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 monetary (higher interest rates) and tight fiscal policy to reduce the budget deficit and stabilize 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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