SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA FA 404

SUBJECT NAME: INTERNATIONAL MARKETING

UNIT-V

TOPIC NAME: INTERNATIONAL MONETARY FUND

Abbreviation	IMF
Formation	27 December 1945; 74 years ago
Type	International financial institution
Purpose	Promote international monetary co-operation, facilitate international trade, foster sustainable economic growth, make resources available to members experiencing balance of payments difficulties
Headquarters	Washington, D.C. U.S.
Location	Headquartered in Washington, D.C.
Coordinates	38°53′56″N 77°2′39″WCoordinates: 38°53′56″N 77°2′39″W
Region	Worldwide
Membership	189 countries
Official language	English

Managing Director	Kristalina Georgieva
Chief Economist	Gita Gopinath
Main organ	Board of Governors
Parent organization	United Nations
Staff	2,400
Website	www.imf.org

The International Monetary Fund (IMF) is an organization of 189 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.

Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership.

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. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

The International Monetary Fund (IMF) is an international organization headquartered in Washington, D.C., consisting of 189 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 while periodically depending on the World Bank for its resources. Formed in 1944 at the Bretton Woods Conference primarily by the ideas of Harry Dexter White and John Maynard Keynes, it came into formal existence in 1945 with 29 member countries and the goal of reconstructing the international payment system. It now plays a central role in the management of balance of payments difficulties and international financial crises. Countries contribute funds to a pool through a quota system from which countries experiencing balance of payments problems can borrow money. As of 2016, the fund had XDR 477 billion (about US$ 667 billion).

Through the fund and other activities such as the gathering of statistics and analysis, surveillance of its members' economies, and the demand for particular policies, the IMF works to improve the economies of its member countries. The organization's objectives stated in the Articles of Agreement are: to promote international monetary co-operation, international trade, high employment, exchange-rate stability, sustainable economic growth, and making resources available to member countries in financial difficulty. IMF funds come from two major sources: quotas and loans. Quotas, which are pooled funds of member nations, generate most IMF funds. The size of a member's quota depends on its economic and financial importance in the world. Nations with larger economic importance have larger quotas. The quotas are increased periodically as a means of boosting the IMF's resources in the form of special drawing rights.

The current Managing Director (MD) and Chairwoman of the IMF is Bulgarian Economist Kristalina Georgieva, who has held the post since October 1, 2019.

Gita Gopinath was appointed as Chief Economist of IMF from 1 October 2018. She received her PhD in economics from Princeton University. Prior to her IMF appointment she was economic adviser to the Chief Minister of Kerala, India.

FUNCTIONS OF IMF:

1. Exchange Stability:

The first important function of IMF is to maintain exchange stability and thereby to discourage any fluctuations in the rate of exchange. The Found ensures such stability by making necessary arrangements like—enforcing declaration of par value of currency of all members in terms of gold or US dollar, enforcing devaluation criteria, up to 10 per cent or more by more information or by taking permission from IMF respectively, forbidding members to go in for multiple exchange rates and also to buy or sell gold at prices other than declared par value.

2. Eliminating BOP Disequilibrium:

The Fund is helping the member countries in eliminating or minimizing the short-period equilibrium of balance of payments either by selling or lending foreign currencies to the members. The Fund also helps its members towards removing the long period disequilibrium in their balance of payments. In case of fundamental changes in the economies of its members, the Fund can advise its members to change the par values of its currencies.

3. Determination of Par Value:

IMF enforces the system of determination of par values of the currencies of the members countries. As per the Original Articles of Agreement of the IMF every member country must declare the par value of its currency in terms of gold or US dollars. Under the revised Articles, the members are given autonomy to float or change exchange rates as per demand supply conditions in the exchange market and also at par with internal price levels.

As per this article, IMF is exercising surveillance to ensure proper working and balance in the international monetary system, i.e., by avoiding manipulation in the exchange rates and by adopting intervention policy to counter short-term movements in the exchange value of the currency.

