

THE ASSURANCE OF THE MACROECONOMIC EQUILIBRIUM – PRIORITY OBJECTIVE OF THE ECONOMICAL POLICY

Bălăcescu Aniela

“Constantin Brâncuși” University, Târgu Jiu, Faculty of Economic Studies, Victoriei Street, no.24, aniela@utgjiu.ro, 0723520175

Tomescu Dumitrescu Cornelia

“Constantin Brâncuși” University, Târgu Jiu, Faculty of Economic Studies, Victoriei Street, no.24, tomescu.cornelia@utgjiu.ro, 0723650724

The national economies and the world economic circuit are found in an interdependence relation: on the one hand the world economic circuit is multiplied and diversified in accordance to the development degree of the national economies, at the level of the world division of the labour, to the directions of orientation of the international political conjuncture, and on the other hand the greater the degree of the internal economical development, the more intense the external economic connections of the particular country are, fact which reveals the greatest weight in the world economic circuit held by the high developed countries.

Key words: the payment balance, the foreign currency exchange rates, the internal disequilibrium, the external disequilibrium

1. The influence of the international economic relations on the macroeconomic equilibrium

Over the last years it is manifested as a necessity the adaptation of the internal economic activity of each state in the perspective of the integration in various international economic structures, so that serious disequilibrium are not perpetuating on a long term and the evolution of all the national economies is harmonised within the world economy.

Thus, an important element in the participation to the economic circuit is represented by the instability of the social, political and economical climate from the countries who passed to the market economy after 1990 and the mistrust of the other countries to the evolution of the economic phenomena and processes from these states, manifesting reserves as far as the expansion of the economic relations.

In the development of the external economical relations in this stage our country must focus upon the liberalisation and the development of the commerce, of the markets of the production factors, including the encouraging of the direct foreign investments, the restructuring of the enterprises, of the economic activity in general and the increase of the flexibility of these structures, the modernisation of the institutions, the reform of the bank system, the adoption of a law system adequate to the functioning of a modern market economy²⁸⁸.

2. The payment balance and the foreign currency exchange rates

The level of the exchange rate can be used as commercial policy instrument, since an over evaluated rate has the effect of a restriction to export, while an undervalued rate is equivalent to a restriction to import. However we must specify that, in practice, the rate notions “over” or “under” are not easily to be rendered operational. Plus, the effect on the payment balance is potentiated by the fact that the level of the exchange rate acts simultaneously on the exports and on the imports.

The liberalisation of the commerce is indissolubly related to the one of the exchange rate for at least two reasons. On the one hand, the opening of the internal market and its transformation in a natural prolongation of the international one would be impossible or useless in the absence of a reliable converter of the prices an exchange rate established on the market represents. On the other hand, in the absence of the convertibility of the national currency (at least, for the current account transactions), the control measures of the access to the foreign currency can be substituted to the actual commercial restrictions, with the consequence of compromising the reform process of the commercial policy.

The exchange rate policy cannot be used to reach the control objective of the inflation simultaneously to the one of the maintenance of a commercial policy opened in the conditions of the deepening of the current account deficit. In the first case, the rate must play the part of antiinflationist anchor, while, in the second case, great depreciations can be necessary to facilitate the adjustment of the external sector.

The evolution of the exchange rate of the foreign currency market and the residue of the commercial balance during 1994 - 2007

Year	The exchange rate of the foreign currency market		Residue balance (FOB/CIF)	
	Annual average (lei/EUR)	Annual average (lei/USD)	Millions USD	Millions EURO
1994	1.967,14	1.655,09	-958	
1995	2.629,51	2.033,28	-2368	
1996	3.862,90	3.082,60	-3351	-2675
1997	8.090,92	7.167,94	-2849	-2522
1998	9.989,25	8.875,55	-3536	-3128
1999	16.295,57	15.332,93	-2070	-1950
2000	19.955,75	21.692,74	-2688	-2962
2001	26.026,89	29.060,86	-4167	-4661
2002	31.255,25	33.055,46	-3986	-4206
2003	37.555,87	33.200,07	-6385	-5587
2004	40.532,21	32.636,58	-9179	-7346
2005*	3,6234	2,9136	-12733	-10313
2006*	3,5245	2,8090	-14893	-14895
2007*	3,3373	2,4383	-23078	-16870

