International Monetray Fund (IMF)

Introduction :

International Monetary Fund (IMF) is an international organization headquartered in Washington, D.C., consisting of 189 countries . IMF was formed in 1945 after the ideas which were floated at the Bretton Woods Conference held in USA , primarily by the Economists Harry Dexter White and John Maynard Keynes. IMF along with came into formal existence in 1945 , along with World Bank ,with the goal of reconstructing the international payment system.
During the Great Depression, countries sharply raised barriers to trade in an attempt to improve their failing economies. This led to the devaluation of national currencies and a decline in world trade. This breakdown in international monetary co-operation created a need for oversight. The representatives of 45 governments met at the Bretton Woods Conference in the Mount Washington Hotel in Bretton Woods, New Hampshire, in the United States, to discuss a framework for postwar international economic co-operation and how to rebuild Europe
There were two views on the role the IMF should assume as a global economic institution. American delegate Harry Dexter White foresaw an IMF that functioned more like a bank, making sure that borrowing states could repay their debts on time. British economist John Maynard Keynes, on the other hand, imagined that the IMF would be a cooperative fund upon which member states could draw to maintain economic activity and employment through periodic crises. This view suggested an IMF that helped governments and to act as the United States government had during the New Deal to the great recession of the 1930s. IMF Charter incorporates both the ideas.

Objectives: IMF objectives are:[1] 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.
It also works with the World Bank to reduce poverty around the world . It plays a central role in the management of balance of payments difficulties and international financial crises.
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 , Professor of Harvard University is now theChief Economist of IMF from 1 October 2018. 24 Executive Directors make up the Executive Board. The Executive Directors represent all 189 member countries in a geographically based roster.

IMF"s Funds : IMF funds are designated in SDR (Special drawing Rights) . As of 2016, the fund had SDR 477 billion (about US$ 667 billion). Countries contribute funds to a pool through a quota system from which countries experiencing balance of payments problems can borrow money. The special drawing right is the unit of account of the IMF and represents a claim to currency. It is based on a basket of key international currencies.

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.

IMF Technical Services : Apart from providing funds , IMF undertakes other activities such as the gathering of statistics and analysis, surveillance of its members' economies, and the guides the countries in policies to improve the economies of its member countries.

The Evolution OF IMF

IMF was started when the fixed Exchange rate system was prevalent. IMF was one of the key organizations of the international economic system; its design allowed the system to balance the rebuilding of international capitalism with the maximisation of national economic sovereignty and human welfare, also known as embedded liberalism. The IMF's influence in the global economy steadily increased as it accumulated more members.

The Bretton Woods exchange rate system prevailed until 1971, when the United States government suspended the convertibility of the US$ (and dollar reserves held by other governments) into gold. Later in the 1970s, large commercial banks began lending to states because they were awash in cash deposited by oil exporters.

IMF changed its role in the 1980s after a world recession provoked a crisis that brought the IMF back into global financial governance. Post 1971 , IMF's role was fundamentally altered by the floating exchange rates . It shifted to examining the economic policies of countries with IMF loan agreements to determine if a shortage of capital was due to economic fluctuations or economic policy. The IMF also researched what types of government policy would ensure economic recovery.

For example IMF played a key role to prevent financial crises such as those in Latin American Debt Crises : Mexico in 1982, Brazil in 1987; or East Asian Economies Collapse East in 1997–98, in Thailand, Malayasia, Singapore, Korea etc . Timely intervention by IMF helps in stopping spreading and threatening the entire global financial and currency system

It helped India in 1991, when the country was not having enough foreign exchange to pay off its imports.

IMF tries to promote and implement policy that reduces the frequency of crises among the emerging market countries, especially the middle-income countries which are vulnerable to massive capital outflows. This involves overseeing a position of not only exchange rates but also economies and IMF therefore does surveillance of the overall macroeconomic performance of member countriesas it helps them in managing economic policy rather than just exchange rates.

Functions Of IMF :

IMF 's three primary functions are:

(i) to oversee the exchange rate arrangements between countries, thus helping national governments manage their exchange rates

(ii) allowing these governments to prioritize economic growth.

(iii) to provide short-term capital to aid the balance of payments.

This assistance was meant to prevent the spread of international economic crises. The IMF was founded to help mend the pieces of the international economy after the Great Depression and World War II, as well as provide capital investments for economic growth and projects such as infrastructure.
IMF works to foster global growth and economic stability by providing policy advice and financing the members by working with developing nations to help them achieve macroeconomic stability and reduce poverty. Since many countries do not have either access to private international capital markets , or have limited access t, in times of Economic Crisis they need funds and Foreign Exchange . IMF provides the last sources of financing for Countries when they are in Crisis. Market imperfections, together with balance-of-payments financing, provide the justification for financing. Many countries with large external payment imbalances can not sustain themselves without adverse economic consequences if in Crisis they cannot approach IMF.

