–Background Guide, NMMUN'22–

International Monetary Fund (IMF)

INDEX:

Letter from the chairs:

Greetings, Delegates!

We, Nandana Menon and Aditya Sundaram, your chairs for NMMUN 2022, are delighted to welcome you to the International Monetary Fund. Knock Knock, whos there, IMF, IMF who, IMFing suicidal.

As a delegate you will represent your allocated country. For this, you will need to be thorough with the issues at hand. We have very enthusiastically prepared this background guide to help you gain a basic understanding of the issues and form the base for your further research.

The core of an MUN experience involves discovering creative solutions for the issues through extensive research and analysis of your topics. Do not use this Background guide as your only source of data, as it simply acts as a foundation for your research and does not provide you with the information that you may need to defend your delegation's stance.

We expect you to be thorough with all the overall aspects and details of the issues. The ultimate goal is to formulate a solution, and as such, we expect each delegate to come up with some basic solutions, which may be debated upon and improved during the committee session. We also expect you to familiarize yourselves with the Rules of Procedure prior to the conference to ensure it runs smoothie.

The true essence of any MUN lies in its delegates and their innovative ideas. We encourage you to take up any opportunity to speak, be creative, and participate actively! As Chairs, we would be more than happy to assist with any doubts or queries you may have before or during the conference. We wish you best of luck and look forward to an enjoyable and fruitful conference!

Best Regards,

INTERNATIONAL MONETARY FUND

Aditya Sundaram Nandana Menon

THE IMF MANDATE

The IMF promotes global macroeconomic and financial stability and provides policy advice and capacity development support to help countries build and maintain strong economies. The IMF provides short- and medium-term loans to help countries that are experiencing balance of payments problems and difficulty meeting international payment obligations. IMF loans are funded mainly by quota contributions from its members. IMF staff are primarily economists with wide experience in macroeconomic and financial policies.

Functions and Power

IMF provides an extension credit frame, a waiting credit slot, or an external credit frame to each country. Each has individual credit and credit return policy. These guidelines are linked to a specific credit frame agreed upon by both the country and the IMF. However, the issue arises when the credit line expires and the grace period and final maturity period ends and the countries (mainly LEDCs) haven't even completed the total implementation of the loan taken, and are far behind on the return of investment where they implemented the loan which causes them to deduct the balance from their GDP. For example, most money was lent to Mexico, followed by Greece. However, when the loan is represented by the GDP, Liberia and Iceland are ranked first and second in 8.5% and 7.4%, respectively. As a result, the question is whether the IMF's foreign aid program is actually boosting the economy of various countries or affecting them adversely.

Historical Background

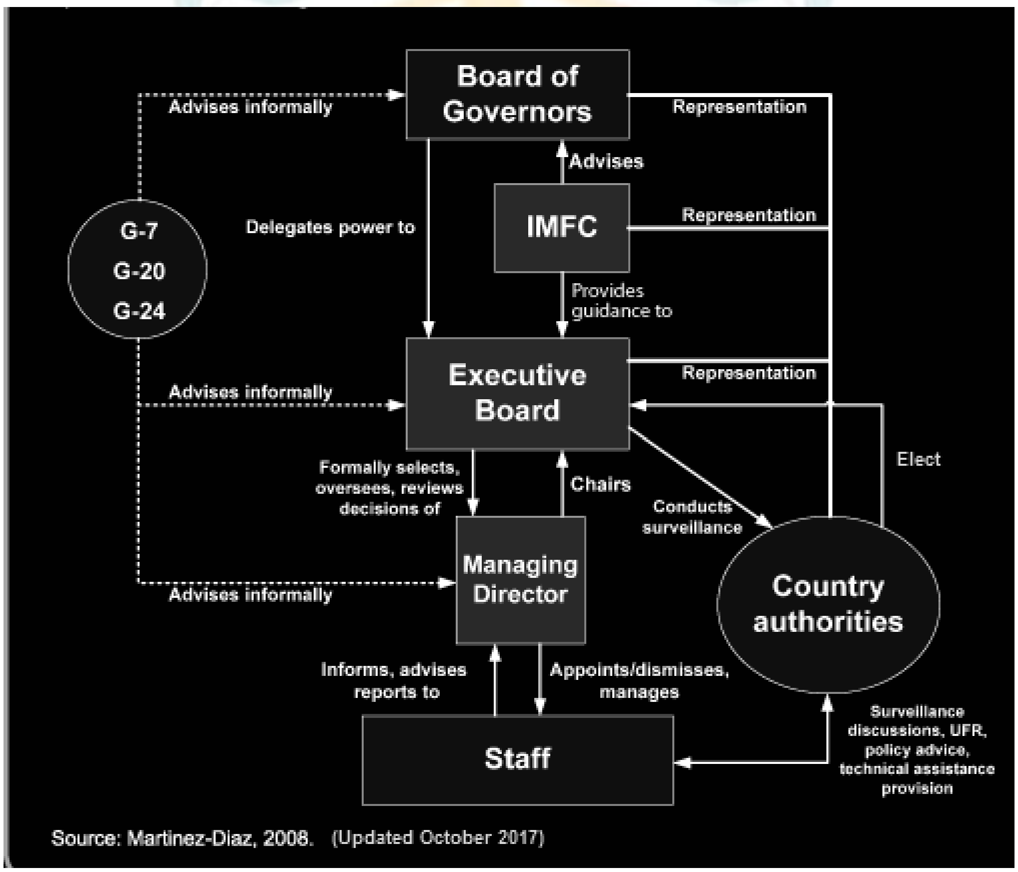
Created at the Bretton Woods Conference in 1944, the International Monetary Fund was established to provide financial assistance to countries in the immediate aftermath of World War II. In 1946, it started off with a total of 39 members and today has grown to 190 member-countries. In 1947, they began helping countries apply for IMF loans. France was the first country to borrow from the IMF.

