted especially by reducing loans payable. Another solution to the IMF has been raising interest rates and the collapse of economic activity through fiscal means, which resulted in the collapse of production and inefficient allocation of resources, in particular in the capital, slowing the growth of living standards, increased interest by companies at the expense of self-financing, slides on financial markets.

Currently, globalization of financial market supported in particular by the doctrine of market fundamentalism in particular has sought to impose strict discipline on States in relation to the functioning of the capital market, US hegemony in introducing the dollar as the international currency of exchange accepted by central banks around the world. Therefore, the United States also implemented policies contracyclical, while developing countries and, to a lesser extent, developed countries have been forced to work through their own means of funding. This has made more secure holding of financial assets at the center than at the periphery. As the boundaries of the capital have been removed, national economies have been attracted to the Center and then redistributed. Through a contest by circumstances; it has developed a chronic current account deficit to 6.6 percent of GDP in the last quarter of 2006.

Paradoxically, the budget deficit had served to finance the current account deficit because countries with surpluses and currency reserves were invested in government bonds issued consistent for US, what were the main sources of credit expansion. Another important source was the introduction of new financial instruments and the use of leverage by banks and by some customers, such as hedge funds and mutual funds. Another cause of the development of the crisis was considerable importation of developing countries-China-which the US began assembling foreign debt, while those countries began assembling the monetary reserves. The situation of the crisis was manifested with increasing real estate bubble in the US and with the introduction of financial innovations based on a false paradigm.

Synthetic financial instruments, risk assessments and proprietary commercial models have been built on the basis of the theory that markets tend towards equilibrium and deviations are random (the doctrine of market fundamentalism), leading to irrational behaviors of consumers, excessive growth of borrowing, aversion to saving process. Thus, mortgage equity withdrawals reached nearly a trillion dollars in 2006, 8% from GNP, respectively, more than the current account deficit. When housing prices stopped rising, households were declared indebted, the consumption was reduced, the decline following the typical pattern of ascent sequence-depression, in addition, defending the dollar avoidance phenomenon. The current financial crisis had as its starting point the practice very controversial of loans to "sub-prime" wide scale used in the United States, which expanded by contagion becomes a global liquidity crisis, loans and credit, resulting in a drastic reduction of confidence and credit availability worldwide.

The option for an individual exchange rate regime is dependent to a large extent on affiliation to a financial institution, in particular the IMF. International financial institution recommends measures of fiscal and monetary policy in macroeconomic balances, for recovery, especially the budget deficit, the current account deficit and external balance of payments deficit.

Most often, macroeconomic policy guidelines proposed by IMF exceed the IMF functions as laid down in the Statute of the institution, which hampers the chances of growth and development, deepening the structural imbalances and creating dependency on international finances. Thus, the recommendation of fiscal austerity is based on raising taxes and cutting expenditure in order to avoid the massive budget deficit (the recommended measures to countries like Thailand, Indonesia, Korea) had the effect of contracting aggregate demand and, more seriously, inducing panic at the local and regional markets, creating a boomerang effect.

Also, structural reform required as a condition for granting loans, such as closing insolvent banks, eliminating the practice of granting lucrative monopolies to specific client companies in some industries, not falling into the fundamentalist doctrine of the market, but on the contrary, an attempt to take over control of the markets. The IMF also recommends raising interest rates at very high levels, in order to increase the interest of foreign investors, following the attack on the national currency, capital flight and vertiginous growth in inflation. (Krugman, 2009), the countries concerned, in particular Asian countries, would have had to resort to devaluation of the national currency, in practice until such time that the currency would become bargains for investors, so cost effective. Sachs argues that choosing not to increase interest rates, Governments would have avoided financial panic fuelling; the result would be found in modest devaluations, with moderate influences on the economy. Accumulation of debt on the international financial markets is a consequence of how the IMF action. How central banks lacked sufficient authority and funding for the economy, reserves have been put at a rescue programs, simplification is the next strategy (Soros, 2008): commercial banks have extended the obligations of international financial institutions, made the cash infusion, and the debtor countries have agreed the introduction of austerity programmes designed to improve balance sheets. In most cases, commercial banks have also had to address the quantities of cash, the debtor countries to be allow up to date with the payment of interest.

