

International Monetary Fund (IMF)

The International Monetary Fund, also known as the IMF or simply the 'Fund', was conceived at a United Nations Conference convened in Bretton Woods, New Hampshire, US in July 1944. The 45 governments represented at the conference sought to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

The IMF offers regular dialogue and policy advice to each of its members. Generally, once a year, the Fund conducts in-depth appraisals of each member country's economic situation. It discusses with the country's authorities the policies that are most conducive to stable exchange rates and a growing and prosperous economy.

In its overview of its members' economic policies, the IMF looks mainly at a country's macroeconomic performance. This comprises total spending and its major components such as consumer spending and business investment, output, employment, and inflation, as well as the country's balance of payments.

Responsibilities of the International Monetary Fund

- i.** Promoting international monetary cooperation
- ii.** Facilitating the expansion and balanced growth of international trade
- iii.** Promoting exchange stability
- iv.** Assisting in the establishment of a multilateral system of payments.
- v.** Making its resources available, under adequate safeguards to members experiencing balance of payments difficulties

The Fund seeks to promote economic stability and prevent crises; to help resolve crises when they do occur, and to promote growth and alleviate poverty.

Objectives of IMF

1) International Monetary Co-Operation

The most important objective of the Fund is to establish international monetary co-operation amongst the various member countries through a permanent institution that provides the machinery for consultation and collaborations in various international monetary problems and issues.

2) Ensure Exchange Stability

Another important objective of the Fund is to ensure stability in the foreign exchange rates by maintaining orderly exchange arrangement among members and also to rule out unnecessary competitive exchange depreciations.

3) Balanced Growth of Trade

IMF has also another important objective to promote international trade so as to achieve its required expansion and balanced growth. This would ensure development of production resources and thereby promote and maintain high levels of income and employment among all its member countries.

4) Eliminate Exchange Control

Another important objective of the Fund is to eliminate or relax exchange controls imposed by almost each and every country before Second World War as a device to deliberately fix the exchange rate at a particular level. Such elimination of exchange controls was made so as to give encouragement to the flow of international trade.

5) Multilateral Trade and Payments

To establish a multilateral trade and payment system in respect to current transactions between members in place of the old system of bilateral trade agreements was another important objective of IMF.

6) Balanced Growth

Another objective of IMF is to help the member countries, especially the backward countries, to attain balanced economic growth by exchange the level of employment.

7) Correction of BOP

Maladjustments IMF also help the member countries in eliminating or reducing the disequilibrium or maladjustments in balance of payments. Accordingly, it gives confidence to members by selling or lending Fund's foreign currency resources to the member nations.

8) Promote Investment of Capital

Finally, the IMF also promotes the flow of capital from richer to poorer or backward countries so as to help the backward countries to develop their own economic resources for attaining higher standard of living for its people, in general.

Success of IMF

1. International Monetary Cooperation
2. Reconstruction of European Countries
3. Multilateral System of Foreign Payments
4. Increase in International Liquidity
5. Increase in International Trade
6. Special Aid to Developing Countries
7. Providing Statistical Information
8. Helpful in Times of Difficulties
9. Easiness & Flexibility in Making International Payments

Failures of IMF

1. Lack of Stability in Exchange Rate

2. Lack of Stability in the Price of Gold
3. Inability to Remove Restrictions on Foreign Trade
4. Rich Nations Club
5. No help for development projects
6. No Solution of International Liquidity
7. Interference in Domestic Economies
8. Inability to tackle the Monetary Crisis of August 1971
9. Less Aid for Developing Countries
10. High Rate of Interest

India & IMF

India is a founder member of IMF. Earlier India was made a permanent Executive Director of the Board of Directors. At present India is no longer a permanent director. India is now an elected member of IMF. India's rank is 13th among 185 member nations.

