ROLE AND FUNCTION OF INTERNATIONAL MONITARY FUND (IMF)

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HISTORY OF IMF

- The IMF was originally laid out as a part of the Bretton Woods system exchange agreement in 1944.
- 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 tra.
- 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 de.

- The IMF formally came into existence on 27 December 1945, when the first 29 countries ratified its Articles of Agreement.
- By the end of 1946 the IMF had grown to 39 members.
- On 1st March 1947, the IMF began its financial operations, and on 8 May France became the first country to borrow from it.
- The 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 maximization of national economic sovereignty and human welfare, also known as embedded liberalism.

IMF SINCE 2000

- The IMF provided two major lending packages in the early 2000's to Argentina (during the 1998–2002 Argentine great depression) and Uruguay (after the 2002 Uruguay banking crisis)
- In October 2013, **Fiscal Monitor** publication, the IMF suggested that a capital levy capable of reducing Euro-area government debt ratios to "end-2007 levels" would require a very high tax rate of about 10%.
- The **Fiscal Affairs** department of the IMF, headed by Acting Director Sanjeev Gupta, in his report 2014 entitled "Fiscal Policy and Income Inequality" stated that "Some taxes levied on wealth, especially on immovable property, are also an option for economies seeking more progressive taxation. Property taxes are equitable and efficient, but underutilized in many economies … There is considerable scope to exploit this tax more fully, both as a revenue source and as a redistributive instrument.

BOARD OF GOVERNORS

- The Board of Governors consists of one Governor and one alternate Governor for each member country. Each member country appoints its two Governors.
- The Board normally meets once a year and is responsible for electing or appointing Executive Directors to the Executive Board.
- While the Board of Governors is officially responsible for approving quota increases, special drawing right allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws, in practice it has delegated most of its powers to the IMF's Executive Board

- The Board of Governors is advised by the International Monetary and Financial Committee and the Development Committee.
- The International Monetary and Financial Committee is consisting of 24 members and monitors developments in global liquidity and the transfer of resources to developing countries.
- The Development Committee has 25 members and advises on critical development issues and on financial resources required to promote economic development in developing countries.
- They also advise on trade and environmental issues.

EXECUTIVE BOARD

- Executive Board consisting of 24 members and represent all 189 countries.
- Countries with large economies have their own Executive Director, but most countries are grouped in constituencies representing four or more countries.
- Following the *2008 Amendment on Voice and Participation* which came into effect in March 2011, eight countries appoint one Executive Director: the United States, Japan, China, Germany, France, the United Kingdom, Russia, and Saudi Arabia.
- The remaining 16 Directors represent constituencies consisting of 4 to 22 countries. The Executive Director representing the largest constituency of 22 countries accounts for 1.55% of the vote.
- This Board usually meets several times a week. The Board membership and constituency is scheduled for periodic review every eight years.

MANAGING DIRECTOR

- The IMF is led by a Managing Director, who is head of the staff and serves as Chairman of the Executive Board.
- The Managing Director is assisted by a First Deputy Managing Director and three other Deputy Managing Directors.
- Historically the IMF's Managing Director has been an European and the President of the World Bank has been from the United States.
- However, this standard is increasingly being questioned and competition for these two posts may soon open up to include other qualified candidates from any part of the world.

FUNCTIONS OF IMF

- It 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.
- The rationale for this is that private international capital markets function imperfectly and many countries have limited access to financial markets.
- Such market imperfections, together with balance-of-payments financing, provide the justification for official financing, without which many countries could only correct large external payment imbalances through measures with adverse economic consequences.
- The IMF provides alternate sources of financing.

THREE PRIMARY FUNCTIONS

- To oversee the fixed exchange rate arrangements between countries, thus helping national governments manage their exchange rates and allowing these governments to priorities economic growth, and 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 also intended to help mend the pieces of the international economy after the Great Depression

BANK PERFORMS THE FOLLOWING FUNCTIONS

- To assist in the construction and develop-ment of the territories of its members by facilitating investment of capital for productive purposes, including the ‘restoration of economies destroyed or disrupted by war’, and the encouragement of the “**development**” of productive facilities and resources in less developed countries.
- To promote private investment and long run balanced growth of international trade and BOP equilibrium by means of guarantees or partici-pation in international loans and investments.
- To provide finance to projects from its own capital, funds raised by it and by participating with other members

CONDITIONALITY OF LOANS

- IMF conditionality is a set of policies or conditions that the IMF requires in exchange for financial resources.
- The IMF does require 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 by the Executive Board and later incorporated into the Articles of Agreement.

SURVEILLANCE OF THE GLOBAL ECONOMY

- The IMF is mandated to oversee the international monetary funds, financial system and monitor the economic and financial policies of its member countries.
- This activity is known as surveillance and facilitates international co-operation.
- Since the demise of the Bretton Woods system of fixed exchange rates in the early 1970s, surveillance has evolved largely by way of changes in procedures rather than through the adoption of new obligations.
- The responsibilities changed from those of guardian to those of overseer of members' policies.

IMF AND GLOBALIZATION

- Globalization encompasses three institutions: global financial markets and transnational companies, national governments linked to each other in economic and military alliances led by the United States, and rising "global governments" such as World Trade Organization (WTO), IMF, and World Bank.
- The establishment of globalised economic institutions has been both a symptom of and a stimulus for globalisation.
- The development of the World Bank, the IMF regional development banks such as the European Bank for Reconstruction and Development (EBRD), and multilateral trade institutions such as the WTO signals a move away from the dominance of the state as the exclusive unit of analysis in international affairs.

CONCLUSION

- The IMF was one of the key organisations of the international economic system; its design allowed the system to balance the rebuilding of international capitalism with the maximization of national economic sovereignty and human welfare, also known as embedded liberalism.
- The IMF now serves the needs of global finance instead of the needs of global stability.
- The IMF's influence in the global economy steadily increased as it accumulated more members.
- The **International Monetary Fund** (**IMF**) is an international organization headquartered in Washington D.C., of "189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.t

THANK YOU !