THE

INTERNATIONAL

MONETARY

FUND

INTRODUCTION

- IMF is a forum of national economic policies, international monetary and financial systems, Which involves active dialogue with each member Country.

- *When there is a country where has a serious finance problem, other countries loan the money for the poor country.IMF is a kind of association among the countries to prepare the situation when the nation bank of country is bankrupted.*

- *IMF is an administrative unit that is international in nature and whose objective is to regulate and administer the financial system of the world.*

HISTORY OF IMF

- The International Monetary Fund was created in 1944, at the Bretton Woods conference to prevent the kinds of chain reaction in the economic system that caused world currencies to collapse like in the Great Depression of the 1930s.
- Bretton wood agreement was contracted in 1944 and IMF was created in 1946.
- IMF started to make service with IBRD (international bank of reconstruction and development) in 1947.
- The IMF was created to support orderly international currency exchanges and to help nations having balance of payment problems through short term loans of cash.

ABOUT IMF

- IMF headquarters is in Washington D.C , U.S.A
- Five largest shareholders are United States, Japan, Germany, France, United Kingdom.
- China, Russia, and Saudi Arabia have their own seats on the Board.
- 16 other Executive Directors are elected for two year terms by groups of countries, known as “Constituencies”.
- Total outstanding loans of $1 trilion to different countries
- The International Monetary Fund (IMF) is an organization of 190 countries.

Objectives:
6 major objective

I. To promote international monetary cooperation through a permanent institution which provides the machinery for consolation and collaboration on international monetary problems.

II. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objective of economic policy.

III. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

IV. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

V. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments, without resorting to measures destructive of national or international prosperity.

VI. In accordance with the above, to shorten the duration and lessen the degree of dis-equilibrium in the international balance of payments of members.

Organizational Structure of International Monetary Fund (IMF)

The IMF is headed by a Managing Director (Ms. Kristalina Georgieva, from Bulgaria, 2023) who is elected by the Executive Board for a 5-year term of office.
The International Monetary Fund (IMF) consists of the Board of Governors, Ministerial Committees, and the Executive Board.

Board of Governors

- Each governor of the Board of Governors is appointed by his/her respective member country.
- Elects or appoints executive directors to the Executive Board.
- Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the Development Committee.

Ministerial Committees

- International Monetary and Financial Committee (IMFC)
- Development Committee
- It manages the international monetary and financial system.
- Amendment of the Articles of Agreement.
- To solve the issues in the developing countries that are related to economic development.

Executive Board

- It is a 24-member board that discusses all the aspects of the Funds.
- The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

Functions:

The principal function of the IMF is to supervise the international monetary system. Several functions are derived from this.

1. **Maintaining exchange Stability:** discourage fluctuation (High) in exchhange rate
    - Each member country declares a per value of its currency in terms of gold or US dollar as a common denominator
    - free convertibility of their currency
    - Develuation upto 10% in necessary case and more than this require approval of governing body.
    - IMF may declare a currency scarce, and the concern country maasked to revalue and maintain import.
    - Forbidden for multiple exchange rate
    - Forbidden to purchase and sale of gold at price other than the declarded par value.
    - IMF act as lender of the last resort and provide financial assistant to memebr countries.

2. **<u>Cerdit facilities:</u>**

IMF provide borrowing facilities to help the membr countries to correct disequlibrium in BoP.

(i) Stand-by Arrangements / Basic Credit Facilities

This method of borrowing has become the most normal form of assistance by the Fund.

Under this form of borrowing, a member state obtains the assurance of the Fund that, usually over 12-18 months, requests for drawings of foreign exchange (i.e., to meet short- term BOP problems) up to a certain amount will be allowed if the country concerned wishes.

(ii) Extended Fund Facility (EFF):

Stand-by arrangements to stabilise a member's BOP run usually for a period of 3-4 year. Developing countries suffer from chronic BOP problems which could not be remedied in the short run. Such protracted BOP difficulties experienced by the LDCs were the result of structural imbalances in production and trade. It then necessitated an adjust ment programme and redemption scheme of longer duration.

(iii) Compensatory Financing Facility (CFF):
Apart from the ordinary drawing rights, there are some 'special finances' windows to assist the developing countries to tide over BOP difficulties.Under it, members were allowed to draw up to 45 p.c. of its quota since the mid- 1990s.

(iv) Poverty Reduction and Growth Facility (PRGF):
The PRGF provides concessional lending to help the poorest member countries with the aim of making poverty reduction and economic growth —the central objectives of policy programmes. Under this facility, low-income member countries are eligible to borrow up to 140 p.c. of its quota for a 3-year period. Rate of interest that is charged is only 0.5 p. c and repayment period covers 5 1/2-10 years.

(v) Supplemental Reserve Facility (SRF):
This instrument provides additional short-term financing to member countries facing exceptional BOP difficulties because of a sudden and disruptive loss of market confidence reflected in capital outflows of countries concerned.