Advantages from Membership of IMF to India:

- IMF has played an important role in Indian economy. **IMF has provided economic assistance from time to time to India** and has also provided appropriate consultancy in determination of various policies in the country.
- Till 1970, India was among the first five nations having the highest quota with IMF and due to this status **India was allotted a permanent place in Executive Board of Directors.**
- In July 2004, **India and IMF joint training programme** at the National Institute of Bank Management, Pune was established

- International regulation by IMF in the field of money has certainly contributed towards **expansion of international trade and thus prosperity**. India has, to that extent, benefitted from these fruitful results.
- **Large Financial Assistance.** Not only indirectly but directly also, her membership has been of great advantage. We know how, in the post-partition period, India had serious balance of payments deficits, particularly with the dollar and other hard currency countries.
- **Help by IMF in crucial timings:** crucial timings of and special circumstances under which such assistance was availed of. Such help was forthcoming when the country was faced with critical foreign exchange situations.
- Aid from World Bank and Other International Financial Agencies. The membership of the IMF has benefitted India in yet another important way. **India wanted large foreign capital for her various river projects, land reclamation schemes and for the development communications**
- The membership of the IMF is a necessary condition precedent to the membership of the World Bank. Thus, **India's membership of the IMF has entitled her to be a member of the World Bank and its affiliates viz., International Finance Corporation (IFC) and International Development Association (IDA).**

World Bank

The World Bank is an international financial institution that provides loans to developing countries for capital programs. It comprises two institutions: **the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)**. The World Bank is a component of the World Bank Group, and a member of the United Nations Development Group.

The World Bank's official goal is the reduction of poverty. According to its Articles of Agreement, all its decisions must be guided by a commitment to the promotion of foreign investment and international trade and to the facilitation of Capital investment.

During World War II, in the year 1944, a decision for the establishment of two institutions was taken in a Conference held at Bretton Woods in America. The institutions to be established were

(1) International Monetary Fund and

(2) International Bank for Reconstruction and Development or World Bank.

The objective of IMF was to stabilize exchange rates by removing temporary balance of payments deficits. On the other hand, the objective of the International Bank for Reconstruction and Development (IBRD) or the World Bank was the reconstruction of war-ravaged economies and provision of necessary capital for the economic development of underdeveloped countries. The bank was established in 1945 and started its function in June 1945. The World Bank is an inter-governmental institution and corporate in form. Its capital is wholly owned by its member countries.

History-World Bank

Conceived during **World War II (July, 1944) at Bretton Woods, New Hampshire.**

1944 - 1968: Bank president John McCloy selected France to be first recipient of World Bank aid. The loan was for US\$250 million.

1968 - 1980: The bank concentrated on meeting the basic needs of people in the developing world. The size and number of loans to borrowers was greatly increased as loan targets expanded from infrastructure into social services and other sectors.

Initially was called the International Bank for Reconstruction and Development (IBRD). Now is called the "World Bank Group.

Objectives

The following objectives are assigned by the World Bank:

1. To provide long-run capital to member countries for economic reconstruction and development.

2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.
3. To provide guarantee for loans granted to small and large units and other projects of member countries.
4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.
5. To promote capital investment in member countries by the following ways;
 - (a) To provide guarantee on private loans or capital investment.
 - (b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Functions of the World Bank

- It helps the war-devasted countries by granting those loans for reconstruction.
- Thus, they provide extensive experience and the financial resources of the bank help the poor countries increase their economic growth, reducing poverty and a better standard of living.
- Also, it helps the underdeveloped countries by granting development loans.
- So, it also provides loans to various governments for irrigation, agriculture, water supply, health, education, etc.
- It promotes foreign investments to other organizations by guaranteeing the loans.
- Also, the World Bank provides economic, monetary, and technical advice to the member countries for any of their projects.
- Thus, it encourages the development of of-industries in underdeveloped countries by introducing the various economic reforms.

Purposes of the World Bank

- It wants to create an environment that is a pro-investment.
- Also, it wants to improve the omic stability by reducing poverty.
- So, it is working towards achieving sustainable growth.
- Increasing the opportunities for jobs and business in member nations which are underdeveloped.
- Through investment, it plans to promote the socio-economic status of the society.
- Also, it wants to ensure that the judicial and legal systems are developed and individual rights are protected.
- Strengthen the government of its member nations by promoting education.
- Combating corruption and to ensure that there are adequate training opportunities and research facilities.
- It wants to provide loans with low-interest rates and interest-free credits.