4. Stabilize Economies:

The IMF has an important function to advise the member countries on various economic and monetary matters and thereby to help stabilize their economies.

5. Credit Facilities:

IMF is maintaining various borrowing and credit facilities so as to help the member countries in correcting disequilibrium in their balance of payments. These credit facilities include-basic credit facility, extended fund facility for a period of 3 years, compensatory financing facility, lociffer stock facility for helping the primary producing countries, supplementary financing facility, special oil facility, trust fund, structural adjustment facility etc. The Fund also charges interest from the borrowing countries on their credit.

6. Maintaining Balance between Demand and Supply of Currencies:

IMF is also entrusted with important function to maintain balance between demand and supply of various currencies. Accordingly the fund can declare a currency as scarce currency which is in great demand and can increase its supply by borrowing it from the country concerned or by purchasing the same currency in exchange of gold.

7. Maintenance of Liquidity:

To maintain liquidity of its resources is another important function of IMF. Accordingly, there is provision for the member countries to borrow from IMF by surrendering their own currencies in exchange. Again for according accumulation of less demand currencies with the Fund, the borrowing countries are directed to repurchase their own currencies by repaying its loans in convertible currencies.

8. Technical Assistance:

The IMF is also performing a useful function to provide technical assistance to the member countries. Such technical assistance in given in two ways, i.e., firstly by granting the members countries the services of its specialists and experts and secondly by sending the outside experts.

Moreover the Fund has also set up two specialized new departments:

(a) Central Banking Services Department and

(b) Fiscal Affairs Department for sending specialists to member countries so as to manage its central banks and also on fiscal management.

9. Reducing Tariffs:

The Fund also aims at reducing tariffs and other restrictions imposed on international trade by the member countries so as to cease restrictions of remittance of funds or to avoid discriminating practices.

10. General Watch:

The IMF is also keeping a general watch on the monetary and fiscal policies followed by the member countries to ensure no flouting of the provisions of the charter.

OBJECTIVES OF IMF:

The main objectives of IMF, as noted in the Articles of Agreement, are as follows:

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 helps 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.

ORGANISATION OF IMF:

The IMF, which started functioning in March 1947, is an autonomous organization and is affiliated to U.N.O. As per Fund Agreement, the headquarters of the IMF should be located in that country which usually possess the highest quota of capital of the IMF. Accordingly, the head office of IMF is located at Washington. At the initial stage, the IMF had 30 countries as its members. Later, as on April 30, 1986, the total membership of the IMF rose to 149.

Since inception, the management of the IMF is rested on two bodies:

a) Board of Governors and

b) Board of Executive Directors.

Every member country appoints one Governor for participating in the meetings of Board of Governors and also appoints one Alternate Governor to represent the Governor is respect of its absence. The Board of Governors in authorized to formulate the general policies of the Fund. To carry on day to day activities of the IMF, the Board of Executive Directors in formed.

At present, there are 22 members in the Board of Executive Directors, six of which are appointed by members maintaining largest quotas, i.e. USA, UK, Germany, France, Japan and Saudi Arabia and the remaining sixteen directors are elected by other nations. The Managing Director of Board of Directors, the top most official of IMF, in elected by the Board of Directors. He is responsible for organisation and management of the Fund.

RESOURCES OF IMF:

The resources of IMF are built up by the subscription of members. Again the subscription quota of each member is determined by its national income and its condition of international trade. After determination of quota, every member nation contributes 25 per cent of its quota in international reserve assets and the remaining 75 per cent is contributed in member's own currency.

The contribution of first 25 per cent was made originally in terms of gold but now it is being made in Special Drawing Rights (SDRs), an international reserve asset created by the IMF in 1969. There is also provision to enlarge the resources of the Fund by resorting to borrowing, by selling gold to the people and also by receiving fee from its borrowing members.

There is provision of revising the quotas of member countries in every five years. The latest general increase in quotas as result of 9th review has enlarged the capital base of the Fund and accordingly the Fund could increase the loan assistance extended to its member countries.

