

International Monetary Fund



Dhaval J. Pandya, Ph.D.

Head & Asst. Prof., Department of Economics,

Udhna Citizen Commerce College & SPBCBA & SDHG College of BCA & IT,
Udhna, Surat.

Origin of IMF

- The IMF, also known as the Fund, was conceived at a UN conference in Bretton Woods, New Hampshire, United States, in July 1944. The 44 countries at that conference sought to build a framework for economic cooperation to avoid a repetition of the competitive devaluations that had contributed to the Great Depression of the 1930s.
- The Bretton Woods Conference proposed the setting up of :
 - 1.The International Monetary Fund (IMF) to alleviate the problems of international liquidity & to achieve international monetary stability.
 - 2.The International Bank for Reconstruction & Development (IBRD) to help the reconstruction & development of various national economies by providing long term capital assistance ; &
 - 3.The International Trade Organisation (ITO) to work towards the liberalisation of international trade.

Members

- At present **International Monetary Fund (IMF)** is an organization of 193 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
- The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

Three Critical Mission of IMF

1. Furthering international monetary cooperation.
2. Encouraging the expansion of trade and economic growth.
3. Discouraging policies that would harm prosperity.

The Primary Purpose

Are as follows-

- **Promote** international monetary cooperation.
- **Facilitate** the expansion & balanced growth of international trade.
- **Promote** exchange stability & maintain the orderly exchange arrangement among members.
- **Assist** in establishing multilateral system of payments & in eliminating foreign exchange restrictions.
- **Make** available to the members the IMF's general resources to enable them to correct B/Ps problems.
- **Shorten** the duration & **lessen** the degree of disequilibrium in B/Ps of member nations.

Objectives of IMF

- In **Article 1.** of the Fund agreement the objectives of IMF are as follows-
 - 1.To avoid the competitive devaluation & exchange control.
 - 2.To establish & maintain convertibility with stable exchange rate.
 - 3.To develop multilateral trade & payments.

Functions of IMF

- IMF is regarded as 'the guardian of good conduct' in the area of B/Ps.
- IMF aims at reducing tariffs & other trade restrictions.
- IMF provides technical assistance regarding monetary & fiscal policies to its member nations.
- IMF provides short term financial assistance to its members to get rid of the B/Ps problems or crisis.
- IMF provides machinery for the orderly adjustments of exchange rates.
- IMF functions as a reservoir of currencies of member countries & enables the members to borrow other currencies.

Secondary Functions of IMF

- IMF functions as a lending institution of foreign currencies.
- IMF provides machinery for altering the par values of the currencies of member nations in order to improve long term B/Ps positions.
- IMF also provides machinery for international consultancy.
- IMF conducts research studies & publishes the reports.
- IMF conduct short term training courses on fiscal, monetary & B/Ps for employees of member nations.

Responsibilities....

- The IMF's responsibilities:

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.

Organisational Structure

- IMF is an autonomous organisation affiliated to UNO.
- The organisational structure of IMF consists of –

Board of Governors



Executive Board of Directors



Managing Director



IMF Secretariat

Resources of IMF

- There are mainly two sources IMF namely,
 1. Subscriptions by members &
 2. Borrowing- from official entities & from private sources.
 - A. General Agreement to Borrow(GAB)-1962.
 - B. New Arrangement to Borrow (NAB)-1998.

Financial Facilities & Polices

- The maximum amount of financing a member can obtain from the IMF is based on its quota.
- Two of the IMF's special facilities are-
 1. Supplemental Reserve Facility.(SRF)
 2. Contingent Credit Lines (CCL)

Financial Facilities & Polices

Others are-

1. Regular Lending Facility-
 - a. Stand by Arrangements.
 - b. Extended Fund Facility.
2. Special Lending Facilities
 - a. Supplementary Reserve Facility
 - b. Contingent Credit Lines
 - c. Compensatory Financing Facility
3. Concessional Lending Facility
4. Review of Facility

Other Policies of IMF

- Emergency Assistance.
- Emergency Financial Mechanism.
- Conditionality.
- Technical Assistance.

Special Drawing Rights(SDRs)

- The SDR is an International Reserve Asset created by IMF in 1969 to supplement the members' existing reserve asset- official holding of gold, foreign exchange & reserve position of IMF.
- The SDR is also a unit of account for IMF operations & transaction & serves as a similar function in a no. of other international & regional organisations & conventions.