The committee is a subsidiary of the United Nations (UN), which acts as the IMF's parent organization. The main aim for establishing the IMF was to provide stability to its members in the developing world economy so that they could progress with the times.

The International Monetary Fund has specific quotas that each member country must meet. This will allow member states to retain voting rights in IMF's important decisions. However, this would give some countries a majority of the voting power. The United States holds 16% of IMF voting power, which is the largest share of voting power of any member state.

International and Regional Framework

The IMF's mandate and governance have evolved along with changes in the global economy, allowing the organization to retain a central role within the international financial architecture.



The Board of Governors

The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank.

While the Board of Governors has delegated most of its powers to the IMF's Executive Board, it retains the right to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws.

Ministerial Committees

The IMF Board of Governors is advised by two ministerial committees, the International Monetary and Financial Committee (IMFC) and the Development Committee.

The IMFC has 24 members, drawn from the pool of 190 governors. Its structure mirrors that of the Executive Board and its 24 constituencies. As such, the IMFC represents all the member countries of the Fund.

The Development Committee is a joint committee, tasked with advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries. The committee has 24 members (usually ministers of finance or development). It represents the full membership of the IMF and the World Bank and mainly serves as a forum for building intergovernmental consensus on critical development issues.

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The Executive Board

The IMF's 24-member Executive Board conducts the daily business of the IMF and exercises the powers delegated to it by the Board of Governors, as well as those powers conferred on it by the Articles of Agreement. With the entry into force of the Board Reform Amendment on January 26, 2016, the all-elected Executive Board has been in place since the subsequent election took effect on November 1, 2016. Previously, the member countries holding the five largest quotas were each entitled to appoint an Executive Director, while 19 were elected by the remaining member countries.

Governance Reform

To be effective, the IMF must be seen as representing the interests of all its 190 member countries. For this reason, it is crucial that its governance structure reflect today's world economy. In 2010, the IMF agreed wide-ranging governance reforms to reflect the increasing importance of emerging market countries. The reforms also ensure that smaller developing countries will retain their influence in the IMF.

Topic 1: Improving to bring economic security and stability in Sri Lanka

Introduction:

Sri Lanka is facing the worst economic crisis in decades since its independence in 1948 and critics say its roots emerge from economic mismanagement by successive governments that created and sustained a twin deficit- budget shortfall and a current account deficit followed by a deep cut in taxes(2019) and the covid-19 lockdown which shutdown sri lanka's tourism and reduced its foreign exchange reserves by 70% it is unable to import essential commodities or fuel due to this. The government policy on banning various chemical plants hit the farming sector which led to the drop in food and cash crops. Currently the government is left with only $2.31 billion dollars but faces debt repayment of $4billion as of 2022. Sri Lanka is yet to pay its ISB(International sovereignty bond) which is of $12.5 billion dollars. Due to this economic crisis fuelled by the Russia and Ukraine war , People are paying for the economic crisis, civilians are facing constant power cuts, no access to health care and education and are requested to work from home to conserve resources.

