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International Monetary Fund (IMF)

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The International Monetary Fund (IMF) is an organization of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting power.

Objective

- Foster global monetary cooperation
- Secure financial stability
- Facilitate international trade
- Promote high employment and sustainable economic growth
- And reduce poverty around the world

Functions

- **Provides Financial Assistance: To provide financial assistance to member countries with balance of payments problems, the IMF lends money to replenish international reserves, stabilize currencies** and strengthen conditions for economic growth. Countries must embark on structural adjustment policies monitored by the IMF.
- **IMF Surveillance:** It oversees the international monetary system and monitors the economic and financial policies of its 190 member countries. As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and adviseson needed policy adjustments.
- **Capacity Development:** It provides technical assistance and training to central banks, finance ministries, tax authorities, and other economic institutions. This helps countries raise public revenues, modernize banking systems, develop strong legal frameworks, improve governance, and enhance the reporting of macroeconomic and financial data. It also helps countries to make progress towards the **Sustainable Development Goals (SDGs)**.

IMF and India

- International regulation by IMF in the field of money has certainly contributed towards expansion of international trade. India has, to that extent, benefitted from these fruitful results.

- **Post-partition period,** India had serious balance of payments deficits, particularly with the dollar and other hard currency countries. It was the IMFthat came to her rescue.
- The Fund granted India loans to meet the financial difficulties arising out of the Indo–Pak conflict of 1965 and 1971.
- From the inception of IMF up to March 31, 1971, India purchased foreign currencies of the value of Rs. 817.5 crores from the IMF, and the same havebeen fully repaid.
- Since 1970, the assistance that India, as other member countries of the IMF, can obtain from it has been increased through the setting up of the **Special Drawing Rights** (SDRs created in 1969).
- India had to borrow from the Fund in the wake of the steep rise in the prices of its imports, food, fuel and fertilizers.
- In 1981, India was given a massive loan of about Rs. 5,000 crores to overcome foreign exchange crisis resulting from persistent deficit in balance of payments on current account.
- India wanted large foreign capital for her various river projects, land reclamation schemes and for the development of communications. Since private foreign capital was not forthcoming, the only practicable method of obtaining the necessary capital was to borrow from the International Bank for Reconstruction and Development (i.e. World Bank).
- India has availed of the **services of specialists of the IMF** for the purpose of assessing the state of the Indian economy. In this way India has had the benefit of independent scrutiny and advice.
- The balance of payments position of India having gone utterly out of gear on account of the oil price escalation since October 1973, the IMF has started making available oil facility by setting up a special fund for the purpose.
- **Early 1990s** when **foreign exchange reserves – for two weeks' imports** as against the generally accepted **'safe minimum reserves'** of **three month equivalent** — position were terribly unsatisfactory. Government of India's immediate response was to secure an emergency loan of $2.2 billion from the International Monetary Fund by pledging 67 tons of India's gold reserves as collateral security. India promised IMF to launch several structural reforms (like devaluation of Indian currency, reduction in budgetary and fiscal deficit, cut in government expenditure and subsidy, import liberalisation, industrial policy reforms, trade policy reforms, banking reforms, financial sector reforms, privatization of public sector enterprises, etc.) in the coming years.
- The foreign reserves started picking up with the onset of the liberalisationpolicies.
- India has occupied a special place in the **Board of Directors** of the Fund. Thus, India had played a **creditable role in determining the policies of the Fund**. This has **increased the India's prestige** in the international circles.