The source: The statistic monthly bulletins of the NATIONAL STATISTICS INSTITUTE from 1994 – 2007 and the calculations based on them

* He passed denomination unit ROL - RON

Along the entire analysed period the evolution of the foreign currency has been and remained intimately related to the commercial policy of the in transition economies. Thus, in the appreciation in real terms of the rate, felt almost all these countries during the years that followed the commercial liberalisation in 1990-1991, is considered at the origin of the deterioration of their commercial balances.

Since the commercial deficit is positively associated to the increase of the protectionist pressures, we can formulate the hypothesis that the relative reflux of the liberalisation measures of the commerce that could be observed between 1992 and 1995 has a certain connection to the evolution of the exchange rate of the national currencies.

In 1996 and 1997, the precedent trend inversed in most of the east and central-European countries candidate to the European integration, without registering new depreciations in real terms of the magnitude of those at the beginning of the decade. Taking 1990 as reference year, a study observed that, in 1997, the cumulated effect of the depreciations and appreciations registered along the entire interval was that of a lower international competitiveness (thus, of an overvaluation) in not less than 8 of the 10 countries considered. The only exceptions are represented by the cases of Romania and Slovenia.

In **2003** the monetary policy continued to keep the restrictive character. Thus, on the ensemble of 2003, **the leu depreciated in real terms as opposed to the euro** by 3,7 percent (after it had depreciated in the first semester by 4,9 percent) and appreciated by 16,3 percent as compared to the American dollar.

2004 year was characterised through the **foreign currency excess**, but also the context marked by a high degree of risk and incertitude regarding the EUR/USD report and the evolution of the exchange rate of the leu – especially towards the end of the year – stimulated the conclusion of on term contracts, the weight of their value in the market flow increasing to 8 percent (2,7 percent the previous year).

From sins and in the period **2005-2007** the balance account of commercial balance he characterized through which bred from a year to other.

3. The assurance of the equilibrium of the external payments balance – priority objective of the economical policy

The external payments balance must be equilibrated. The deficit or the excess of the external payments balance supposes a deficit or an excess of one part of the accounts.

The fact that the BPE of a country is made according to the accountability system in double entry makes that each operation is simultaneously inscribed to the credit and to the debit of some adequate accounts. The equilibrium of the payments balance means the absence of the global residue or a zero residue which is the sign of the equilibrium of the payments balance. There is however the possibility of some *partial disequilibrium*. A disequilibrium caused by the excess can be easily regulated, much more complicated is the regulation of the deficit, the tracking of its causes and the choice of the adequate remediation methods. However, it is not in any conditions that a deficit reflects a negative state of things. In certain circumstances, temporarily, a deficit can be accepted. On a long term, however, as it results from the IMF philosophy, “it is necessary that the countries feel obligated to settle their businesses”.

An intrinsic equilibrium tendency comes from the fact that the different posts of BP can influence one another, given the connections between the particular fluxes. An excess of the financial account can influence the account of the current transactions and the other way around. A short term loan can serve as support for the export. Many exporters offer credits to the importers in order to facilitate their sales. In such cases, in the current account appears an income, while in the financial account an output. This way, the capital movements can compensate the deficit of the residue of the current transactions.

Today, the efforts of equilibration of the BP deficits are no longer singular. The international cooperation in this direction has its say. The creation of the rights of drawing on the IMF in 1945, represented the beginning, continued within G-7, of the European Union and of other international organisation.

