IMF

INTERNATIONAL MONETRY FUND

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- **Formation** : 27 December ,1945
- **France** Was The First Country To Borrow From IMF After The Year Of Formation.
- **Headquarter** : Washington , D.C.
- **Membership** : 189 Countries
- All Members Of **IBRD** Are Also The Members Of IMF And Vice Versa.
- It's A Intergovernmental Organisation That Oversees **The Global Financial System.**
- Promote International Monetary Co-operation, Facilitate International Trade, Foster Sustainable Economic Growth, Make Resources Available To Members Experiencing Balance Of Payments Difficulties.
- Quotas **: U.S. $ 383 Billion**
- 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.
- **Greatest Loan Is On** : Mexico And Greece (As Of 18/08/2011)
- **Highest Loan As % Of Gdp** : Iceland (7.4%)
- **Greatest Amount To Be Paid Back By** : Iceland And Ireland
- Apart from Cuba The Other Five Members States Of The United Nation Not Belonging To IMF Are : **North Korea , Andorra , Monaco , Nauru , South Sudan.**

THE SLOGAN OF IMF SIGNIFIES THAT THE LOGO OF THE IMF STANDS FOR :-

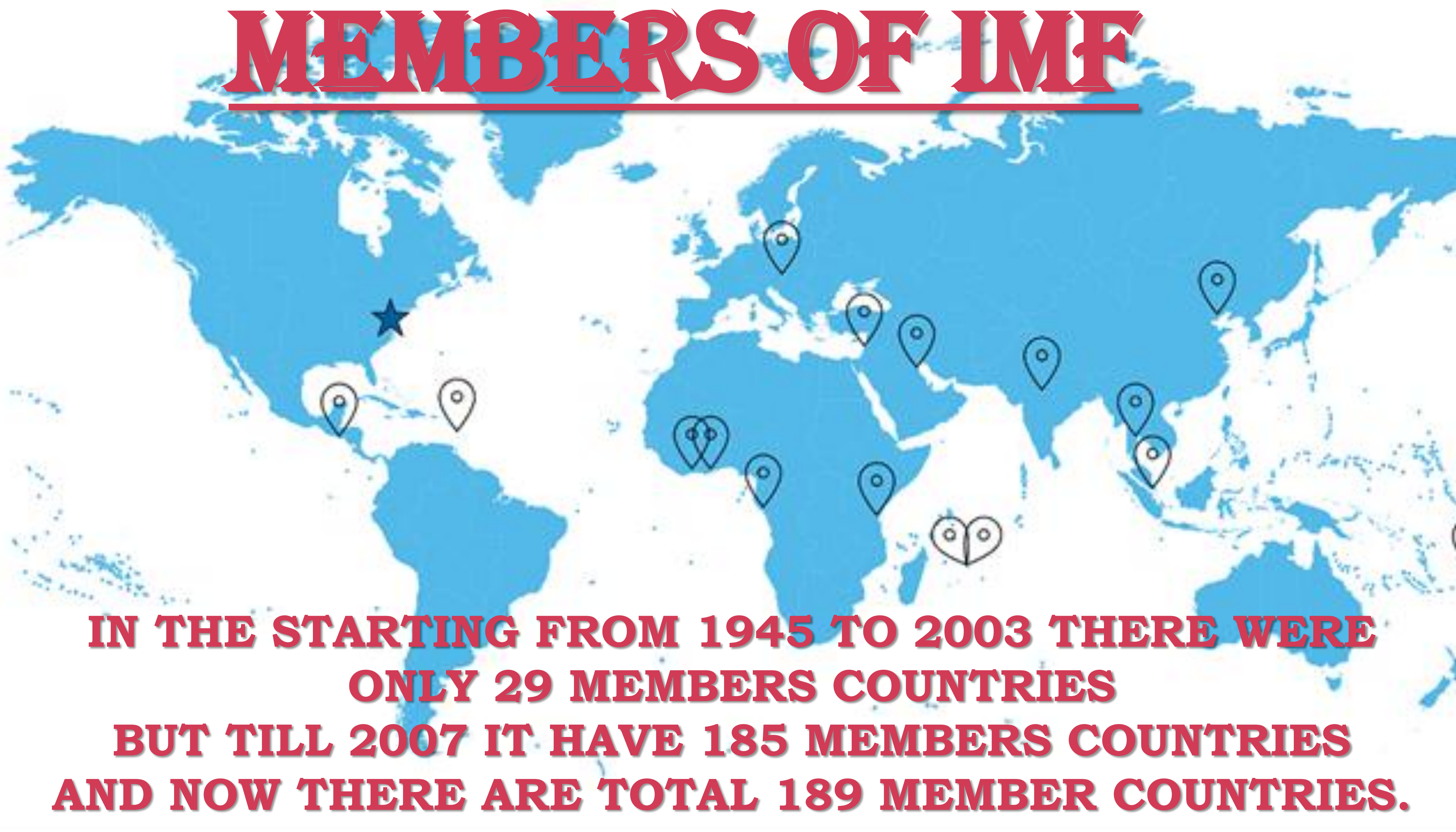
"COAT OF ARMS"

