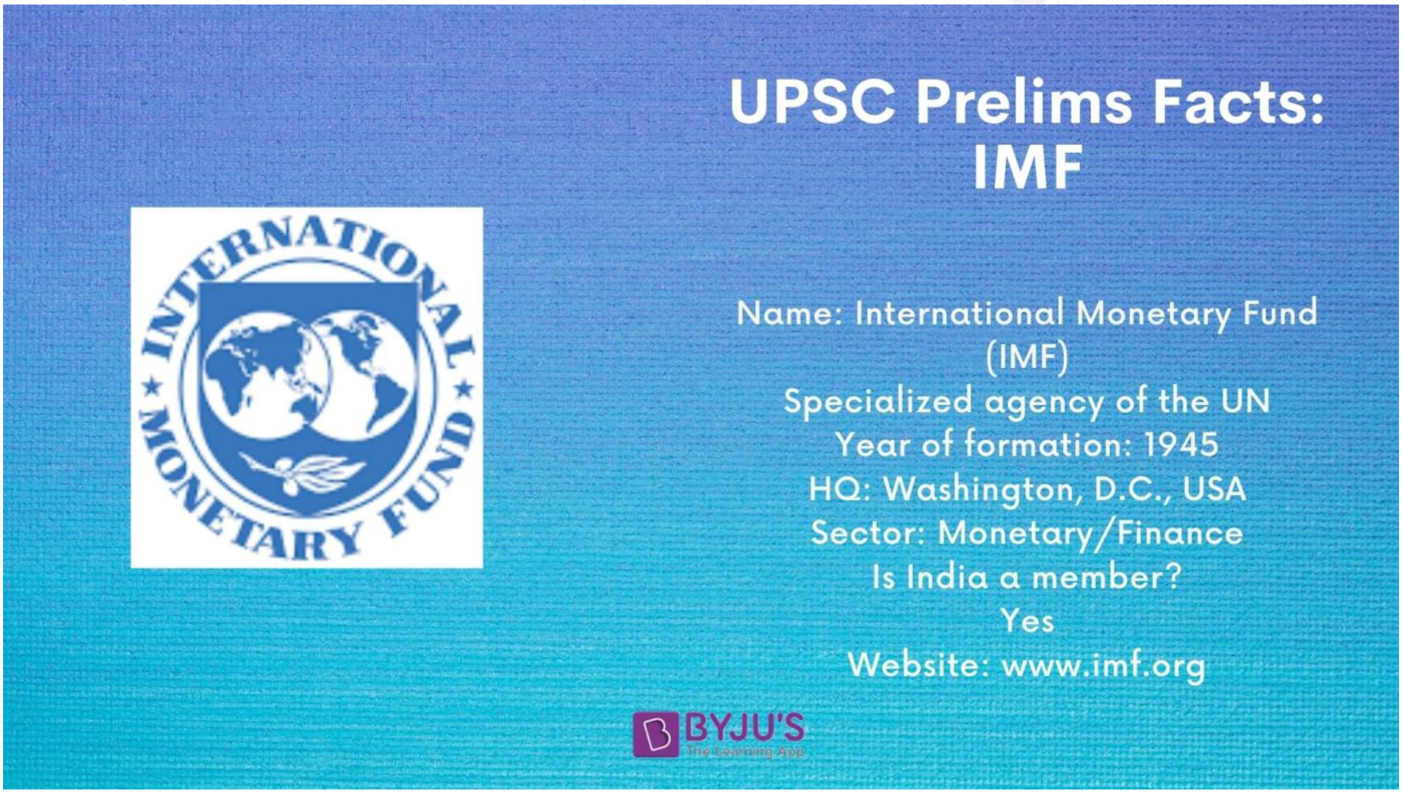
International Monetary Fund (IMF) - UPSC Notes

International Monetary Fund (IMF) is an important topic for the IAS Exam and is included under the international relations and economy sections. This article will discuss the origin of the IMF and its controlling bodies, apart from India's relations with the IMF. IAS aspirants can also download the notes PDF at the end of the article.

International Monetary Fund (IMF)

The formation of the IMF was initiated in 1944 at the Bretton Woods Conference. IMF came into operation on 27th December 1945 and is today an international organisation that consists of 189 member countries. Headquartered in Washington, D.C., IMF focuses on fostering global monetary cooperation, securing financial stability, facilitating and promoting international trade, employment and economic growth around the world. The IMF is a specialised agency of the United Nations.



