International Monetary Fund

The International Monetary fund (IMF) is an international organization that aims to accomplish a number of different goals. These include reducing global poverty, encouraging international trade, and promoting financial stability and economic growth. The IMF and IBRD were established in July 1944 together on the basis of Bretton Woods conference that is why they are also known as Bretton Woods Twins. India is the founding member of the IMF.

The organization was created in 1945 and is based in Washington, DC. There are a total of 189 member countries, each of which is represented on the group's board. This representation is based on how important its financial position is in the world, so stronger, more powerful countries have a greater voice in the organization than nations which are much weaker.

Financial Structure of the IMF:

The capital or the resources of the Fund come from two sources:

(i) Subscription or quota of the member nations, and

(ii) Borrowings.

Each member country is required to subscribe an amount equivalent to its quota. It is the quota on which payment obligations, credit facilities, and voting right of members are determined. As soon as a country joins the Fund, it is assigned a quota which is expressed in Special Drawing Rights (SDRs). At the time of formation of the IMF, the quota of each member was made up of 25 p.c. in gold or 10 p.c. of its net official holdings of gold and US dollars (whichever was less). Now this has been revised.

The capital subscriptions or quota is now made up of 25 p.c. of its quota in SDRs or widely accepted currencies (such as the US dollar, euro, the yen or the pound sterling) instead of gold and 75 p.c. in country's own currency. The size of the Fund equals the sum of the subscriptions of members. Total quotas at the end-August 2008 were SDR 217.4 billion (about $341 billion).

The Fund is authorised to borrow in special circumstances if its own resources prove to be insufficient. It sells gold to member countries to replenish currency holdings. It is entitled to borrow even from international capital market. Though the Articles of Agreement permit the Fund to borrow from the private capital market, till today no such use has been made by the IMF.

Objectives

There are three general objectives of the IMF:

(i) The elimination or reduction of existing exchange controls,

(ii) The establishment and maintenance of currency convertibility with stable exchange rates, and

(iii) The widest extension of multi-lateral trade and payments.

In essence the Fund is an attempt to achieve the external or international advantages of gold standard system without subjecting nations to its internal disadvantages, and at the same time maintaining the internal advantages of paper standard while bypassing its external disadvantages.

Functions:

The principal function of the IMF is to supervise the international monetary system. Several functions are derived from this. These are: granting of credit to member countries in the midst of temporary balance of payments deficits, surveillance over the monetary and exchange rate policy of member countries, issuing policy recommendations. It is to be noted that all these functions of the IMF may be combined into three.

These are: regulatory, financial, and consultative functions:

Regulatory Function:

The Fund functions as the guardian of a code of rules set by its (AOA— Articles of Agreement).

Financial Function:

It functions as an agency of providing resources to meet short term and medium term BOP disequilibrium faced by the member countries.

Consultative Function:

It functions as a centre for international cooperation and a source of counsel and technical assistance to its members.

The main function of the IMF is to provide temporary financial support to its members so that 'fundamental' BOP disequilibrium can be corrected. However, such granting of credit is subject to strict conditionality. The conditionality is a direct consequence of the IMF's surveillance function over the exchange rate policies or adjustment process of members.