"189 COUNTRIES WORKING TO FOSTER GLOBAL MONETRY COOPERATION , SECURE FINANCIAL STABILITY , FACILITATE INTERNATIONAL TRADE , PROMOTE HIGH EMPLOYMENT , SUSTAINABLE ECONOMIC GROWTH AND REDUCE POVERTY AROUND THE WORLD WHILE PERIODICALLY DEPENDING ON THE WORLD BANK FOR IT'S RESOURCES.."

NEED TO CREATE IMF…

- **The IMF was conceived in July 1944, when representatives of 45 governments meeting in the town of Bretton Woods, in the north-eastern United States , agreed on framework for international economic cooperation.**
- **They believed that such a framework was necessary to avoid a repetition of the disastrous economic policies.**
- **During that decade attempt by countries to shore up their failing economies – by limiting imports , devaluing their currencies to compete against each other for export markets and curtailing their citizen's freedom to buy goods abroad and to hold foreign exchange – proved to be self – defeating.**
- **World trade declined sharply and employment and living standards plummeted in many countries.**
- **Seeking to restore order to international monetary relations , the IMF's founders charged the new institution with overseeing the INTERNATIONAL MONETRY SYSTEM to ensure exchange rate stability and encouraging members countries to eliminate exchange restriction that hindered trade .**
- **The IMF came into existence in DECEMBER 27th , 1945.**

MEMBERS OF IMF



IN THE STARTING FROM 1945 TO 2003 THERE WERE ONLY 29 MEMBERS COUNTRIES

BUT TILL 2007 IT HAVE 185 MEMBERS COUNTRIES

AND NOW THERE ARE TOTAL 189 MEMBER COUNTRIES.

TYPES OF MEMBERS

ORIGNAL MEMBERSHIP

- All those countries whose representatives took part in Bretton wood conference
- Who agreed to be the members of the fund prior to 31st DECEMBER, 1945.

BELGIUM , CANADA , CHINA , EGYPT , COLOMBIA, FRANCE , GREECE , ICELAND , INDIA , NETHERLAND, MEXICO, BRAZIL , UNITED STATES , UNITED KINGDOM , LUXEMBOURG, IRAQ , GUATEMALA, ETC..

ORDINARY MEMBERSHIP

- All those who became its members subsequently.
- Bank has the authority to suspend any members and similarly every members is free to resign.

GERMANY , JORDAN ,KOREA , SAUDI ARABIA , SUDAN , MOROCCO, SPAIN , NEPAL , NEW ZEALAND , ZAMBIA , MALTA , SWAZILAND, ZIMBABWE, TONGA, UKRAINE , SAN MARINO ,SOUTH SUDAN, POLAND, ETC..

OBLIGATION ON MEMBERSHIP

- Agree to the code of conduct found in the IMF articles of agreement.
- Pay a quota subscription.
- Refrain from restriction on exchange of foreign currency.
- Strive for openness in economic policies affecting other countries.

