A Brief Overview of the International Monetary Fund

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IMF Headquarters I & II

Functions of the IMF

- 188 Member states
  - Each member state contributes funds (quotas) which translate to voting power
  - US contributes approx. $60 Billion (~$18% of votes)
- **Lender of Last Resort**
- Monitor exchange rates
- Stabilize international monetary systems
- Foster global financial cooperation
- Promote a stable world economy
- Provide loan to struggling economies

History of the IMF

- Founded July 1944 at Bretton Woods Conference in New Hampshire
  - Camille Gutt of Belgium was appointed as the first chairman
  - Originally 29 member states
- Inspired by Great Depression, World Wars, and harsh international economic conditions
- France is the first country to borrow after IMF becomes active in March 1947
- 1945-1971 employed the "Bretton Woods System"
  - Steady exchange rates unless change needed to correct "fundamental disequilibrium" at discretion of IMF
  - US suspended convertibility of dollars into Gold in 1971
- 1971-Now
  - IMF member countries can have whatever system they want
    - Floating currency, peg to another currency, adopt another country's currency
    - Easier for countries to adjust to external shocks

History of the IMF (cont.)

- Expansion in 1950s and 1960s as many African nations become independent
- Oil crisis of the 1970s
  - Oil companies borrow from commercial banks→ interest rate increases→ international debt crisis→ poorer and non-oil producing countries pay $22B between 1978-1980→ IMF global response to help countries pay off debt
- Concessional loans programs for poor countries
  - Nobody benefits if country after country can’t afford to pay off debt
- Berlin wall collapse in 1989 leads to huge influx of member states
  - Transition from central planning economies to market-driven through IMF assistance
- Active role in 1997 Asian Financial Crisis
- Initiative for Heavily Indebted Poor Countries in 1990s
  - Ensure no country has a debt burden they cannot handle

IMF in Notable Events

- Financial Crisis
  - Bolstered lending capacity in 2008, especially for poorer countries, by increasing quota subscriptions of member countries
  - Overhauled lending framework to provide over $700bn in financing
  - Introducing governing reforms to better represent emerging markets and developing countries
- Greek Bailout
  - Participates in a “special advisory role”
  - Has not contributed capital because of major disagreements with European creditors on how to handle debt relief

IMF Leadership

- Managing Director
  - Head of Staff and Chairman of the Executive Board
  - Christine Lagarde (2011)
- Board of Governors
  - Officially responsible quota increases and admitting/withdrawing members
  - Each member country appoints one primary and one alternate governor
- Executive Board
  - Meet several times a week to conduct day-to-day business of the IMF
  - Composed of 24 Executive Directors
    - US, Japan, Germany, France, China, Russia, UK, and Saudi Arabia each choose one
    - Remaining 16 each represent 4-22 countries based on geographic constituency

Criticisms of the IMF

- Too much control over how debtor countries spend their money
  - They must follow strict guidelines to be eligible for loans
    - Often includes: reducing government borrowing (=higher taxes/lower spending)
    - Higher interest rates to stabilize currency
- Lack of transparency - little consultation with countries affected by their policies
- Currency devaluations to combat inflation
- Anti-interventionists economists
  - Best to let exchange rates stabilize on their own without outside influence
- Asian Crisis of 1997
  - Countries such as Indonesia, Malaysia and Thailand required to pursue tight r (higher interest rates) and tight fiscal policy to reduce the budget deficit and st exchange rates
  - Caused a minor slowdown to turn into a serious recession with mass unemployment

IMF in the World Today

- Ukraine
  - IMF unlikely to approve remaining loans without advanced economic reforms
    - "tangible results in prosecuting and convicting corrupt high-level officials and recovering proceeds from corruption"
- Egypt
  - IMF recently approved three-year $12bn loan to aid in economic reform program
    - To receive, Egypt devalued pound, imposed VAT, and cut energy subsidies
- New Arrangements to Borrow
  - IMF renewed $250bn crisis lending fund for another five-year period
    - NAB established in 1998, tripled in size after the Financial Crisis

Sources

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