Formation of IMF

The breakdown of international monetary cooperation during the Great Depression led to the development of the IMF, which aimed at improving economic growth and reducing poverty around the world. The International Monetary Fund (IMF) was initially formed at the Bretton Woods Conference in 1944. 45 government representatives were present at the Conference to discuss a framework for postwar international economic cooperation.

The IMF became operational from 27th December 1945 with 29 member countries that agreed to bound to this treaty. It began its financial operations on 1st March 1947. Currently, the IMF consists of 189 member countries.

The IMF is regarded as a key organisation of the international economic system which focuses on rebuilding the international capital along with maximizing the national economic sovereignty and human welfare.

Organizational Structure of International Monetary Fund (IMF)

The United Nations is the parent organisation that handles the proper functioning and administration of the IMF. The IMF is headed by a Managing Director who is elected by the Executive Board for a 5-year term of office. The International Monetary Fund (IMF) consists of the Board of Governors, Ministerial Committees and the Executive Board.

To know more about the organizational structure of IMF, refer to the table below:

Structure of the International Monetary Fund (IMF)	
Governing Bodies of IMF	**Roles and Responsibilities**
Board of Governors	• Each governor of the Board of Governors is appointed by his/her respective member country. • Elects or appoints executive directors to the Executive Board. • Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the Development Committee. • An annual meet up between the Board of Governors and the World Bank Group is conducted during the IMF–World Bank Annual Meetings to discuss the work of their respective institutions.
Ministerial Committees 1. International Monetary and Financial Committee (IMFC) 2. Development Committee	• It manages the international monetary and financial system. • Amendment of the Articles of Agreement. • To solve the issues in the developing countries that are related to economic development.
Executive Board	• It is a 24-member board that discusses all the aspects of the Funds. • The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

Objectives of IMF

IMF was developed as an initiative to promote international monetary cooperation, enable international trade, achieve financial stability, stimulate high employment, diminish poverty in the world and sustain economic growth. Initially, there were 29 countries with a goal of redoing the global payment system. Today, the organization has 189 members. The main objectives of the International Monetary Fund (IMF) are mentioned below:

1. To improve and promote global monetary cooperation of the world.
2. To secure financial stability by eliminating or minimizing the exchange rate stability.
3. To facilitate a balanced international trade.
4. To promote high employment through economic assistance and sustainable economic growth.
5. To reduce poverty around the world.

To know more about Important Headquarters of International Organizations, check the linked article.

What are the functions of the IMF?

IMF mainly focuses on supervising the international monetary system along with providing credits to the member countries. The functions of the International Monetary Fund can be categorised into three types:

1. **Regulatory functions:** IMF functions as a regulatory body and as per the rules of the Articles of Agreement, it also focuses on administering a code of conduct for exchange rate policies and restrictions on payments for current account transactions.
2. **Financial functions:** IMF provides financial support and resources to the member countries to meet short term and medium term Balance of Payments (BOP) disequilibrium.
3. **Consultative functions:** IMF is a centre for international cooperation for the member countries. It also acts as a source of counsel and technical assistance.

India & IMF

India is a founder member of the IMF. India's Union Finance Minister is the Ex Officio Governor on the IMF's Board of Governors. Each member country also has an alternate governor. The alternate governor for India is the Governor of the RBI. There is also an Executive Director for India who represents the country at the IMF.

- India's quota in the IMF is SDR 13,114.4 million that gives India a shareholding of 2.75%.
- This makes India the eight largest quota holding country at the organisation.
- In 2000, India completed the repayment of all the loans it had taken from the IMF.
- Now, India is a contributor to the IMF.

To know more about Special Drawing Rights (SDR), click on the linked article.

The emerging economies have gained more influence in the governance architecture of the International Monetary Fund (IMF).

- The reforms were agreed upon by the then 188 members of the IMF in 2010, in the aftermath of the global financial meltdown.
- More than six percent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.

Which countries gained?

- India’s voting rights increased to 2.6 percent from the current 2.3 percent, and China’s to six percent from 3.8. Russia and Brazil are the other two countries that gain from the reforms.

Why delay in the reforms?

- Among the reasons for the delay has been the time it took the U.S Congress to approve the changes. U.S voting share will marginally drop, from 16.7 percent to 16.5 percent.
- Though the country holds veto power, Republicans have been agitated over “declining U.S power.”

Advantages

- For the first time, the Executive Board will consist entirely of elected executive directors, ending the category of appointed executive directors. Currently, the members with the five largest quotas appoint an executive director, a position that will cease to exist.

- The significant resource enhancement will fortify the IMF’s ability to respond to crises more effectively.
- These reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.