BENEFITS OF MEMBERS

- Access to information on economic policies of all member countries
- Opportunity to influence member's economic policies
- Access to technical assistance in banking, fiscal affairs, and exchange matters
- Financial support in times of payment difficulties
- Increased opportunity for trade and investment

STRUCTURE OF IMF

BOARD OF GOVERNORS

- All power is vested with the governors as they are the highest decision making body.
- It include one governor and one alternative governor for each member country.
- Each members are required to contribute quota funds as per their economic size and strength.
- The main advisor are:– IMFC and development committee.

IMFC

- Advises and report to IMF board of governors on the supervision and management of IMFC
- IMFC has no formal decision – making powers.
- It has become the key instrument for providing strategic direction to the work and policies of the fund.

DEVELOPMENT COMMITTEE

- The Joint Ministerial Committee of the Boards of Governors of the bank and fund on the Transfer of Real Resource to Developing Countries better known as " development committee".
- Advises the board of IMF and World Bank on critical development issues in developing countries.

EXECUTIVE BOARD

- 24 executive directors duties conferred in Article of Agreement.
- 5 directors are appointed by countries with largest quotas.
- Conducts daily business of IMF and power delegated by the Board of Governors.

MANAGING DIRECTOR

- Headed by executive directors.
- Managing director is chosen by executive board.
- Managers appointed for 5 years.
- Responsible for the ordinary business of funds.