Background:

Sri Lanka's primary sources of foreign cash, besides commodities exports, are tourism and remittances from its nationals working overseas. However, the COVID-19 outbreak struck precisely as travellers were making their way back to Sri Lanka following the Easter terror attacks in April 2019. The Russian invasion of Ukraine also had an effect because a significant portion of Sri Lanka's tourists were from both countries. Foreign-based Sri Lankan workers' remittances also decreased.

Sri Lanka was obligated to hand over a 99-year lease to a China-Sri Lanka joint venture to run the Hambantota port in 2017 after it became clear that Sri Lanka would be unable to pay back the costs of the port's development. Many believed this to be an instance of Chinese debt-trap diplomacy.

Sri Lanka doesn't have enough foreign currency to cover import costs or pay off debt. By the middle of 2020, Sri Lanka had enough reserves to cover four to five months' worth of imports. Since then, these reserves have only continued to decrease, and by the end of 2021, when reserves were only enough to cover one month of import payments, the situation had become serious. Through cash exchanges with Bangladesh and India, the government was able to survive until 2022.

Due to the lack of foreign exchange reserves, investor confidence in Sri Lanka plummeted, making it next to impossible for them to borrow the necessary funds to

finance imports of essential commodities, thereby leading to shortages in various essential goods, like gas.
Most of Sri-Lanka's borrowings take place through the free international market. Sri Lanka also issues a high amount of ISBs (International Sovereign Bonds), the downside of this being increased cost of borrowing and having to pay regular lump sum amounts.

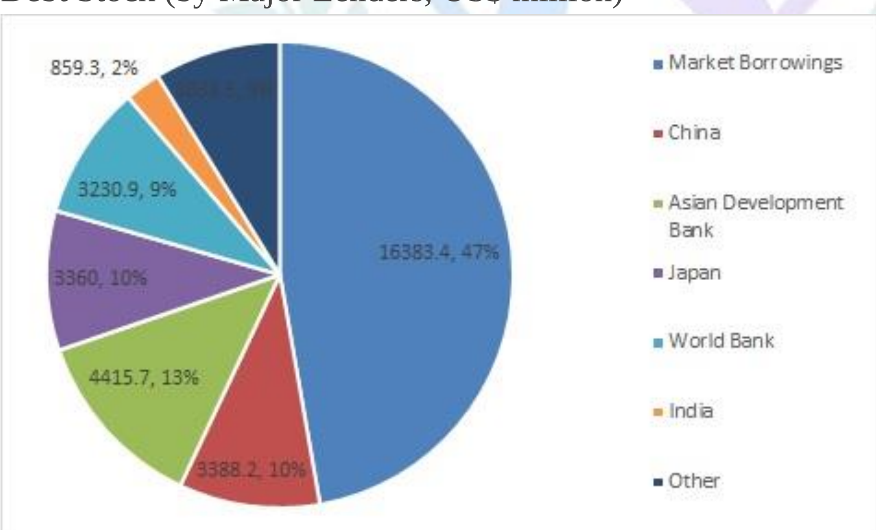
Sri Lanka and China:

Beginning in the middle of the 2000s, the Rajapaksa administrations developed close ties with China, which resulted in China implementing various infrastructure projects. China gave Sri Lanka loans and aid totaling $50 million between 1971 and 2012, 94% of which came after Mahinda Rajapaksa was elected president in 2005. Only 2% of this sum was in the form of grants; the remainder was in the form of low-interest loans.

Many have questioned the necessity of these projects given that the facilities constructed have not been fully utilized. But even when the pro-China Rajapaksa administration was overthrown in 2015, the new administration, which promised a more balanced approach to regional diplomacy, continued to issue ISBs. In actuality, the sum rose while that government was in power (January 2015 to November 2019).

As a result, Sri Lanka's external debt service obligations for 2019-21 totaled around US$4 billion, about half of which was due to ISB repayments.

Debt Stock (by Major Lenders, US$ million)



Definition of Key Terms:

Inflation
Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year.

Price Cap
A price-cap regulation is a form of economic regulation that sets a limit on the prices that a utility provider can charge.

Economic sanctions
Economic sanctions are punitive and deterrent actions taken by one government or multilateral body (such as the U.N.) against another country, entity or individual. Sanctions can take a variety of forms, including travel bans, asset freezes, arms embargoes, capital restraints, foreign aid reductions and trade restrictions.

