

# INTERNATIONAL MONETARY FUND (IMF)

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# INTERNATIONAL MONETARY FUND (IMF)





# WHAT IS IMF

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- ▶ “It is an organization of 186 countries ,working to foster global monetary cooperation ,secure financial stability ,facilitate international trade ,promote high employment and sustainable economic growth and reduce poverty” .
- ▶ The IMF is the most detailed attempt to organize the conduct of international monetary affairs.



# HISTORY OF IMF

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- ▶ The International Monetary Fund Was created in 1944, at the Bretton Woods conference to prevent the kinds of chain reaction in the economic system that caused world currencies to collapse like in the Great Depression of the 1930s.
- ▶ Bretton wood agreement was contracted in 1944 and IMF was created in 1946.
- ▶ IMF started to make service with IBRD (international bank of reconstruction and development) in 1947.
- ▶ The IMF was created to support orderly international currency exchanges and to help nations having balance of payment problems through short term loans of cash.



# ABOUT IMF

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- ▶ IMF headquarters is in Washington D.C , U.S.A
- ▶ Five largest shareholders are United States, Japan, Germany, France, United Kingdom.
- ▶ China, Russia, and Saudi Arabia have their own seats on the Board.
- ▶ 16 other Executive Directors are elected for two year terms by groups of countries, known as "Constituencies".
- ▶ Total quotas of \$312 billion; outstanding loans of \$71 billion to 82 countries (According to the report of August 31, 2005).
- ▶ The International Monetary Fund (IMF) is an organization of 186 countries.

# MEMBERSHIP

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- ▶ Original members- All those countries whose representatives took part in Bretton woods conference and who agreed to be the members
- ▶ Ordinary Members- All those who became its members subsequently
- ▶ Process- Board of directors – Board of governors with supported all documents and subscription and quota amount as per the terms of membership

# MEMBERSHIP

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- ▶ Fund has the authority to suspend any member and similarly every member is free to resign.
- ▶ Total 187 members
- ▶ Only North Korea, the Vatican, and four other small countries in Europe – none having its own currency – are not members of the Fund



# OBJECTIVES OF IMF

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- ▶ To promote international monetary cooperation.
- ▶ To facilitate the expansion and balanced growth of international trade.
- ▶ To promote exchange rate stability
- ▶ To correct maladjustments in the balance of payment.
- ▶ To shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members





# IMF BORROWINGS

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- ▶ Quotas
- ▶ Gold Holdings
- ▶ Borrowings Arrangements
  - ▶ General Arrangements To Borrow (GAB)
  - ▶ New Arrangements To Borrow (NAB)



# IMF LENDING

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- ▶ Drawing Rights (Lending)
  - ▶ Gold (Reserve) Tranche
  - ▶ Credit Tranche
- ▶ Lending Under Different Schemes
  - ▶ Compensatory and Contingency Financing Facility (CCFF)
  - ▶ Buffer Stock Financing Facility
  - ▶ Supplemental Reserve Facility (SRF)



# CONCESSIONAL LENDING FACILITIES

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- ▶ Structural Adjustment Facility (SAF)
- ▶ Enhanced Structural Adjustment Facility (ESAF)
- ▶ Emergency Financing Mechanism (EFM)

*In recent years the IMF has taken up new responsibilities, some of them are*

- ▶ Poverty Reduction and Growth Facility (PRGF)
- ▶ Multilateral Debt Relief Initiative Assistance (MDRI)
- ▶ Assistance to heavily Indebted Poor Countries (HIPC)
- ▶ Emergency Assistance for natural disaster and countries emerging from armed conflict

# SPECIAL DRAWING RIGHTS (SDR)

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- ▶ SDR is created by IMF
- ▶ It is not linked to any single currency nor does its creation depend on the supply or stock of gold.
- ▶ It does not belong to any single country
- ▶ All member countries have a claim on the created SDR.
- ▶ It is not tangible but only a book entry.

# SPECIAL DRAWING RIGHTS (SDR)

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- ▶ Its value is determined by a basket of currencies and the value is usually expressed in US Dollar.
- ▶ At Present it is used for transactions between the governments.
- ▶ It is the unit of account of the IMF and used as an unit of account or as a basis of unit of account by a number of international organizations.
- ▶ Besides the members, SDRs are also held by 'prescribed' international institutions. There are 15 such institutions at present.

# INTERNATIONAL LIQUIDITY

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- ▶ What is International Liquidity?
- ▶ Components of International Liquidity
  - ▶ Gold reserves with the Central bank of the country.
  - ▶ Foreign currencies held by Central Banks.
  - ▶ IMF Drawing Rights/Special Drawing Rights (SDRs).
  - ▶ A country's borrowing capacity in the international money market.

# INTERNATIONAL LIQUIDITY PROBLEMS

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- ▶ International Liquidity problem arises when demand for it exceeds its supply.
- ▶ It is a problem of liquidity gap.
- ▶ Affects both the developing and the developed countries.
- ▶ The problem is a result of world trade expanding at a faster rate than the supply of international liquidity.
- ▶ Supply of Gold and Foreign exchange was growing far less than the growth of International trade

# IMF AND INTERNATIONAL LIQUIDITY

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- ▶ IMF is an important source from where member countries obtain a part of international Liquidity.
- ▶ The main objective of IMF is to provide financial assistance to meet short term balance of payments problems.
- ▶ It also provides help to meet foreign exchange shortage that arises due to some unforeseen emergencies.
- ▶ IMF has played an important role in :-
  - ▶ Drawing Rights.
  - ▶ Lending Schemes
  - ▶ By Creating Special Drawing Rights





# CRITICISMS

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- ▶ Exacerbates Economic Problems
- ▶ One Size Fits All
- ▶ Decline in Public Services
- ▶ Takes away political autonomy.
- ▶ Moral Hazard
- ▶ 'Conditionality's' imposed on borrower countries.
- ▶ Governance structures
- ▶ Lack of Transparency and involvement'
- ▶ Supporting Military dictatorships.
- ▶ Conditions of Loans



# CHALLENGES

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- ▶ Sovereign debt
- ▶ Growth.
- ▶ Social instability
- ▶ Global imbalances
- ▶ Unemployment
- ▶ Regulation
- ▶ Europe's debt crisis
- ▶ Governance and reform
- ▶ Development

# REFERENCES


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*Thank You*