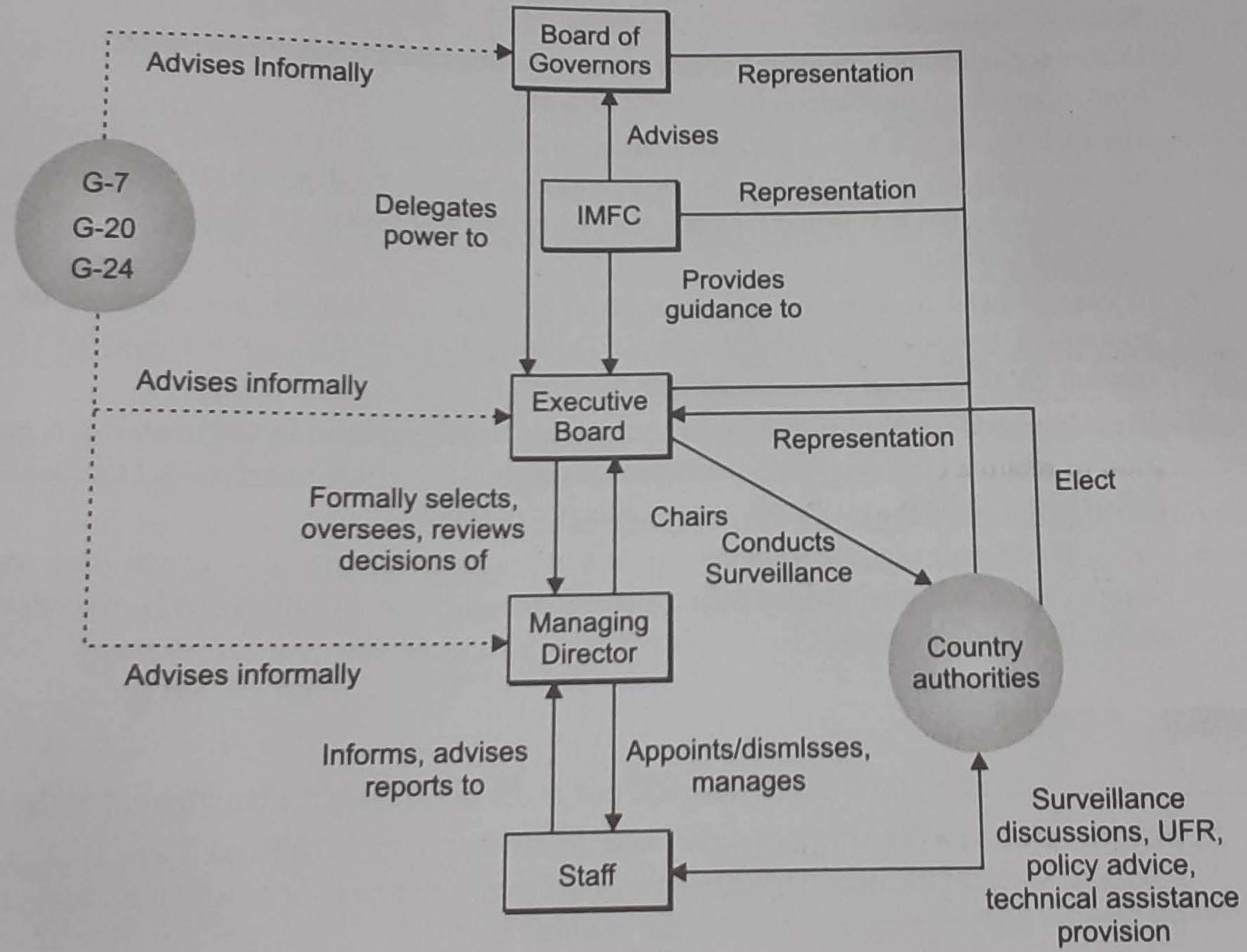
STAFF

- It's staff include about 2600 economists , statistics , research scholars , experts in public finance and taxation and banking, etc.
- Most headquartered in Washington , DC.

G-7
GROUP OF SEVEN