Through its economical, internal and international policy, through the levers it holds, through the programs of macrostabilisation, the state interferes for the equilibration of the payment balance. But, without the contribution adequate to the private sector, the state on itself cannot do it. Especially when the deficit of the payments balance is determined by a fundamental disequilibrium. Without a proper competitiveness of the private sector, such a deficit cannot be removed. The entire effort of equilibration of the external payments balance behaves subordinated to this essential desiderate.

4. The correlation between the supply and the demand of final goods and services

The starting point in the analysis of the interconnections between the indicators of external payments and the macroeconomic aggregates of results is represented by the identity between the supply and the demand of final goods and services.

The total supply of goods and services in one year is made of the internal output (PIB) and the imports (Imp), while its distribution is given by the internal aggregated demand (the final consumption – CF and the gross formation of capital - FBC) to which the external demand (Exp) is added.

$$PIB + Imp = \underbrace{Cpv + Cpb}_{CF} + \underbrace{FBCF + \Delta S}_{FBC} + Exp \quad (1)$$

PIB = the gross internal product;

Cpv = private consumption, which includes all the goods and services bought by the private ménages and coming from the own production (autoconsumption);

Cpb = the public consumption (the consumption of the state), which includes the production of the state (the value of the services not destined to the market of produced by the public administration for the use of the collectivity) of which the sold services and the capital investments are eliminated;

FBC = the gross formation of capital, which includes the net investments and the amortisation (namely the gross investments) beside the modification of the stocks to the producers;

Exp.n = the net exportation, determined as difference between the value of the exported goods and services and the imported ones, represents the residue of the commercial balance of goods and services (the net export).

As it is known, PIB is defined as the final gross production made by the production factors in the units within the country (residents and non residents). The PIB structure after the final use offers the analysis some of the most important rates (the consumption rate, the investments rate, the import and the export rate), rates whose evolution in the dynamics point out the factors of support, of alimentionation of the economic growth: the internal demand, including the expansion from the branches depending on the provision on the external market, and also the external demand (the export). The PIB structure corresponding to the final use of the goods and services shows a significant increase of the weight of the population's consumption during 1990-1997, a sudden increase to 83,1 in 1999, afterwards it decreases during 2000-2002, registering a slight increase in 2003 (from 76,1% to 76,3%), to the detriment of the consumption of the public and private administration and of the investments.

The disequilibrated commercial balance (the import exceeded the export) negatively influenced the size of the PIB in the 16 considered years. During the analysed period 1991 – 2003, the net export was permanently negative, amounting to an import of goods and services that permanently exceeded the export. This evolution shows that a significant part of the increase of the internal consumption was assured from external resources, tendency which becomes more obviously, harder and harder to support.

5. The correlation between the internal and the external disequilibrium

The external disequilibrium of the national economy is the result of the analysis of the current account of the external payments balance. The residue is a proof of the results of an economy. In the case of the Romanian economy the residue of the commercial (Δ), holding a majority weight in the residue of the current account synthetically and promptly characterises the evolution of the external economical equilibrium: $\Delta = \text{Exp} - \text{Imp}$

The national gross product (PNB) measures the value of the final production realised by the national economic agents (residents), within the country or abroad, so that to the PIB is added the residue of the production factors in report to the abroad (SVFS).

In accordance to the sign of the residue, PNB can be smaller in comparison to the PIB. The distinction between the PIB and the PNB is important when an important part of the internal production is made thanks to the external factors, and also when the Romanian economic agents obtain incomes from the activities performed abroad.

The national available income²⁸⁹ is obtained if the net national product (PNN) is added the residue of the current transfers with the overseas (STCS).

The last relation can also be written as: $\text{EN} + \text{SF} = \text{FNC}$, namely the net investments are financed whether from the internal saving, or the external saving (credits, foreign investments, unlocking from the reserve of the national bank). The gap saving – investments within the national accounts indicates the relations of the national income with the external payments balance. The size of the external gap is given by the gap resulted from the fact that the internal saving covers only partially the internal investment.

