INTERNATIONAL Monetary Fund (IMF)

"No power can defeat you as long as you stand firm on your Ideology" Ex-PM Imrankhan.

1 Origin:

→ The origin of the IMF goes back to the days of International chaos of the 1930s.

→ During the Second world war, plans for the Construction of an international institution for the establishment of monetary order were taken up.

→ At the Bretton Woods Conference held in July 1944, delegates from 44 non-communist countries negotiated an agreement and the structure and operation of the International Monetary Fund (IMF)

2 Introduction to the IMF:

The international monetary funds (IMF) is an international financial institution established to foster
→ global money cooperation
→ Exchange rate stability
→ Balance trade relationships
→ Finantial Stability.

- it plays a critical role in promoting economic growth and stability worldwide.

- The IMF was created on July 22, 1944, at the United Nations Monetary & Financial Conference, commonly known as

Bretton Woods Conference.

- The IMF has 190 member Countries.

3. GENESIS OF The IMF:

i. The Bretton Woods Conference (which created the IMF) took place in July 1944 in Bretton Woods, New Hampshire, USA.

ii. it brough together representatives from 44 Allied nations during World War II to design a post-war international monetary and financial System.

iii Rationale for creating IMF were:

i. **Economic Stability:** The world had experienced economic stability, trade imbalances, and currently fluctuations during the inter war period, leading to the Great depression (1929-1939). There was a recognized need for an institution to promote stability & prevent such crises.

ii. **Reconstruction & Development:** The post war period required financial assistance for recontruction and development efforts. The IMF was envisioned as a key institution to provide monetary Cooperation & financial Support.

4 # Objectives:

IMF was spell out six purposes for which IMF was spell out.

These are

1. **To promote International monetary cooperation.**

To promote international monetary cooperation through a permanent institution which provides the machinery for consolation and collaboration on international monetary problems.

2. **Facilitate the balanced growth:-**

To facilitate the balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real Income & to the development of the productive resources of all members as primary objective of economic policy.

3. **Promote Exchange Policy:**

→ To promote exchange stability, to maintain orderly exchange arrangements among members.

→ And to avoide competitive exchange depreciation

4. The Establishment of Multilateral System.

→ 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.

5. To make general resources

To give confidence to members by making the generals resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without restoring to measure destructive of national or International prosperity.

In accordance with the above, to shorten the duration & lessen the degree of disequilibrium in the International balances of payments of members.

(5) Functions:

The IMF pursues the various facets of its mandate in a number of ways. They are summarized below.

i Surveillance over Member's Economic Policy:

→ In Becoming members of the IMF, countries agree to pursue economic policies that are consistent with the objectives of the IMF.

→ The articles of agreement confer on the IMF the legal authority to oversee compliance by members with their obligation, making the IMF

ii. Financing Temporary Balance of Payments Needs:

- The IMF provides financial assistance (loan | Bailout package) to member countries that have a balance of payments needs to provide temporary respite and enable countries, to put in place orderely corrective measures and avoid a disorderly adjustment of the external imbalance.

→ Such lending is usually undertaken in the context of an economic adjustment program implemented by the borrowing country to correct the balance of payment difficulties.

- The IMF plays an important catalytic role in helping member countries to mobilize external financing for their balance of payments needs.

iii Capacity Development:

→ The IMF provides technical assistance & training known as capacity development.

→ It is available to all members upon their request and is tailored to a country's specific needs.

Importance:

- Capacity development can help countries to improve tax collection and ~~blester~~ bolster public finance.

- It can help countries to modernize their monetary & exchange rate policies, develop legal systems, or strengthen governance.

- Capacity development also can help countries collect & disseminate data to inform decision making.

6 | IMF LENDING

1. Financing Crises | Deficits.

Why a Crisis Occurs?

The Causes of crises are varied and complex.
They can be domestic, external, or both.

i * Domestic factors.

Include inappropriate fiscal & monetary policies.