countries started to hold annual economic meetings in 1975.

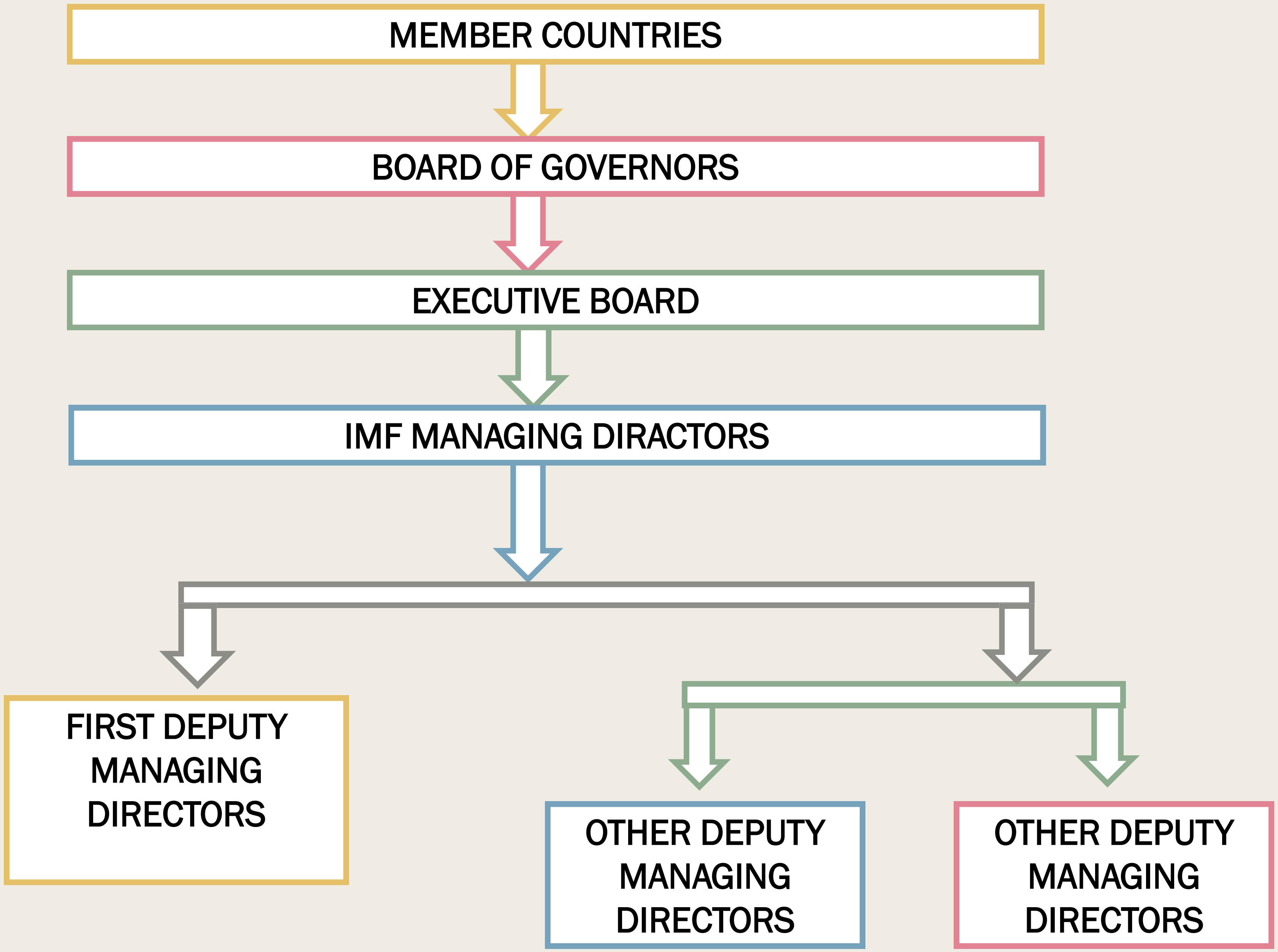
G-20
GROUP OF TWENTY
group of key advanced and emerging market economies and created to strengthen policy coordination between its members.

