SOME CONSIDERATIONS ON THE GOVERNMENT INVOLVEMENT IN TOURISM DEVELOPMENT THROUGH FISCAL AND MONETARY MEASURES

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Abstract:
Government involvement in tourism is determined by the importance of this sector in the national economy and its specificity compared with other sectors of production. The paper analyzes the main fiscal and monetary measures by the government can influence, directly or indirectly, the development of the tourism sector. Variables considered are the degree of taxation, interest rate and exchange rate. The paper will show that after 1989, economic policy measures taken by governments that have led Romania had a negative impact, both for the economy as a whole, but also on the tourism sector. Comparative analysis performed in several countries, taking into account several variables, shows that there were other solutions to boost Romanian tourism through the fiscal and monetary policies.

Key words: *state, economic policy, sustainable development, tourism sector.*

JEL classification: *E61*

Introduction

Macroeconomic policies exercise a profound impact on economic activity from tourism. They have an active role in transforming the business environment and its actions on other factors, in order to achieve the objectives it is aiming. Business environment provides an orderly framework, but the behavior of economic agents must take into account the constraints arising from the economic policies of the state.

The instruments of economic policy generate certain effects. Some instruments, such as the fiscal, monetary or exchange rate tend to have global effects, that works on multiple targets. Others generate specific effects, limited nature, acting only on the tourism sector. The problem is to find the link between objectives and instruments and to choose those with the broadest and most effective impact. To eliminate negative phenomena, the economic system should react first by adjusting or regulating flow of resources and redistribution of income and institutions adapt to new conditions. When economic system fails to respond adequately, the government must act.

The implications of fiscal policy in tourism

The current situation of Romanian tourism is due to fiscal measures and regulations promoted by the governments which ruled Romania after 1990, too. In a market economy there is no direct link between the planner and the fulfillment of the plan, like in the command economy. Government attributions are limited to the promotion of financial, fiscal, trade policies, improve the business environment, which are subsequently applied to the business principle of full autonomy of each economic unit [Iancu, 1998].

Fiscal policy can be beneficial to tourism development in Romania, if the government takes into account the specific situation of the Romanian tourism. Otherwise, if the government does not realize these requirements, it can inhibit the development or even lead to regression of this important sector of national economy.

Fiscal policy has a positive impact on tourism development only to the extent that public actions are carried taking into account the priorities of each stage of development, provide economic, social or other items, related to the financial effort, blends rationality on short term with objectives on medium and long term.

Through fiscal policy can act so as to protect and encourage sustainable development of the tourism sector; thus fiscal policy has objectives such as: inducement for economic agents to make investments in tourism, improving quality and competitiveness of tourism services, stimulating and promotion of Romanian tourism destinations abroad, environmental protection etc.

Public authorities can use fiscal policy to achieve certain aims: to influence business processes, linking the economic cycle, removing imbalances in the economy. Obviously, these objectives do not directly relate to the tourism sector, but contribute to the development of the whole economy and macroeconomic stabilization, with indirect implications for tourism development. A second category of objective refer how fiscal policy affects economic activity, these having a direct impact on tourism operators, whether it concern only those involved in the sector or all [Băcescu, 2008]..

Fiscal policy can contribute to economic stabilization. Fiscal measures are likely to compensate for fluctuations in investment demand, thus preventing side effects induced. Tax cuts, along with increased public expenditure is usually used in times of recession, while those opposing the tax measures apply when aggregate demand tends to become excessive. Also, it should not be neglected the relationship between taxation and economic situation. On the one hand, cyclical changes may influence the yield of certain taxes, on the other hand, they can be used to act on the economic situation, the ultimate purpose being economic recovery [Gâdiuţă, 2003]. In addition, we must know that the achievement of macroeconomic equilibrium is conditioned by achieving budget balance, too. Achieving this objective requires either adjustments in the government spending (in the sense of decreasing them), or changes in taxation levels (upside of), all of which must analyse and correlate with the economic situation.

From the perspective of developing a competitive economy, fiscal policy must contribute to the harmonization of macroeconomic stability rigors with objective of sustainable growth [Daianu, 1999]. Fiscal policy can stimulate savings and investment by: controlling the budget deficit, completing the tax reform, rationalization of budgetary choices depending on the spending priorities and ensure transparency in public spending [Buruiană, 2008].

