

Course- Indian Economy, ECON(H)221

Lecture 41 International Monetary Fund



Topics for Discussion

➤ International Monetary Fund (IMF)

- Objectives
- Functions
- Role



International Monetary Fund (IMF)

- International Monetary Fund was formally created in July 1944 during the United Nations Monetary and Financial Conference. The representatives of 44 governments met in the Mount Washington Hotel in the area of Bretton Woods, New Hampshire, United States of America, with the delegates to the conference agreeing on a framework for international economic cooperation.
- It was established to promote global monetary cooperation, exchange & financial stability, facilitate international trade; to foster sustainable economic growth and high levels of employment; reduce poverty and to provide temporary financial assistance to countries to help balance of payments adjustments

Creation of IMF

IMF formally organized on December 27, 1945 with 29 members was created with a goal to restructure the international payment system

Major Objectives:

- To stabilize exchange rates and assist the reconstruction of the world's international payment system.
- Countries contributed to a pool which could be borrowed from, on a temporary basis, by countries with payment imbalances.
- Organization of 188 countries.
- IMF financial year is from 1 May to 30th April.

Objectives of IMF

- To promote international monetary co-operation.
- To ensure balanced international trade.
- To ensure exchange rate stability.
- To eliminate or to minimize exchange restrictions by promoting the system of multilateral payments.
- To grant economic assistance to member countries for eliminating the adverse imbalance in balance of payments.
- To minimize imbalances in quantum and duration of international trade.

Functions of IMF

- IMF lends to various member countries aimed at balance of payments stabilization or meeting the emergent foreign exchange needs.
- The IMF's influence in the global economy has steadily increased as it accumulated more members.
- **Major Functions:**
 - Surveillance
 - Lending
 - Technical assistance

Functions of IMF- Surveillance

- **Surveillance-** It is an assessment of economic and financial developments in the members countries which provides a framework that facilitates the exchange of goods, services, and capital among countries and sustains sound economic growth.
- Member countries' economic policies are assessed to ensure that they are promoting external stability
- Surveillance is a collaborative process between IMF and the member countries
- IMF works to foster global growth, economic stability and poverty reduction by providing policy advice and financial assistance to member countries

Functions of IMF- Lending

- IMF lending enables countries to rebuild their international reserves; stabilize their currencies; continue paying for imports; and restore conditions for strong economic growth.
- IMF does not lend for specific projects rather it 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.

Functions of IMF- Technical Assistance

- IMF supports the development of productive resources of member countries by helping them to effectively manage their economic and financial policy affairs.
- About 90 percent of IMF technical assistance goes to low and lower-middle income countries, particularly in sub-Saharan Africa and Asia.

IMF Membership

- IMF is controlled and managed by a Board of Governors nominated (one each) by the member countries, generally the Finance Minister or Governor of the Central Bank.
- An alternate Governor is also nominated by each member country who casts his vote in the absence of the Governor.
- Each Governor is allotted a number of votes which is determined by the quota allotted to the respective country in the capital of IMF.
- Each Governor has got the right of 250 votes on the basis of the membership. And one additional vote for each SDR 1,00,000 of quota. The addition of these two types of votes becomes the actual voting right of the member country.
- India's Quota in IMF is 2.79 % and current voting right is 2.67% of votes.

Source of IMF Capital Resources

- Main source of IMF resources is the quotas allotted to member countries.
- Till 1971, all quotas and the assistance provided were measured in USD, but since December 1971 all the quotas and transactions are expressed in SDRs (Special Drawing Rights), also known as the Paper Gold.
- In 1971, 1 SDR was equivalent to 0.888671 grams of fine gold which, was equivalent to 1 U.S. dollar but due to decline in dollar value, 1 SDR became equivalent to USD 1.585 by the end of April 1995.
- Since November 2005, value of SDR is determined by basket of 4 major currencies. These are USD, Euro, Yen, and Pound Sterling.
- Value of SDR is determined each day by summarizing the values in US dollars, based on the market exchange rates of a basket of currencies

IMF & India

- India's current quota in the IMF is SDR 13114.4 million giving it a shareholding of 2.79 %.
- The IMF members can either retain SDRs, use them in payments etc. or sell them to other member countries.
- IMF has played an important role in Indian economy. IMF has provided economic assistance from time to time to India and has also provided appropriate consultancy in determination of various policies in the country to bring macroeconomic stability.
- Till 1970, India was among the first five nations having the highest quota with IMF and due to this status India was allotted a permanent place in Executive Board of Directors.

Thank you

Dr. (Ms) Kesari Singh
School of Business Management & Liberal Arts
Shoolini University
Village Bajhol, Solan (H.P)

+91-9816603968
kesari@shooliniuniversity.com