G-24
GROUP OF TWENTY FOUR
coordinate the positions of emerging markets and developing countries on international monetary and development finance issues and to ensure that their interests were adequately represented



Source: Martinez-Diaz, 2008. (Updated October 2017)

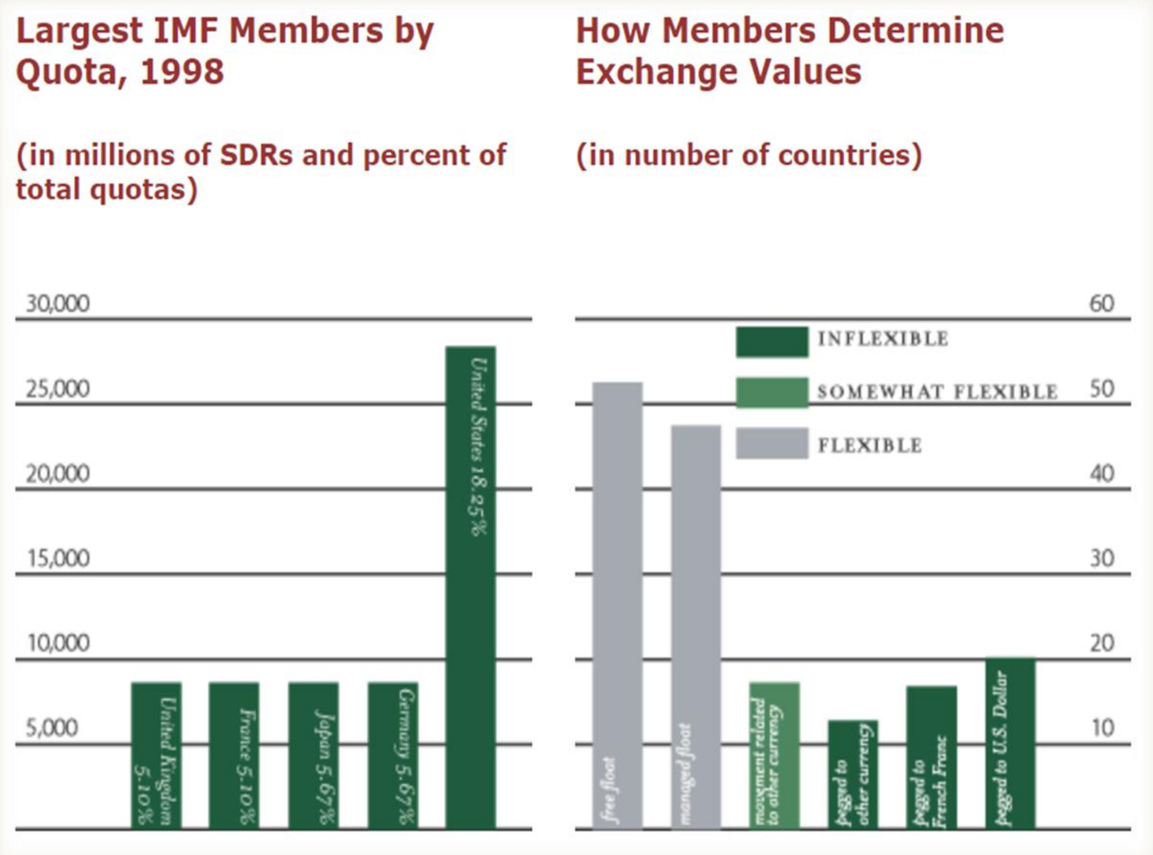
WHO RUNS IMF


MEMBER COUNTRIES
BOARD OF GOVERNORS
EXECUTIVE BOARD
IMF MANAGING DIRACTORS
FIRST DEPUTY MANAGING DIRECTORS
OTHER DEPUTY MANAGING DIRECTORS
OTHER DEPUTY MANAGING DIRECTORS

WHERE IMF GETS IT'S FUNDS?

QUOTA

- Main Source Of Finance For IMF .
- Compulsory To Be Paid By Each Member Country (As A Entry Fee).
- It Reflects The Relative Position Of The Country Member In The World Economy.
- 25% Is Paid In Reserve Assets And Remaining In Their Currencies.
- Member Can Borrow By Purchasing Its Reserves By Their Currency And Repays To Renown Their Reserves .



BORROWING ARRANGEMENTS

IMF has signed a number of bilateral loan and note purchase agreements to supplement its quota resources.

NAB

Its constitute resource to prevent or cope with the deterioration of the international monetary system. All the country members and institution stand together to lend additional resources to the IMF through NAB.

BBA

IMF has entered into several round of bilateral borrowing agreements since the onset of global financial crisis to ensure that it could meet the financing needs of it's members.

SDRs

- The SDRs is an international reserve assets , create by IMF as an alternative of quota reserves.
- Its value is reviewed in every 5 year .
- They instead represent a claim to currency held by IMF member countries for which they may be exchanged.
- cannot be held or used by private parties.
- One possible benefit to nations with SDR is that they may be perceived to be more transparent.
- SDRs are considered as the basket of currencies.
- It is calculated as the sum of specific amount of 4 currencies valued in U.S. $, on the basis of exchange rate quoted at noon each day in LONDON market.

GOLD HOLDING

- IMF holds a large portion of gold . Not just for financial soundness but also for uncertain occurrence of crisis.
- According to the article of agreements acceptance of gold id restricted to a limit .
- In certain circumstances where selling of gold by the IMF requires an executive board decision with an 85% majority of the total voting power.
- The IMF's gold holding amount to about 2814.1metric tons makes the IMF one of the largest official holders of gold in the world.

FUNCTIONS OF IMF

SURVILLANCE

- (LIKE A DOCTOR)
- Keeping track of the global economy and the economies of member countries.
- Analyses the appropriateness of each member country's economic and financial policies for achieving orderly economic growth and global economy.

LENDING

- (LIKE A BANKER)
- Lending to countries with balance of payments difficulties.
- Financial assistance to countries to meet international payments.
- Provides loan that ease the difficulties and stabiles and restore conditions of strong economic growth.

TECHNICAL ASSISTANCE

- (LIKE A TEACHER)
- To assist mainly low - income and middle - income countries in effectively managing their economies.
- Helps in strengthening their policies formulation and implementation.
- Consulting to known country’s need.