The rescue packages were a remarkable achievement in terms of international cooperation. Among the participants were the IMF, bank stabilization, some Governments and central banks, as well as a huge number of commercial banks. The international financial crisis has led to the emergence of important changes of conduct of economic processes and phenomena, the deepening macroeconomic imbalances, but also regional, the identification of new values of basic research in terms of the achievement and implementation of the aggregate indicators to predict future developments in the economy, as well as to reduce the magnitude of the negative effects generated by the crisis. Loans under the mechanism, also known as the titles of rank B, or second chance loans, defines the practice of granting loans to borrowers who do not qualify for the best interest rates, because of their profile or history of credit (payment delay, default, discontinuous employment, low wages etc.). These loans are risky sub-prime for both borrowers and lenders due to the combination of high interest rates, low credit history and financial statement effects usually associated with these borrowers under prime. Sub-prime loan is provided at an interest rate higher than class A titles due to the higher risk.

The concept of loans under grants includes a variety of tools, including sub-prime mortgages, sub-prime auto loans, credit cards, sub-prime, and others. However, the most common form is the one posed by sub-prime mortgages. The term "sub-prime" is used in the credit status of the borrower (less than ideal), not at the interest rate. Sub-prime loans have always been controversial, arguments against such loans were focused on the idea that focus on sub-prime finance engage in lending practices of the predator type, such as granting loans of borrowers deliberately they will never be able to meet its obligations, which leads automatically to the default, security and enforcement. Supporters of sub-prime loans shows that this practice allows the granting of credits to consumers who might not otherwise have access to the credit market. In today's conditions of a constantly evolving economy, Mr. Kohler is convinced that the International Monetary Fund should focus more deeply on policies designed to promote macroeconomic stability and economic growth-those relating to the consolidated general budget, monetary policy, currency, credit and financial markets and the structural issues associated with them. Implementing good policies in these areas and the economic growth helps countries to collect the fruits of globalization. The IMF, with respect to the current financial crisis has shown that banks ' losses are higher than estimates of world economic situation is very worrying.

6. Conclusions and recommendations

The IMF also believes that the problem is global and that it requires a global response, with Governments recommending the publication of quarterly report on global financial stability, to focus on three issues: the own funds of banks, hideous and financing. According to the international institution, the financial crisis has arisen because the legislative systems have not protected the savings of high-risk transactions carried out by financial institutions, particularly in the USA. Powerful industrialized States have already initiated a series of cautious legislative projects. IMF official proposes industry whose financial state is affected by the global crisis and a general solution, applicable only in the short term, involving the provision of liquidity to financial institutions by central banks, unprofitable assets acquisition by the State and capital injections. Thus, the authorities should set up a government agency to buy the unprofitable assets of financial institutions, keep them until maturity and resell them. The IMF intervention in different moments of existence and its operation has not responded fully to the expectations of economic agents and market institutions, by acting in a firm and controlled to permit the establishment of short-term balance in the financial system and of the current account, as engage the IMF, through its principles stipulated in the Statute. IMF reacting late to market stimuli, its proposals is restricting demand through restrictive fiscal and monetary policy, without having the solutions to oppress the crisis in the real economy.

REFERENCES

[1] Susan Strange, *States and Markets*, the European Institute, Iaşi, 1997

[2] A. Gelb, C. W. Gray, *The Transformation of Economies in Central and Eastern Europe*: *Issues*, *Progress and Prospects Report*, The World Bank, 1991

[3,4] J. K. Galbraith, *The Perfect Society*, ed. Eurosong & Book, 1997

[5] J. Stiglitz, *Globalization, Hopes and Disillusion*, Economic Publishing House, Bucharest, 2004

[6] George Soros, *The New Paradigm of Financial Markets*, International Litera, Bucharest, 2008

[7] Paul Krugman, 2009, *Return Economy Decline and the Crisis in 2009*, Economic Publishing House, Iasi