International Financial Institutions

International Finance 2

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Two Main International Financial Institutions

- The International Monetary Fund (IMF)
- The World Bank (WB)

The International Monetary Fund

The Role of the IMF

The IMF helps manage the international monetary system.

- Cooperation through an IGO to guarantee monetary stability.
- Countries contribute to fund, from which they can draw during a crisis.
- Loans are provided with low interest rates but with policy strings attached.

Benefits of the IMF

- IMF facilitates relations between borrowers and lenders.
- Produces agreements where they might not otherwise exist.
- Helps signal creditworthiness for would-be borrowers.

Criticisms of the IMF

IMF does disaster management, but not a lot of disaster prevention. Recent crises:

- Mexico (1982, 1988, 1994)
- East Asia (1997)
- Brazil (1998)
- Russia (1998)
- Argentina (2001)

In fact, Argentina defaulted on $93 billion of its debt and still hasn't repayed.

Additional Criticisms of the IMF

IMF negotiations are less than "democratic."

- Routinely, ordinary citizens bear the costs of adjustment.

The World Bank

The World Bank

The World Bank is another BWI to facilitate international finance.

- Gets most of its money from borrowing on other financial markets, typically at low rates.
- Provides concessional lending below market rates.
- Typically "project-focused" and invested in poorer countries.

Concessional lending is less controversial than private FDI, but debt is still debt.