The most important aspect of fiscal policy for economic agents is the effects on savings and capital formation. A tax increase has the effect of reducing savings and capital for investment. Or, it is known that, in tourism, perhaps more than in many sectors, the continuing adaptation of tourist structures have to raise the service. So, taxation can be a major obstacle to economic development in tourism. Each company can be reached directly by tax burden, which creates a series of distortions in its behavior. A big fiscal burden can lead to blocking the activity of existing businesses and even prohibited for establishment of companies in a sector such as tourism, which requires substantial capital investment.

The budget measures may be used for tourism, too. Thus, it is possible financing from state budget and local budgets of tourism activities for encourage the development of certain areas or certain parts of the tourist offer, and promotion of domestic and foreign tourist destinations, which can not be left solely to the tour operators account [Negrea, 2001].

The level of taxation in Romania had an oscillating evolution, reflecting the choices of the governments that ruled the country during the period. The general trend was still a decrease, is influenced both by economic and fiscal reform measures and the functioning of the economy. Based on data presented in the above table it can be concluded that the level of taxation in Romania is very low compared with the situation that exists in other countries, especially European Union countries, where the overall tax level is between 30 and 55%. This is in contradiction with the perception of the majority of Romanian citizens.

Table no. 1. Main national accounts tax aggregates

- % in GDP -

Year	Romania	Bulgaria	Czech Republic	Hungary	Poland
1995	27,7	31,1	36,2	40,9	37,1
1996	26,1	28,9	34,7	39,4	37,2
1997	26,6	27,9	35,0	37,8	36,5
1998	29,2	32,4	33,4	37,7	35,4
1999	31,3	31,1	34,1	38,4	34,8
2000	30,6	31,5	33,9	39,0	32,6
2001	28,9	30,8	34,0	38,2	32,2
2002	28,5	28,5	34,8	37,9	32,7
2003	28,1	31,0	35,8	37,9	32,2
2004	27,7	32,5	37,5	37,5	31,5
2005	28,5	31,3	37,2	37,6	32,8
2006	29,2	30,7	36,7	37,4	33,8
2007	29,8	33,3	37,3	40,0	34,8
2008	28,8	32,3	35,6	40,1	34,3
2009	27,8	28,9	34,5	39,6	31,8

Source: http://appsso.eurostat.ec.europa.eu/nui/print.do?print=true

These low values of taxation is due to the fact that the statistics are taken into account only effectively state tax revenue collected, which according to some sources, is only half of the fiscal and social obligations owed to by taxpayers according to law. It follows that if they would be fully collected, the level of taxation would be somewhere between 50-60% of GDP Or in Romania there are taxpayers who declared and paid correctly all tax and social obligations owed to the government, if their taxes are actually being perceived as a suffocating. At the same time and taxpayers are not declared and not paid at all or pay only a portion of their fiscal and social obligations, they supporting a relatively low level of taxation.

Consequently, although the average level of taxation in Romania is relatively low compared to other states, approximately 30% of GDP, taxation is unequal distributed, so that while some taxpayers supports a tax of only 10 to 20%, other come to pay a tax of 50-60%. Many tourism operators are in this category.

In conclusion, fiscal policy goal is to create a favorable climate for accumulation, investment and creation of new tourism activities who can bring benefits to the whole national economy. A reduction in taxation favoures tourism, creating conditions for increased investment interest, ie the achievement of competitive bidding, thus increasing the demand for premises.

Monetary policy and its role in tourism development

Economic policy objectives are achieved by implementing alternative economic strategies, which are used in various combinations of economic instruments, depending on the situation development and economic structure. An instrument, with the wide range of influence, is monetary policy

The ultimate objective of monetary policy is price stability. Achieving this objective of monetary policy is very important for the tourism sector. Inflation is one of the causes of decline in tourism sector since 1990. This phenomenon generates general imbalance in national economy, with multiple negative economic and social effects. Accelerated Inflation, with long-term upward trend and poorly controlled, can deteriorate economic position of each entity. Inflation can lead to disorientation of economic agents operating in tourism, making it difficult or negating the possibility of calculation of efficiency and profitability, and comparability over time and space and to discourage productive investment, both important for Romanian tourism, faced with competition from touristic destinations from neighboring countries.

In addition, inflation redistributes income and wealth from people with fixed incomes and weak position in the economic system to those who hold economic power and use it to earn higher incomes [Costică, 2002]. We are witnessing the impoverishment of the population in general and particularly the middle class. As a result, inevitably, tourism demand will reduce, much of the population being unable to make trips to tourists. On the other hand, those who earn higher incomes due to inflation will not guide the national tourist destinations, but to the outside, thereby generating a negative balance of international tourism in Romania. Sometimes, even where individual incomes grow faster than inflation because of the existence of a uncertainty situation, tourism demand may be reduced as a result of psychological distress that inflation can cause.