Quota has a great significance to the member nations because of its following implications:

1. Quota determines the subscription of members to the IMF and that determines the quantum of IMF resources;
2. It also determines the member country's access to IMF resources either through drawings or borrowings from the IMF.
3. The quota can also determine the voting power of member in IMF management.

4. The quota can also determine the share of member country in respect of allocation of SDRs.

ACHIEVEMENTS OF THE IMF:

Some of the major achievements of the IMF are as follows:

1. **Stability in Exchange Rates:**

The IMF started with the determination of par values of the currencies of different countries in terms of gold or the U.S. dollar. It, however, allowed the variations in exchange rates by ± 1 percent. Subsequently, the band of fluctuation of exchange rate was enlarged to ± 2.5 percent. The variation in exchange rate beyond these limits could be possible after obtaining permission from the IMF. The system of exchange rate under the IMF combines the elements of stability with flexibility.

2. **Promotion of International Trade:**

The IMF has contributed in several ways to the enlargement of global trade. It has created facilities for the member countries for financing and adjusting the balance of payments deficits. As the multilateral assistance can enable the member countries to correct their temporary or fundamental payments disequilibrium, they need not take recourse to tariffs, import quotas, exchange controls and other restrictive practices. Thus, it has attempted to create conditions for unrestrained expansion of international trade.

3. **Check on Multiple Exchange Rates:**

The IMF has not approved countries adopting the complex, cumbersome and restrictive system of multiple exchange rates. It has brought about a simplification and rationalization of exchange system. The countries seeking the multilateral assistance are discouraged from resorting to the multiple exchange rates.

4. **Broadening of the Credit Structure:**

In the earlier decades after its inception, the IMF confined its lending operations only for the purpose of correcting short-term BOP deficits. During the recent decades, there has been a marked change in the lending operations of the IMF.

Although it continues to provide credit to the member countries for short-term adjustments in BOP disequilibrium, yet it has undertaken the loan operations for correcting fundamental disequilibrium or for facilitating structural adjustments in the economies of the member countries. The IMF has started providing loans also for specific development projects.

During 1950's and 1960's, the repayments of IMF loan had to be made within 3 to 5 years periods. During 1970's and 1980's, different types of credit facilities were created. The repayments are extended over a longer period. For instance, under the Extended Fund Facility (EFF), the repayments are to be made over a period of 4 to 10 years in the case of loans from IMF's own resources and 3-1/2 to 7 years, if the loan is made out of Fund's borrowed financial resources.

The IMF provides concessional assistance extended over a period of more than 10 years out of the Trust Fund. It is thus clear that IMF has in recent years adopted a more liberal attitude in the extension of credit and has brought about substantial broadening of the structure of international credit.

5. **Multilateral Payments System:**

The IMF has achieved some success in the establishment of a multilateral system of international payment particularly in respect of current transactions. However, the operations of certain agencies or organisations which are out of the purview of the Fund have created some hurdles in this direction.

6. **Compromise between Gold Standard and Managed Paper Standard:**

The system of exchange rate evolved by IMF has been a compromise between the gold standard and managed paper standard. It has secured the advantages of the both. On the one hand, it has ensured the benefits of managed paper standard such as maximization of employment and acceleration of development. On the other hand, it has helped in the maintenance of international exchange stability. Moreover, the IMF system has carefully avoided the disadvantages of both gold and managed paper standard.

7. **Institution for Consultation and Guidance:**

The International Monetary Fund has created a consciousness among the member countries that their economic problems are the matters of concern not only exclusively for them but for the whole international community. The IMF provides an excellent forum for discussions on various monetary, fiscal, financial, trade and exchange problems in general and international payments problems in particular. The Fund is a specialized institution to undertake research about various economic problems through its numerous missions and provides an expert guidance to the member nations for efficiently dealing with them.