- → which can lead to large current account and fiscal deficits and high public debt levels.
- → An exchange rate fixed at an inappropriate level, which can erode competitiveness & result in the loss of official reserves, & a weak financial system, which can create economic booms & busts.
- → Political instability and weak institutions also can trigger crises.

: fiscal policy ⇒ To promote strong & sustainable growth & reduce poverty.

: monetary policy ⇒ refers to central bank activities.

ii External factors:

→ Include shocks ranging from natural disasters to large swings in commodity prices.

→ Both are common causes of crises, especially for low-income countries.

→ With globalization, sudden changes in market sentiment can result in capital flow volatility.

→ Even countries with sound fundamentals can be severely affected by economic crises & policies elsewhere.

Example

The Covid-19 pandemic was an example of external shock affecting countries across the globe.

Types of Crises:-

① BOP Deficits

② Excessive Debts

① BOP Deficits

Balance of payment problems occur when a nation is unable to pay for essential imports or service its external debt.

money outflow > money Inflow.
This is called BOP deficit.

→ A Balance of payments deficits occurs when a country's expenditures on imports, foreign aid, and other international transactions exceed its earnings from exports and financial inflows.

→ it reflects a situation where a nation is spending more on foreign goods and services than it is earning through its exports and other sources.

Reasons:

i → **Trade imbalances:**
if a country imports more than its exports.

ii → **Foreign Debt Payments:**
High payments on external debts.

iii → **Decrease in Foreign Investment.**
A decline in foreign investments or capital inflows.

iv → **Economic Downturn:**
Economic recessions can lead to reduced export demand.

v **Developmental activities:**
Developing countries depend on developed nations for supply of machines,

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technology and other equipment.
This leads to increased levels of imports, thereby, resulting in a deficit in BOP account.

vi High rate of inflation

→ When there is inflation in the domestic economy, foreign goods become relatively cheaper as compared to domestic goods.

→ it increases imports which leaves a deficit in the BOP.

Political Factors:

vii Political Instability:

Political instability may lead to large capital outflows and reduce the inflows of foreign funds, thus, creating disequilibrium in the BOP.

viii Political disturbances:

Frequent changes in the govt, inadequate support to the government in parliament also discourage inflows of capital.
This leads to a deficit due to higher outflow ~~of~~ than inflows.

2 Excessive deficits:

Fiscal crises are caused by excessive deficits ~~or~~ debt.

A variety of issues can cause debts.

1 Low income or underemployment:
Some people on lower income jobs may find it hard to meet their bills or put money into savings because there is not much money left at the end of the month from their wages.

2. High costs of living
Some areas of the country have higher cost of living than others.
Several things can factor into a higher cost of living, such as
→ Higher house prices
→ Rental demands and longer commutes.

2) Conditionaly of loans:

IMF conditionality is a set of policies or conditions that the IMF requires in exchange for financial resources.

- The IMF does require collateral from countries for loans but also requires the government seeking assistance to correct its macroeconomic imbalances in the form of policy reform.

- Conditionality is associated with economic theory as well as enforcement mechanism for repayment.

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Q) Structural Adjusment Programms.

(SAPs)

Def:

Structural Adjustment programs (SAPs) consist of loans provided by the international Monetary fund (IMF) and the World Bank (WB) to countries that expererince economic crises.

History

→ Structural adjacement policies were developed by two of the Bretton Woods institutions.

1. The IMF
2. The world Bank.

They were advised by the top economists of both.

→ Mexico was the first country to implement Structural adjusment in exchange for loans.

→ SAPs originated due to series of global economic disasters during the late 1970s:

1) The oil crises. (2) debt crises (3) multiple economic depressions (4) Stagflation.

Goals:

According to its stated goals, Structural Adjustment Loan (SALs) aim to acheive three main objectives.

1- Boosting economic growth.
2- Addressing Balance of payments deficits
3- Reducing poverty.

SALs and (ESATs) issued by the IMF aim to offer favorable assistance for medium-term structural reform in low-income member countries.

Condition.

Typical stabilisation policies include.