Asset freezing
Asset freezing refers to the blocking of bank accounts and other financial assets of an individual or organization.

Joint purchasing agreements
Joint purchasing agreements are agreements under which two or more companies (and indeed, often a significant number of companies) agree to jointly purchase all or part of their product requirements.

Hot Money
It is the flow of funds (or capital) from one country to another in order to earn a short-term profit on interest rate differences and/or anticipated exchange rate shifts.

Sovereign Bond:
A sovereign bond is a specific debt instrument issued by the government. They can be denominated in both foreign and domestic currency.

Stand-By Arrangements (SBA)
It is an economic program which was launched by the International Monetary Fund to help its Member States in financial matters as well as during times of financial crisis.

Loan

A loan is a sum of money which is given from party A to party B with an agreed upon interest rate which is paid either annually, quarterly or monthly over a certain period of time until the entire borrowed sum is returned to party A with the interest amount.

Sovereign Debt

The sovereign debt is the amount of money owed by a government or a state to the lenders. This debt is issued by the national government for supporting the development and progress of the country.

Interest Policies

It is the interest rate set by the central bank State in order to influence the development of the main monetary economy.

Recession

Recession is a term from macroeconomics which refers to an obvious decline in a region's economy. It takes place when there is an excessive drop in spending which affects the economy in a negative manner.

Extended Fund Facility (EFF)

The EFF was established to provide assistance to countries experiencing serious payment imbalances because of structural impediments or slow growth and an inherently weak balance-of payments position. An EFF provides support for comprehensive programs including the policies needed to correct structural imbalances over an extended period

Flexible Credit Line (FCL)

The Flexible Credit Line (FCL) was designed to meet the demand for crisis-prevention and crisis mitigation lending for countries with very strong policy frameworks and track records in economic performance.

Precautionary Credit Line (PCL)

The Precautionary and Liquidity Line (PLL) is designed to flexibly meet the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the Flexible Credit Line (FCL).

Extended Credit Facility (ECF)

The Extended Credit Facility (ECF) provides financial assistance to countries with protracted balance of payments problems.

Standby Credit Facility (SCF)
The Standby Credit Facility (SCF) provides financial assistance to low-income countries (LICs) with short-term balance of payments needs.

Exogenous Shock Facility (ESF)
The Exogenous Shocks Facility-High Access Component (ESF-HAC), which was established in 2008, has provided concessional financing to Poverty Reduction and Growth Trust (PRGT)-eligible countries facing balance of payments needs caused by sudden and exogenous shocks.

Bilateral Borrowing Agreements (BBA)
Bilateral Borrowing Agreements serve as a third line of defense after quotas and the NAB. Since the onset of the global financing crisis, the IMF has entered into several rounds of bilateral borrowing agreements (BBAs) to ensure that it can meet the financing needs of its members.

Multilateral Borrowing
Multilateral and bilateral borrowing serve as a second and third line of defense, respectively, by providing a temporary supplement to quota resources. These borrowed resources played a critical role in enabling the IMF to support its member countries during the global economic crisis.

Debt Restructuring
Debt restructuring is a process used by companies, individuals, and countries to change the terms on loans to make them easier to pay back.

Balance of Payments
the balance of payments of a country is the difference between all money flowing into the country in a particular period of time and the outflow of money to the rest of the world.

Future prospects of the IMF:

The IMF aims first and foremost for the financial stability of its member nations. However, in recent times, we have seen a dependency of sorts on the IMF for countries, especially LEDCs, to bail them out of economic crises. This is not a sustainable practice.

Delegates must also find a solution to this sub-issue through the scope of the Sri Lankan crisis.

Guiding Questions:

1. What is the root cause of this economic crisis?
2. What is Sri Lanka's debt composition?
3. What are some case-studies of similar situations in other countries?
4. How can Sri Lanka's Balance of Payments situation be sorted?
5. What are some short term solutions to provide relief?
6. What are some sustainable long term options?
7. How will Sri Lanka meet the current maturities of its debt?
8. How will debt restructuring take place?

Suggested Moderated caucus topics:

1. Root causes of Sri-Lanka's crisis
2. Possible solutions to these issues
3. Debt Restructuring

PLEASE NOTE: These are only suggested caucus topics. We would expect you to come up with more of your own.
We expect delegates to discuss debt restructuring of Sri Lanka's borrowings, as the IMF's monetary support to them only becomes activated when the debt is restructured. Hence, we will expect blocs to include this in their resolution. We will be ignoring the fact that these debt restructuring talks are to take place between the countries, instead conducting it during the conference.