WHEN CAN A COUNTRY BORROW FROM IMF?

THE MEMBER COUNTRY MAY REQUEST IMF FINANCIAL ASSISTANCE IF IT HAS A BALANCE OF PAYMENTS NEED WHEN IT CANNOT FIND SUFFICIENT FINANCING ON AFFORDABLE TERMS TO MEET ITS NET INTERNATIONAL PAYMENTS.
AN IMF LOAN EASES THE ADJUSTMENT POLICIES AND REFORMS THAT A COUNTRY MUST MAKE TO CORRECT ITS BALANCE OF PAYMENTS PROBLEM AND RESTORE CONDITIONS FOR STRONG ECONOMIC GROWTH.

THE CRISES OCCUR IN ANY COUNTRY DUE TO FOLLOWING REASONS:-

1. <u>DOMESTIC FACTORS-</u>- include inappropriate fiscal and monetary policies, which can lead to large economic imbalances (such as large current account and high levels of external and public debt) or exchange rate fixed at an inappropriate level.

2. <u>EXTERNAL FACTORS-</u>- include shocks ranging from natural disasters to large swings in commodity prices. These are common causes of crises especially for low-income countries, which have limited capacity to prepare for such shocks and are dependent on a narrow range of export products.

INDIA AND IMF

Advantages To INDIA As A Member Of IMF

- Financial Assistance
- Membership Of World Bank
- Help In Foreign Exchange
- Financing Economic Development
- Strong Policies Advises

INDIA AND IMF RELATIONSHIP HAS GROWN OVER THE PERIOD OF TIME

YEAR	1991	1994	1996	1998	2000
IN MILLION $	2,623	5,040	2,374	664	26

AS PER THE TABLE INDIA GDP HAS BECAME STRONGER AS THE LOAN TAKEN FROM IMF BY INDIA HAS DEACRESED OVER THE PERIOD OF TIME.

IN 2006 FROM 9.8% GDP HAS DEACRESED TO 9.3% IN 2007

IMF PREDICTED LOWER GROWTH IN INDIA AS IN 2009 IT WAS 6.3% BUT IT MAY TOUCH 7%

STRENGTH OF IMF

- ECONOMY AT THE TIME OF NEED
- GUARANTER OF LONG TERM DEVELOPMENT
- PROVIDES AN EXTERNAL AID
- FILL GAP TO BALANCE PAYMENTS
- COLLABORATION WITH INSTITUTIONS
- ECONOMIC ADVISER

FAILURE OF IMF

ASIAN FINANCIAL CRISIS 1997

- It raised fears of a worldwide economic meltdown due to financial.
- Indonesia, South Korea, and Thailand.
- IMF insisted on fiscal restraint – lower spending, higher taxes and privatization.
- Bankruptcies increased.
- Confidence evaporated causing a flight of investors.
- Contractionary fiscal policy caused the economic downturn to exacerbate and the economy plunged into recession.

IMF SANK ARGETINA

- Argentina joined IMF on 20th September 1956.
- Fixed rate of 1 person for 1 dollar U.S. (instructed by IMF).
- Country's exports too expensive and its imports artificially cheap.
- Over the past 63 years , Argentina has frequently used the resources of the IMF and hold largest loan portion .
- Need for larger reserves for dollar.
- IMF's role arranged massive amount of loan (approximately $40,710 million out of which $ 30,918 million were the SDRs).
- In 2016 , relation between IMF and Argentina were established due to continuous decline of country's GDP.

GREEK CRISIS

- Conditions of loan by IMF.
- Higher tax rates .
- Lower spending.
- To reduce deficit spending.
- Higher interest rates to stabilise the currency.
- he Greek economy suffered the longest recession of any advanced capitalist economy to date, overtaking the US Great Depression.
- Between 2009 and 2017 the Greek government debt rose from €300 billion to €318 billion.
- Greek debt-to-GDP ratio rose up from 127% to 179%