1. IMF Loans to Countries :

IMF negotiates conditions on lending and loans under their policy of conditionality, which was established in the 1950s.
Concessional Loans : Low-income countries can borrow on concessional terms, which means there is a period of time with no interest rates, through the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF).
Non Concessional loans, which include interest rates, are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility.
Emergency Loans : The IMF provides emergency assistance via the Rapid Financing Instrument (RFI) to members facing urgent balance-of-payments needs. In 2020, Pakistan got a 1.3 billion $ Loan under this instrument to tide over the balance of payments Crisis.
In 2020, During Lockdown Crisis Created to Economies by Covid -19, more than 90 Countries have reportedly approachecd IMF for different type of Loans to Economy

Conditionality of loans
IMF conditionality is a set of policies or conditions that the IMF requires in exchange for financial resources. The IMF when it sanctions loan requires not only a collateral from countries for loans but also requires the government seeking assistance to correct its macroeconomic imbalances in the form of policy reform. If the conditions are not met, the funds are withheld. The concept of

conditionality was introduced in a 1952 Executive Board decision and later incorporated into the Articles of Agreement.
Conditionality is associated with economic theory as well as an enforcement mechanism for repayment. Stemming primarily from the work of Jacques Polak, the theoretical underpinning of conditionality was the "monetary approach to the balance of payments".

IMF Loan Conditions :IMF loans Conditionalities has led to severe criticism of its policies. For example , when India took IMF loan in 1991, it had to agree to its conditions apart rom giving a Collateral of its Gold kept in RBI. The main objection is on account of its Sovereignty of the country, and the variability of IMF's policies. Some of the conditions for structural adjustment can include: Devaluation of currencies; Cutting expenditures known as austerity measures , raising revenues, Balancing budgets and not overspending; Removing price controls and state subsidies; Privatization, or divestiture of all or part of state-owned enterprises; Enhancing the rights of foreign investors vis-a-vis national laws,Improving governance and fighting corruption. Other measures are focusing economic output on direct export and resource extraction, Trade liberalisation, or lifting import and export restrictions, Increasing the stability of investment (by supplementing foreign direct investment with the opening of domestic stock markets etc. These conditions are known as the Washington Consensus.
Opposition to IMF Conditionalities, has led to creation of many regional banks as Asian Development Bank, African development bank etc. as well as Bilateral Funding by many powerful countries or their Banks like USA, China, European Common Bank (ECB) etc.

Benefits of Conditions :
These loan conditions ensure that the borrowing country will be able to repay the IMF and that the country will not attempt to solve their balance-of-payment problems in a way that would negatively impact the international economy. Conditionality also reassures the IMF that the funds lent to them will be used for the purposes defined by the Articles of Agreement and provides safeguards that country will be able to rectify its macroeconomic and structural imbalances.

Reason for Conditionalities : The IMF's membership is divided along income lines: certain countries provide financial resources while others use these resources. Both developed country "creditors" and developing country "borrowers" are members of the IMF. The developed countries provide the financial resources but rarely enter into IMF loan agreements; they are the creditors. Conversely, the developing countries use the lending services but contribute little to the pool of money available to lend because their quotas are smaller; they are the borrowers. Thus, tension is created around governance issues because these two groups, creditors and borrowers, have fundamentally different interests.

2. Surveillance of the global economy and Data Services :

IMF is mandated to oversee the international monetary and financial system and monitor the economic and financial policies of its member countries. This activity is known as surveillance and facilitates international co-operation responsibilities in which it acts as the overseer of members' policies

The IMF continuously analyses the appropriateness of each member country's economic and financial policies for achieving orderly economic growth, and assesses the consequences of these policies for other countries and for the global economy. Since 1995 , IMF began work on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the public. IMF Data on countries is available online for analysis and research work.

Data is of two types : The General Data Dissemination System (GDDS) and the Special Data Dissemination Standard (SDDS). The General Data Dissemination System is aimed primarily at statisticians and aims to improve many aspects of statistical systems in a country. It is also part of the World Bank Millennium Development Goals and Poverty Reduction Strategic Papers.

The primary objective of the GDDS is to encourage member countries to build a framework to improve data quality and statistical capacity building to evaluate statistical needs, set priorities in improving the timeliness, transparency, reliability and accessibility of financial and economic data.