Further Research:

https://www.nippon.com/en/in-depth/d00840/
https://asia.nikkei.com/Spotlight/The-Big-Story/Asia-s-ticking-debt-bomb-Sri-Lanka-crisis-sounds-alarm-bells-across-region
https://www.orfonline.org/research/sri-lankas-imf-saga/

TOPIC 2: Addressing Europe's Silent Economic Crisis

Introduction and Background-

Almost 8 months after Vladimir Putin ordered Russian troops into Ukraine, its extent of damage to the European economy is becoming clear.

As real wages plummet, consumption falls, inflation escalates and supply chain problems choke the economy, Europe is being thrown into its largest energy crisis in decades with natural gas supplies from Russia becoming erratic and inconsistent. The eurozone's 4 prominent countries-Germany, France, Italy and Spain- have all had their growth forecasts notably degraded by the International Monetary fund, as a result of war and higher interest rates in the area, while the EU also predicts a continent wide recession in the coming winter of 2022-23.

Soaring gas prices have led to a trickle down effect, impacting a wide range of other industries. As prices surge and recession risks widen, an increasing proportion of people's income is being spent on essential items such as food and energy, leading to a cost-of-living crisis. Average worker wages are unable to keep up with rising prices as price pressure broadens, resulting in a marked loss in people's purchasing power and a decline in the labour share of income. The people of europe are falling hostage to the continent's devastating economic collapse, while governmental bodies still debate the best course of action.

Delegates of the International Monetary Fund have the crucial task of debating upon these escalating events to find plausible solutions for the same.

TIMELINE:

Nov 2021-Jan 2022	In an unusual move, the US shares intelligence with allies and the public about more than 150,000 Russian troops moving to Ukraine's border for a likely invasion. World leaders threaten Putin with sanctions, including canceling the Nord Stream 2 gas pipeline. Russia had previously weathered Western sanctions after its invasion and annexation of Crimea.
Jan 25, 2022	White House officials state the US, alongside allies and partners, was prepared to implement sanctions with "massive consequences that were not considered in 2014," including financial sanctions and export controls on US software and technology. They added, "the gradualism of the past is out, and this time we'll start at the top of the escalation ladder and stay

	there.”
Feb 21, 2022	In response to Putin’s decrees recognizing the LNR and DNR regions in Ukraine, the Biden administration issues an Executive Order (EO 14065) stopping new US investment in, US exports to, or US imports from the regions and the Council of the European Union imposes travel bans and asset freezes on five new individuals.
Feb 23, 2022	The EU imposes its first major package of sanctions against Russia, including an import ban on goods from the non-government controlled areas of DNR and LNR, restrictions on trade and investments, an export ban for certain goods and technologies, restrained Russian access to the EU’s capital and financial markets and services, and more travel bans and asset freezes for a number of Russian individuals
Feb 24, 2022	US Treasury sanctions Public Joint Stock Company Sberbank of Russia, requiring all US financial institutions to close Sberbank accounts and to reject any future transactions. The Treasury freezes the assets of Russian banks VTB Bank Public Joint Stock Company (VTB Bank), Otkritie, Novikom, and Sovcom. Treasury also sanctions 13 major Russian state-owned and private entities as well as other Russian oligarchs
Feb 26, 2022	The US, EU, UK, Canada, France, Germany, and Italy announce a joint action to remove some Russian banks from the SWIFT financial messaging system, to prevent the Russian Central Bank from deploying reserves to undermine sanctions, to limit “golden passports” used by Russian oligarchs to skirt sanctions by obtaining citizenship in other countries, as well as launching of a transatlantic task force. Japan issues a similar statement on February 27.
Mar 11, 2022	The US, EU, UK, Canada, France, Germany, Italy, and Japan announce new actions to impose economic costs on Russia, including increasing import tariffs to eliminate World Trade Organization (WTO) membership benefits, denying Russia’s borrowing privileges at the World Bank and IMF, and other trade and financial sanctions.
Mar 16, 2022	Officials of finance, justice and home ministries from the US, Australia, Canada, Germany, France, Italy, Japan, the UK, and the EU meet and launch the Russian Elites, Proxies, and Oligarchs (REPO) multilateral task force.
Mar 24, 2022	Group of 7 (G7) and EU leaders meet at NATO headquarters in Brussels and commit to fully implement sanctions already announced, work with other governments to impose similar sanctions, and prevent “evasion,