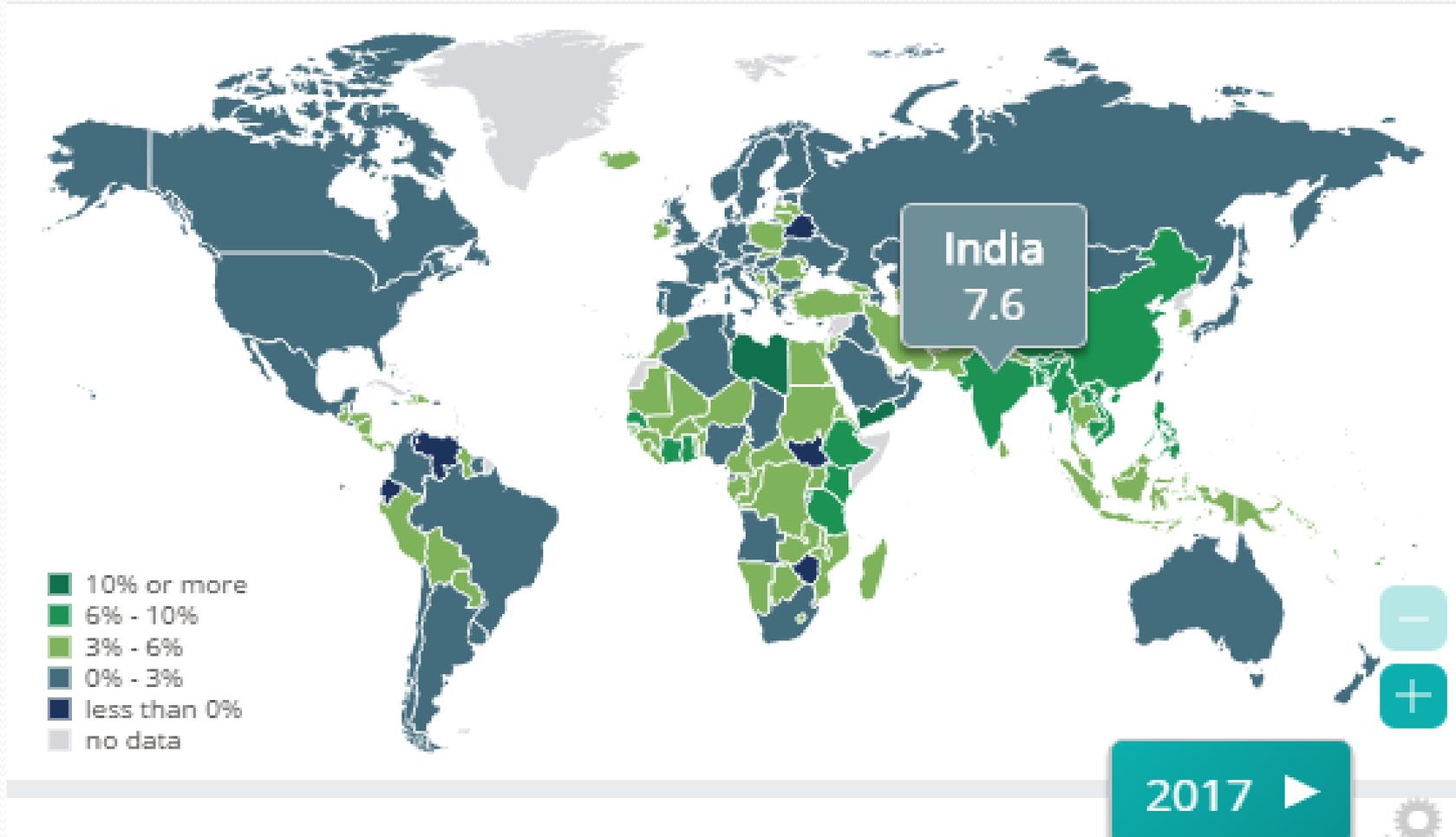
SDRs

- Valuation of SDRs :
- The value of SDR is determined on daily based baskets of major international currencies.
- The basket is reviewed every five years to ensure that the currencies included in it are representatives of those used in international transactions & that the weights assigned to the currencies reflect their relative importance in the world's trading & financial systems.
- The SDR interest rate is adjusted weekly, is a weighted average of interest rate of selected short term domestic instruments.

SDRs

- SDR Allocations :
- The Board of Governors can decide to supplement existing reserves through the allocation of SDRs. Such an decision requires 85 percent of majority.
- SDR allocations given on the basis of the member's contribution in the Fund.(Quota)

Real G.D.P. Growth (Annual Percentage)



Growth Rates



Suggested Readings

- Cherunilum F, (2001),Global Economy & Business Environment, Himalaya Publishing House, Mumbai.
- Rao S P, (2001),International Business- Text & Cases, Himalaya Publishing House, Mumbai
- Aswathappa K,(2006),Essentials of Business Environment , Himalaya Publishing House, Mumbai
- Mishra & Puri, (2009),Economic Environment of Business, HPH, Mumbai.



Any Questions ??