→ Balance of Payments deficits reduction through currency devaluation.

→ Budget deficit reduction through higher taxes and lower government spending, also known as austerity.

→ Monetary Policy to finance government deficits usually in the form of loans from central Bank.

→ Eliminating food subsidies.

→ Raising the price of public services.

→ decrementing domestic credit.

Long term adjusment Policies

→ Liberalization of markets to guarantee a price mechanism.

→ Privatization, or divestment, of all or part of state owned enterprises.

∴ Privatization → moving something from public sec to private sector.
divestment. is the opposite of investment is the reduction of some kind of asset for financial, ethical, political objectives.

→ Creating new financial institutions.

→ Focusing economic output on direct export and resource extraction.

→ Trade liberalization: Removing trade bariers to enhance competitiveness.

→ Increasing Revenue: Imposition of direct/indirect taxes and tariffs in the energy sector.

3) ADVANTAGES:

• **Continuity**

Due to long time required for structural adjustment, the IMF & world Bank prefer to provide a series rather than a loan to ensure the periodicity & continuity of the structural adjustment plans.

- **Autonomy**
  During the entire SAL loan process, member countries always have the initiative in policy section.
  The IMF & WB are obliged to provide member countries with advice, guidance and policy building, but they have no right to replace members.

- **Flexibility:**
  The international Monetary fund & the WB have always taken flexible measures to avoid rigid lending regulations due to insufficient understanding of a country's situation.

4 Pakistan and IMF

Pakistan has been a member of the IMF since 1950.
Pakistan secured its first loan in 1958, and its 23rd loan from the IMF in July 2023.

→ **Date of membership**
11 July 1950

→ **Number of Arrangements since membership**
24.

→ **2024 Projected Real GDP %**
2.0%

Special Drawing Rights (SDR)
: 558.37 million

Quota (SDR): 2031.0 million

Country Population
236.167 million.

Pakistan: IMF Reaches Staff-level Agreement on Economic Policies with Pakistan for 37 month Extended Fund facility. (EFF)

(Cheif) (Nathan Porter) July 12, 2024.

* Building on the economic stability achieved under the 2023 Stand-By Arrangement (SBA) IMF & Pakistan authorities have reached a staff level agrement on 37 month (EFF) of about US $7 billion.

* The new program aims to support the authorities efforts to cement macroeconomic stability & create conditions for a stronger, more inclusive, & resilient growth.

CRITICISM ON IMF:

The IMF has been subject to a range of criticisms, generally focused on the conditions of its loans.

Criticism of the IMF Include:

1. Conditions of loans:

On giving loans to countries, the IMF make the loans conditional on the implementation of certain economic policies.
These policies tend to involve

→ Reducing government borrowing.
Higher taxes & lower spending.
Higher interest rates to stabilize the currency.

→ Structural adjustment
Privatization, deregulation, reducing corruption and bureaucracy.

→ For-example.
In the Asian crises of 1997, many countries such as Indonesia, Malaysia, and Thailand were required by IMF to pursue tight monetary policy and tight fiscal policy to reduce the budget deficit & strengthen exchange rates.
However these policies caused a minor slowdown to turn into a serious recession with very high levels of unemployment.

2. Devaluations

In earlier days, the IMF have been criticised for allowing inflationary devaluations.

3. Neo-Liberal Criticisms

There is also criticisms of neo-liberal policies such as privatisation.

Arguably these free-market policies were not always suitable for the situation of the country.
e.g Privatisation can create lead to the creation of private monopolies who exploit consumers.

4. Supporting military dictorships.

The IMF has been criticised for supporting military dictatorships in Brazil and Argentina, such as Castello Branco in 1960s received IMF funds denied to other countries.

(5) Structural Adjustment Program.

SAPs of IMF, they are too harsh & they are two rigide especially for developing countries.

(1) Tax Impose (2) Subsides reduce.

Arguments

= IMF (SAPs) are too harsh & they are two rigide for the middle ~~part~~ lower middle class.