8. **Convertibility of Currencies:**

The IMF visualizes the achievement of full global convertibility of currencies in the next decade. One – quarter to one-third of all the developing countries have already achieved full currency convertibility. The industrialized countries have abandoned foreign exchange controls with regard to trade transactions. India too has permitted currency convertibility except in the capital account. It is on move to bring about full convertibility of Rupee in a phased manner.

A key challenge for the IMF today is to promote capital account convertibility which is generally difficult to enforce and inefficient in operation. However, among industrial countries and increasingly among developing countries, capital account restrictions apply to the level of investment flows rather than to foreign exchange transactions.

Article VIII of the IMF requires that member countries move towards current account convertibility—that is refraining from placing direct restrictions on the use of foreign exchange in transactions with nonresidents and avoiding, through taxes or subsidies, the promotion of multiple exchange rates. 104 countries out of the IMF members had already accepted the obligation of Article VIII on convertibility of currency by 1995.

SHORTCOMINGS OF THE IMF:

No doubt the IMF has marked achievements to its credit but its working has exposed several deficiencies or shortcomings because of which it has been subjected to criticism. The main objections against it are as follows:

1. **Lack of Flexibility:**

The IMF is generally a conservative organization. It lacks flexibility in its approach. It has been found incapable of making required rapid changes in its operations in the rapidly changing international economic conditions.

2. **Determination of Par Values:**

Originally the IMF determined the par values of different currencies in terms of gold or the United States dollar. This choice by IMF was ill-advised. The par values were fixed by the original members at a time when the over-valuation of currencies was the most common practice.

3. **Weak and Passive Policy in Respect of Fixation of Exchange Rates:**

Some provisions of the IMF related to variations in exchange rate are not constructive. They have rather destructive effect. For example, the IMF justifies devaluation when the fundamental disequilibrium is supposed to result from the international inflation. If inflation persists, the devaluation cannot be effective. It may actually require even subsequent devaluation. The economy can have appropriate adjustment only through internal economic policy changes.

But the IMF has little authority in this respect except consultation and persuasion. Moreover, the member countries, in some instances, have changed the par values of their currencies with impunity. For instance, more than 23 countries devalued their currencies in 1949 in complete disregard of the IMF rules but the IMF could not prevent that development and remained a silent spectator.

Such passivity on the part of the IMF raises serious doubt about its effectiveness. It may still be recognized that the IMF could achieve much greater exchange stability compared with chaos related to exchange rates during the inter-war period.

4. **High Interest Rates:**

The structure of interest rates on the IMF advances is rather high and that places much burden of interest payments on the member nations. For instance, since May 1982, an interest rate of 6.6 percent is charged upon the IMF loans out of the ordinary resources of the Fund. However, if the loans are made out of the borrowed funds, the interest charged is as high as 14.56 percent.

5. **Stiff Conditionality Clauses:**

The IMF applies strict conditionality clauses on the borrowing nations. For instance, up to 1970, the IMF insisted that the member countries borrowing funds would reduce public expenditure for adjusting the BOP deficit. More stiff conditionality clauses were imposed after 1979. These clauses include periodic assessment of the performance of the borrowing countries with adjustment programmers, increase in productivity, improvement in resource allocation, reduction in trade barriers, strengthening of the collaboration of the borrowing country with the World Bank etc.

The IMF, while sanctioning a loan of 5.6 billion U.S. dollars to India, imposed stringent conditionality upon India related to performance criteria in implementing programmers and policies related to saving, exports and imports.

More recently, India could have access to IMF assistance after consenting to reorganize the structure of economy, trade and tariffs on the specified lines. The IMF surveillance and regulations are too strict and negate the declared policy of non-intervention in the domestic economic matters of the borrowing member nations.

6. **Secondary Role:**

The IMF is sometimes criticized on the ground that it plays only a secondary role rather than a primary role in international monetary relations. This organization does not provide short-term credit facilities. This made the central banks of the Group of Ten (Group of 10 leading industrialized countries) to enter into Swap Arrangements.