3. **Balancing Demand and Supply of Currencies:**

4. Maintenance of liquidity:

5. Interest Change:

6. Technical Assistance:

7. Allocation of Profits:

Development OF IMF

In the 1930s, many countries faced economic problems. Some of such problems were falling standard of living and unemployment by large number of people. Trading between different countries also came down. Some countries reduced the value of their currencies. All such factors combined and an economic depression resulted. By late 1939, the Second World War had started.

After the Second World War was over, most countries found that the international value was not smooth and faced many restrictions. Leaders of many countries thought over these matters and discussed them in meetings. Thus, after the Second World War, many countries felt the need to have an organization to get help in monetary matters between countries. To begin with, 29 countries discussed the matter, and signed an agreement. The agreement was the Articles of Association of the International Monetary Fund. The International Monetary Fund came into being in 29th December 1945.

Cooperation and reconstruction (1944–71)

As the Second World War ends, the job of rebuilding national economies begins. The IMF is charged with overseeing the international monetary system to ensure exchange rate stability and encouraging members to eliminate exchange restrictions that hinder trade

The end of the Bretton Woods System (1972–81)

After the system of fixed exchange rates collapses in 1971, countries are free to choose their exchange arrangement.

Societal Change for Eastern Europe and Asian Upheaval (1990–2004)

The IMF plays a central role in helping the countries of the former Soviet bloc transition from central planning to market-driven economies.

Globalization and the Crisis (2005 - present)

The implications of the continued rise of capital flows for economic policy and the stability of the international financial system are still not entirely clear. The current credit crisis and the food and oil price shock are clear signs that new challenges for the IMF are waiting just around the corner.

Achievements of IMF:

From this balance sheet of the working of the IMF, we are now in a position to evaluate its performance over the last 80 years or so.

The IMF acts both as a financing and an adjustment-oriented international institution for the benefit of its members It has been providing financial assistance to the deficit countries to meet their temporary disequilibrium in BOP.

It has made an attempt to solve the problem of international liquidity. To create international liquidity. Special Drawing Rights (SDRs)—an artificial currency—were created in 1969 as foreign exchange reserves to benefit the developing countries in particular. SDR allocations are made to member countries to finance the BOP deficits.

With the collapse of the Soviet Union in 1989, ex-communist countries became members of the Fund and the Fund is providing assistance to these countries so as to instill, the principles of market economy. It has decided to finance resources to combat terrorism and money-laundering.

Role of IMF in Economic Development of LDCs:

It shifted its focus of attention to the developing countries in the late 1970s. In the 1980s, it became more generous in providing resources to the countries in difficulty.

The IMF now serves the needs of global finance instead of the needs of global stability. The use of conditionality and the direct 'surveillance' on macroeconomic policy by the Fund is suggestive of increasing involvement in the LDCs' development process.

Drawings from the EFF, SRF, PRGF, etc., are available if the member countries agree to a stabilisation programme.

Structural adjustment programmes are said to be preconditions for securing Bank-Fund loans. Its adverse impacts on the LDCs are varied and numerous.

Latest research data (2006) for 98 countries during 1970-2000 revealed a negative impact of the IMF programmes on the per capita income growth of 1.7 p.c. p.a. Another study (1991) of 40 countries showed negligible growth in GDP, marginal increase in export growth and the BOP situation and a decline in investment.

IMF and INDIA

Historical Context: In the 1980s and early 1990s, India faced a severe balance of payments crisis, leading to loan arrangements with the IMF to stabilize its economy.

Economic Reforms: India, in some instances, had to undertake policy changes, such as liberalization of trade, fiscal reforms, and currency devaluation, as part of the loan agreements.

Policy Recommendations: This advice includes suggestions on fiscal and monetary policies, reforms in the financial sector, and strategies for sustainable economic growth.

Technical Support: The IMF has provided technical support and training to Indian policymakers and officials to enhance their capabilities in economic policymaking, financial management, and governance.

Surveillance and Monitoring: The IMF regularly conducts economic reviews and assessments of India's economy.

Shift in India's Economic Position: As India has become a larger economy and a more significant player in the global market, its relationship with the IMF has evolved.

Research and Collaboration: India has collaborated with the IMF on various research initiatives and has participated in policy discussions regarding global economic issues.

Current Relevance of IMF:

Global Economic Surveillance and Policy Advice: The IMF continues to monitor and assess the global economy, providing economic analysis, forecasts, and policy recommendations.

Financial Assistance and Crisis Response: The IMF plays a critical role in providing financial assistance to member countries facing economic crises or balance of payments difficulties.

Policy Advocacy and Reform Programs: These policies often aim to improve economic stability, fiscal responsibility, and resilience against external shocks.

Debt Relief and Management:
Special Drawing Rights (SDRs):
Climate and Economic Resilience:
Addressing Inequality and Social Issues: