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Maharaja College
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B.A Economics, Part - II
Paper - 1
Topic : International Monetary Fund (IMF)

International Monetary Fund

Managing Director: Kristalina Georgieva

Chief Economist: Gita Gopinath

Headquarters: Washington, D.C. U.S

Main organ: Board of Governors

Parent organization: United Nations

Membership: 189 countries

Introduction :

The International Monetary Fund (IMF) is an international organization that promotes global economic growth and financial stability, encourages international trade, and reduces poverty. Quotas of member countries are a key determinant of the voting power in IMF decisions. Votes comprise one vote per 100,000 special drawing right (SDR) of quota plus basic votes. SDRs are an international type of monetary reserve currency created by the IMF as a supplement to the existing money reserves of member countries.

The IMF was originally created in 1945 as part of the Bretton Woods agreement, which attempted to encourage international financial cooperation by introducing a system of convertible currencies at fixed exchange rates.

Objectives of IMF :

- i. To promote international monetary cooperation through a permanent institution.
- ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

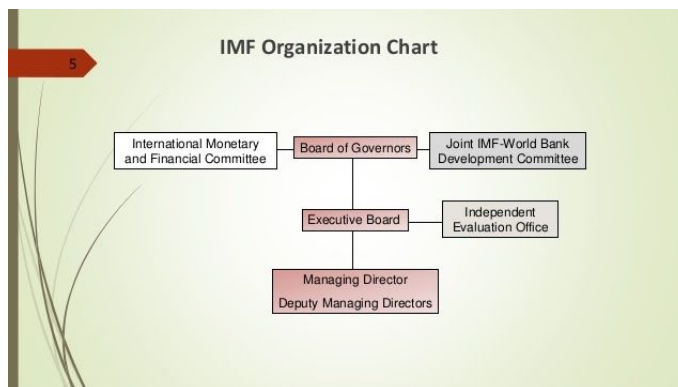
iii. To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.

iv. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

v. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments.

vi. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Organisational Structure of IMF:



Board of Governors

- The *Board of Governors*, the highest decision-making body of the IMF, consists of **one governor** and **one alternate governor** for each member country.
- The governor is appointed by the member country and is usually the **minister of finance** or the **governor of the central bank**.
- All powers of the IMF are vested in the **Board of Governors**. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.
 - Governors elect one of the governors as chairman
 - Not in continuous session; meets once a year—Annual Meetings
 - May establish committees (e.g., International Monetary and Financial Committee (IMFC), joint World Bank-IMF Development Committee)

Section 3. Executive Board

- (a) The Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors, Sits in continuous session, meeting as often as the business of the IMF may require
- (b) The Executive Board shall consist of **Executive Directors** with the Managing Director as chairman. Of the Executive Directors:
 - Five shall be appointed by the five members having the **largest quotas**; and
 - Nineteen shall be elected by the other members.
 - Board of Governors, by an **85 percent majority** of the total voting power, may increase or decrease the number of Executive Directors in the second category
 - Each director shall appoint an alternate director
- The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff.
- Weighted voting structure - each Executive Director casts the number of votes allotted to members that he or she represents. Most decisions of the Executive Board require only a simple majority of the votes cast; some require either 70% or 85% of the total voting power
- Voting is rare - most decisions are taken by consensus.

The Managing Director, Staff, Independent Evaluation Office

- **Chairman** of the Executive Board and **chief** of the operating staff
- Selected by the Executive Board
 - **May not** be selected from among the governors or the Executive Directors
 - **Term of 5 years**, but shall cease to hold office when so decided by the Executive Board
- Conducts ordinary business of the IMF under the **direction of the Executive Board**
 - Subject to general **control of the Executive Board**, responsible for **organization, appointment and dismissal of staff**
- Staff of the IMF are **International civil servants**
- **Independent Evaluation Office (IEO)**. Conducts objective and independent evaluations on issues relevant to the **Fund's mandate**.
- The IMF's employees come from all over the world; they are responsible to the IMF and not to the authorities of the countries of which they are citizens. The IMF staff is organized mainly into **area; functional; and information, liaison, and support responsibilities**.

Main functions of IMF :

The IMF's Main Functions



1. Surveillance

a. Bilateral surveillance

- Regular annual discussion between IMF staff and member country, followed by assessment by the Executive Board
- Assessments of financial sector stability, now compulsory for systemic countries (**Financial Sector Assessment Programs**)

b. Multilateral & Regional surveillance

- Flagship global and regional reports (**World Economic Outlook, Global Financial Stability Report, Regional Outlooks**)
- Support to G-20 (**Mutual Assessment Program**)
- Early Warning Exercises to identify potential vulnerabilities

c. Research

- Cross-country analyses, country studies, reform of the global financial system

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