Under this arrangement, countries exchange each-others’ currencies and also provide short-term credit to tide over temporary disequilibrium in balance of payments. The Swap arrangement made way to the growth of Euro-Currency Market. As a consequence, the importance of IMF as the central international monetary institution got reduced.

7. **Failure to Achieve Exchange Stability:**

The key objective of the IMF was to create a system of stable exchange rates. The original system of adjustable peg permitted only ± 1 percent variations in the par values of the currencies. However, after the collapse of Bretton Woods’s system in August 1971 consequent upon the United States refusal of convertibility of dollars into gold, the member countries have been following diverse exchange policies such as managed float, joint float or pegged exchange rates. It clearly shows that IMF has failed to maintain a stable uniform international exchange system. This failure can be attributed essentially to an absence of adequate adjustment mechanism.

8. **Failure in the Removal of Exchange Restrictions:**

One of the principal objectives of the IMF was to achieve the removal of exchange restrictions by the member countries. The Fund has not been successful in this regard. The member countries still continue to practice exchange controls and multiple exchange rates in one form or the other.

9. **Absence of Timely Action:**

The international monetary crisis before the breakdown of the Bretton Woods System could perhaps have been averted, had IMF taken timely remedial action. For a long period, IMF witnessed passively the intensifying dollar shortage in the sterling area countries and failed to declare dollar as a scarce currency.

It did not ask the United States to devalue dollar until dollar was eventually devalued in 1972. Another instance of its indecisiveness was prolonged floatation of the German Mark and the Japanese Yen. Thus the blame for worsening international monetary situation in 1970’s and in even subsequent period must be largely borne by the IMF itself.

10. **Pre-Occupation with the U.S. Interests:**

The IMF has failed to inspire much confidence among the member nations on account of the fact that this institution has been found to be excessively pre-occupied with serving the economic interest of the United States. The constitution of its Executive and veto power to the United States reflects that the Fund’s policies and operations are dictated by the U.S.A. Most of the international monetary reforms undertaken by the IMF are meant essentially to relieve the U.S.A. from its balance of payments difficulties.

11. **Failure to Tackle East Asian Currency Crisis:**

A serious currency crisis engulfed the East Asian countries including Thailand, Malaysia, Philippines, South Korea, Singapore, Hong Kong and Indonesia in early July, 1997. Depreciation of their currencies, coupled with speculation, led to sharp decline in equity prices in the stock markets of these countries, collapse of financial institutions and large scale flight of foreign capital. IMF advice to these countries was to enforce high interest rates, tight money and cut on public spending. These remedies aggravated the recessionary condition in the whole region.

The conditions of recession, unemployment and low growth rates persisted in this entire region during the whole of 1998. The IMF should have come forward with a debt rescheduling plan which was unfortunately given up at the instance of the

United States and other advanced countries. The IMF must partly bear the blame for worsened economic situation in the East Asian region during 1997 and 1998. The role of IMF was woefully inadequate to assist the member countries during world economic recession in 2008 and 2009 owing to lack of resources.

12. **Discrimination against the Developing Countries:**

Although the majority of the members of the Fund are the less developed countries of Asia, Africa and South America, yet it is dominated by the rich countries, more particularly the United States. The policies and operations of the IMF are generally in favor of the developed and against the poor countries. That is why; the IMF is sometimes derisively called as “Rich Countries Club”.

The rich countries have often adopted uncompromising attitude towards the issues concerning the less developed countries such as expansion in the Fund’s resources, settlement of international debt problem, unconditional and concessional development assistance etc.

13. **Inconsistency:**

IMF has always supported huge state-funded bank bailouts in the rich world, while demanding at the same time an end to all state funding in the poor world. This has been the heart-rending story of IMF inconsistency from El Salvador to Ethiopia, to East Asian countries. They have invariably forced the poor member countries to drastically slash public expenditure on food aid, public health services and free or subsidized elementary education.

14. **Support to Financial Speculators:**

The IMF has been found to be supporting the big banks or financial speculators even when a country or region was confronted with economic crisis. It happened at the time of the East Asian Crisis in 1997-98 and world