The internal disequilibrium is given by the difference between the internal gross saving²⁹⁰ (EB) and the gross investment (FBC): The gross internal saving covered only partially the gross investment, resulting disequilibrium (gap) 278.571,1 billion Lei. This internal disequilibrium could be compensated by an equal residue of the payments balance. Abstracting of the residual position (errors and omissions) we calculate the necessary of external financing. We will find this residue in the external payments balance calculated in dollars, as a result of the external disequilibrium. The residue of the current account of BP is equal, also, to the difference between the available national income (VND) and the internal absorption (ABS), the last indicator representing the expenses aggregated with good and services of the residents.

The previous equation describes the fundamental idea of the approach of the absorption to the BP analysis, namely, that a certain excess of the aggregated expenses above the level of the available national income is reflected in the growth of the net total liabilities of non residents, in the growth of the indebtedness of the country to the overseas.

The previous relation can be supplementary sectored, identifying the indicators specific to the private sector (the sector “firms” and the sector “the households of the population”) and the public sector. In this regard we will decompose the final consumption and the gross formation of capital in two components (Cpv and Cpb, namely FBCpv and FBCpv and FBCpb), including the calculation and the net non

governmental incomes TX (governmental incomes as taxes and fees, less the governmental transfers to the private sector).

When the rates of increase of the imports are greater than those corresponding to the exports, the deficit of commercial balance and the residues of the current account deteriorate, contributing negatively to the increase of the gross internal product and endangering the capacity of external financing of the country (negative effect). This is exactly what has happen to Romania starting from 1990 and during the entire period of increase from 1995-1996. The external debt of Romania started to grow again in 2000, indicating the fact that the income elasticity of the Romanian imports is still very great. During 2003 – 2005 the commercial deficit accentuate, one of the important reasons being the foreign currency basket adopted by the National Bank which disadvantages the exports in the dollar area and encourages the raw stocks, materials and labour sales in the euro area. Thus, the deterioration tendency of the residue of the current account of the payments balance upon the deepening of the deficit of the commercial balance constituted in 2004 a reason of preoccupation for BNR mainly because of its significance of clue of the risk of the producing of an overheat of the economy and the release of its inflationist potential.

Given these conditions, the attention paid by BNR to the evolutions of the external sector did not represent a constraint in the pursuit of its fundamental objective; thus, the implementation in 2004 of the monetary policy from the perspective of reaching the inflation target and the increase of its restrictiveness in order to properly administrate the internal demand implicitly acted in the direction of the expansion of the current account deficit. Plus in 2004, the BNR preoccupations related to the causality of the unfavourable evolution of the residue of the commercial balance has substantially attenuated. This was due, on the one hand, to the considerable amelioration of the financing of the commercial deficit, where increased the weight held by the direct foreign investments (including as a consequence of the continuation of the privatisation process) and by the capital transfers from the non residents; on the other hand, the structure of the imports has improved, the main role within their annual increase being held by the capital goods which increased by 38,8 percent (the weight held by them in the ensemble of the imports being 20,5 percent). Plus, the pressure of the ascendant trend of the imports was attenuated by the beyond expectations behaviour of the exports, whose more rapid increase comparatively to the previous year was stimulated both by the relaunching of the external demand (especially of the partners form the European Union), and also by the win of new market quotas by the autochthonous companies, the last factor also having as effect a favourable structure of the exports, with the accentuation of the components with greater added value. The external disequilibrium can be financed on a short term, however on a long term they impose some adjustments. The adjustments of the external balances suppose the application of some policies of reduction and translation of the expenses. The former modify the level of the expenses, the policies in the second category affect the structure of the demand, thus of the expenses from the point of view of the autochthonous goods and the important ones.

The monetarist theory on the payments balance draws the attention on the fact that any deficit of the payments balance is the reflection of a monetary disequilibrium, and that it always autocorrects itself. But – since this correction mechanism involves the increase of the unemployment – the process can be much more painful than a political solution, of the depreciation type.

6. Bibliography

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