Romania occupies a special place among countries that have moved from centralized to market economy, and even the world, maintaining over a long period of time the high level of interest. This made the use of interest rate play a relatively modest role in the allocation of resources to the real economy [Puiu, 2001]. This policy was justified by the fact that the practice of low interest rates, below the inflation rate, stimulates unjustified increase in demand of economy, contributing to strong amplification of inflationary phenomena.

This was in contradiction with the situation of Romanian tourism companies who needed to bank loans for normal course of business and tourism product diversification. High interest rates on bank loans have led to tourism businesses, to promote growth of tariffs for services rendered, without any improvement in their quality, in fact, many times, even witnessing a reduction in its. Performance tourism companies have been forced to pay higher interest to cover economic losses caused by companies unable to repay loans. High interest rates generated an increase for prices of tourist services, with consequences in terms of internal and external competitiveness of Romanian tourism products. In these circumstances, even if it had a competent management, Romanian tourism companies would have been difficult to cope with competition by countries like Bulgaria, Greece or Turkey.

So, excessively high interest rates discouraged investors massive, unsupporting them in actions to modernize its tourist capacity or construction of new physical assets. Perhaps a policy of supporting the tourism sector, based on credit, and not a restrictive monetary policy would be more successful. This may have contributed to interest capitalization companies, to appearance of many more local entrepreneurs. Only in recent years the interest rate on loans granted by banks, as a result of the signal given by the central bank to reduce reference interest rate, has decreased. Let is hope the measure will not cease to have positive result.

Table no. 2. Interest rate – loans to non-financial corporations

- % -

Year	Romania	Bulgaria	Czech Republic	Hungary	Poland
1991	33,00	83,9	-	34,5	-
1992	43,60	64,6	-	22,7	-
1993	80,58	83,7	13,89	17,2	35,0
1994	60,59	117,8	12,86	26,9	31,24
1995	43,70	51,4	12,79	32,0	24,0
1996	50,60	481,0	12,50	24,0	20,5
1997	60,40	13,9	13,20	20,1	22,5
1998	63,70	13,5	10,39	17,8	19,6
1999	55,20	12,4	7,69	14,6	16,5
2000	46,23	12,2	6,93	12,8	19,0
2001	38,83	13,2	7,04	11,2	11,5
2002	28,80	10,2	5,77	10,4	10,3
2003	20,36	9,50	5,50	13,78	9,70
2004	18,76	9,42	5,17	11,93	7,23
2005	16,89	9,65	5,55	8,06	6,11
2006	14,23	9,12	4,58	10,01	5,62
2007	11,97	9,24	5,45	9,86	6,36
2008	18,33	10,36	4,95	12,85	7,53
2009	15,18	9,31	4,53	10,02	5,94

Source: http://appsso.eurostat.ec.europa.eu/nui/print.do?print=true#

Romania is detached from other countries through high interest rates on loans granted by commercial banks. This restrictive policy on the loan has become a brake on development. Thus, Bulgaria, Hungary and the Czech Republic have charged low interest rates compared to Romania, they modernize its tourist capacity, and the Romanian tourism collapsed.

Perhaps a policy of support for the tourism sector, based on credit, and not a restrictive monetary policy would be more successful. This may have contributed to the capitalization of companies and to the appearance of many more local entrepreneurs. Only in the last years interest rates on bank loans as a result of the signal given by the central bank to intervene by reducing interest, dropped.

Another monetary variable can be considered as intermediate target of monetary policy is the exchange rate. It is sure that initiatives in this area related to state action, namely the central bank and not the tourist authorities. Measures designed in particular to increase the international competitiveness of local tourism products. But weshouldn't forget that the exchange rate is a telling indicator of the health of economy and its sectors.

