BA Part 2

Economics (Hons)

Topic : International Monetary Fund

What Is the International Monetary Fund?

The International Monetary Fund (IMF) is an international organization that promotes global economic growth and financial stability, encourages international trade, and reduces poverty. Quotas of member countries are a key determinant of the voting power in IMF decisions. Votes comprise one vote per 100,000 special drawing right (SDR) of quota plus basic votes. SDRS are an international type of monetary reserve currency created by the IMF as a supplement to the existing money reserves of member countries.1

KEY TAKEAWAYS

The IMF's mission is to promote global economic growth and financial stability, encourage international trade, and reduce poverty around the world.

The IMF was originally created in 1945 as part of the Bretton Woods agreement, which attempted to encourage international financial cooperation by introducing a system of convertible currencies at fixed exchange rates.

International Monetary Fund (IMF)

Understanding the International Monetary Fund

The International Monetary Fund (IMF) is based in Washington, D.C. The organization is currently composed of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance.3 Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR100,000 of quota plus basic votes (same for all members).

The IMF's website describes its mission as "to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."

History of the IMF

The IMF was originally created in 1945 as part of the Bretton Woods Agreement, which attempted to encourage international financial cooperation by introducing a system of convertible currencies at fixed exchange rates. The dollar was redeemable for gold at $35 per ounce at the time. The IMF oversaw the system: for example, a country was free to readjust its exchange rate by up to 10% in either direction, but larger changes required the IMF's permission.

The IMF also acted as a gatekeeper: Countries were not eligible for membership in the International Bank for Reconstruction and Development (IBRD)—a World Bank forerunner that the Bretton Woods agreement created in order to fund the reconstruction of Europe after World War II—unless they were members of the IMF.4 5

Since the Bretton Woods system collapsed in the 1970s, the IMF has promoted the system of floating exchange rates, meaning that market forces determine the value of currencies relative to one another. This system continues to be in place today.6

IMF Activities

The IMF's primary methods for achieving these goals are monitoring capacity building and lending.

The IMF makes loans to countries that are experiencing economic distress to prevent or mitigate financial crises.

Surveillance

The IMF collects massive amounts of data on national economies, international trade, and the global economy in aggregate. The organization also provides regularly updated economic forecasts at the national and international levels. These forecasts, published in the World Economic Outlook, are accompanied by lengthy discussions on the effect of fiscal, monetary, and trade policies on growth prospects and financial stability.

Capacity Building

The IMF provides technical assistance, training, and policy advice to member countries through its capacity building programs. These programs include training in data collection and analysis, which feed into the IMF's project of monitoring national and global economies.

Lending

The IMF makes loans to countries that are experiencing economic distress to prevent or mitigate financial crises. Members contribute the funds for this lending to a pool based on a quota system. In 2019, loan resources in the amount of SDR 11.4 billion (SDR 0.4 billion above target) were secured to support the IMF's concessional lending activities into the next decade.

IMF funds are often conditional on recipients making reforms to increase their growth potential and financial stability. Structural adjustment programs, as these conditional loans are known, have attracted criticism for exacerbating poverty and reproducing the colonialist structures.

By : Ekata Kumari

Assistant Professor (Guest faculty)

R. M. C Sasaram, Rohtas

Email I'd : bhardwajekata@gmail.com