	circumvention and backfilling" that would undercut the effectiveness of already imposed sanctions. Leaders announce a joint initiative to respond "to evasive measures, including regarding gold transactions by the Central Bank of Russia."
Apr 6, 2022	Following the G7 and EU announcement, the UK imposes financial sanctions on Sberbank, Credit Bank of Moscow, and 8 oligarchs. The UK also bans all new outward investment to Russia, bans imports of Russian iron and steel products, commits to end imports of Russian coal and oil by the end of 2022 and gas "as soon as possible thereafter," and bans exports to Russia of quantum and advanced material technologies.
Apr 6, 2022	The Biden administration issues an Executive Order (EO 14071) banning new outbound US foreign investment into Russia as well as services exports. The US Treasury also imposes financial sanctions on Sberbank, Alfa-Bank, and family members of Putin, Lavrov, and Russian Security Council members.
Apr 8, 2022	The EU imposes its fifth major package of sanctions. It bans imports of Russian coal starting in August 2022 and other products such as wood, cement, fertilizers, seafood, and liquor. It expands export bans to include jet fuel, quantum computers, semiconductors, and other technology products and services. It prohibits Russian vessels from accessing EU ports as well as Russian and Belarusian vehicles from using EU roads. It imposes a full transactions ban on 4 more Russian banks and imposes financial sanctions on Russian oligarchs, politicians, and their family members, including Putin's daughters. It also bans Russian companies from EU public procurement projects.
May 6, 2022	To commemorate the end of the Second World War in Europe, G7 leaders state forthcoming sanctions will include phasing out dependence on Russian energy; export bans on key services; additional sanctions against Russian banks, oligarchs, and individuals; and efforts to fight off Russia's propaganda.
Jun 3, 2022	The EU adopts its sixth major package of sanctions that eventually bans imports of Russian crude oil and petroleum products with limited exceptions (announced May 30-31), bans SWIFT for three Russian banks and one Belarusian bank, suspends broadcasting in the EU for three Russian media outlets, and sanctions an additional 65 individuals and 18 entities, including banning travel and freezing assets of individuals responsible for atrocities in Bucha and Mariupol.
Jun 27,	At the G7 summit in Germany, leaders state they are exploring new ways

2022	to isolate Russia from the global economy and crack down on evasion and "backfilling" activities (finding other sources or markets for sanctioned supplies or resources). Forthcoming sanctions include measures to reduce Russia's revenues from selling gold, further reduce dependency on Russian energy, coordinate tariff measures on Russia's exports, and target individuals responsible for war crimes as well as those contributing to food insecurity by stealing and exporting Ukrainian grain.
Jun 29, 2022	The Russian Elites, Proxies, and Oligarchs (REPO) Task Force issues a joint statement summarizing its progress in jointly blocking or freezing Russians' assets and promoting effective sanctions implementation.
Jul 26, 2022	The EU renews economic sanctions over Russia's military aggression against Ukraine for another six months, until January 31, 2023.
Sep 2, 2022	Group of 7 (G7) finance ministers agree to finalize and implement a price cap on Russian crude oil and petroleum products. The measure would prohibit the maritime transportation of Russia's oil and petroleum exports globally unless the products are purchased at or below a certain price.
Oct 6, 2022	The EU adopts its eighth package of sanctions against Russia. Sanctions including the potential implementation of the price cap on Russian oil (agreed with the G7 and announced on September 2)

Guiding Questions and Suggested Moderated Caucus topics:

1. What are the causes?
2. What are some solutions to the issue?
3. What are the long term and short term effects of price caps?

Further Research:

https://euobserver.com/green-economy/156274
https://www.piie.com/blogs/realtime-economics/russias-war-ukraine-sanctions-timeline
https://www.nytimes.com/article/ukraine-russia-war-timeline.html
https://www.politico.eu/article/europe-gas-price-cap-options-explained/
https://foreignpolicy.com/2022/10/10/europe-energy-crisis-russia-ukraine-war-ones-and-tooze/

https://www.euronews.com/my-europe/2022/10/04/energy-crisis-an-eu-cap-on-gas-prices-would-end-the-market-as-we-know-it-experts-warn https://www.euronews.com/my-europe/2022/10/12/energy-crisis-eu-still-split-on-gas-cap-as-germany-and-the-netherlands-join-forces-to-oppo