Currency fluctuations, moreover recorded frequently in the last decades, they have a growing impact on the formation, distribution and evolution of international tourist traffic. The effects of currency fluctuations on the international tourist traffic has increased, demonstrating the link between exchange rate changes and changes in the value of international tourist traffic. Changing of exchange rates influence, with production costs, size of the purchasing power of foreign tourists at tourist destinations, resulting a redistribution of international tourist flows. Therefore, policy measures in currency policy must blend with tourism policy and can be used to promote exports and limit imports of tourism. Currency depreciation may cause a reduced volume of international tourism payments for a country and the volume of collection, both domestic and international tourism can increase. Due to disruption of the balance of payments, resulting in the growth of negative balance of interest, states may act by altering the exchange rate, increasing the prices for tourism import. The exchange rate deterioration can help to improve the tourism balance, leading to the entry of foreign tourists in the country, and departures of residents in other countries are replaced by domestic tourism.

Currency exchange rate is an indicator which is evolving into a close economic interdependence with the economic condition from Romania after 1989. Devaluation of the leu against the dollar and the currencies of other advanced countries, rising inflation and reduced living standards of most people always accompanied the transition process and restructuring the Romanian economy.

Table no. 2. Romanian international tourism and exchange rate

- % -

Year	Arrivals of foreign visitors (thou. arrivals)	Departures of Romanian visitors (thou. departures)	Exchange rate leu/USD
1991	5359	9078	76
1992	6401	10905	308
1993	5786	10757	760
1994	5898	10105	1655
1995	5445	5737	2033
1996	5205	5748	3083
1997	5149	6243	7168
1998	4831	6893	8875
1999	5224	6274	15334
2000	5264	6388	21692
2001	4938	6408	29061
2002	4794	5757	33055
2003	5595	6497	33200
2004	6600	6972	32636
2005	5839	7140	2,9136
2006	6037	8906	2,8090
2007	7722	10980	2,4383
2008	8862	13072	2,5189
2009	7575	11723	3,0493

** from 2005, new Romanian leu*
Source: database TEMPO ONLINE

It was considered that depreciation must be done to maintain a reasonable position of trade balance and payments balance, by promoting exports. Following this logic, which in principle is correct, It should have that Romania's international tourism balance to be positive or to remain in reasonable limits. This did not happen.

The conclusion is that currency depreciation against the dollar and other currencies did not favor in any way Romanian tourism development has not increased earnings from international tourism. Even if we think that the Romanian tourism tourist need some equipment from abroad due to exchange rate depreciation against foreign currencies have become more expensive, we can say that this has hampered the Romanian tourism products to become competitive international markets. More low quality of services provided by Romaniantourism operators, foreign tourists has led to focus on other areas. It also has no direct impact to limit the influx of Romanian tourists to the outside, while the Romanians wanted to move abroad after a long period of restrictions.

Is there an alternative? The answer to this question can give considering what happened in other countries that have moved from command economy to market economy. Romania has chosen to practice a flexible exchange rate, sometimes leading to absurd, which led, as we have seen at collapse of the national currency. Poland, Hungary and Czech Republic have opted for fixed echange rate at the beginning of transition, considering it to be optimal for a rapid price stabilization. After the final internal stability was achieved, it was moved to a flexible exchange rate. Thus, there was either a remarkable stability of exchange rates of the currencies of countries in Central and Eastern Europe, or much lower levels of impairment. In these circumstances, the economies of those countries that have protected the national currency has experienced an important economic revilement. And a revilement in tourism, the distance that separates Romania from the Czech Republic and Hungary for example, in tourism sector, is huge. Exchange rate stability in these countries has led to strengthening the private sector and market economy institutions, to attract foreign direct investment, while in Romania have entered more speculative capitals.

Conclusions

Government has an important role in modern economics, because economic policy decisions have a major impact on economic agents. Government decisions generate positive or negative, both for the whole economy, but also for specific sectors. Through fiscal and monetary instruments, the state intervenes when the economy does not react adequately.

Fiscal policy adopted in Romania in the early years of transition to market economy has not simulated the development of tourism sector. Although the level of taxation is low in Romania, tax evasion, practiced by some travel companies, tourism companies affected properly paying their tax obligations. It should be noted that the reduction of taxation encourages the growth of tourism sector by stimulating investment.

Romania has engaged a long time a high interest rate. Thus, the Romanian companies in the sector shaft not take credit for the normal course of business or for investment. Also, high interest rates discouraged domestic and foreign investors to modernize or build tourist capacities.

The exchange rate is an indicator that reflects a country's economic situation. In Romania, the depreciation of the currency exchange rate determined attracting speculative capital. Thus, foreign direct investment necessary for the tourism sector were absent. In countries such as Poland, Hungary and the Czech Republic exchange rate stability determined strengthening the private sector, attract foreign investment and developing tourism sector.

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