The International Monetary Fund

Umit AYGUN
Masood KHOSROSHAHY
Yijun WU
Minmin WANG

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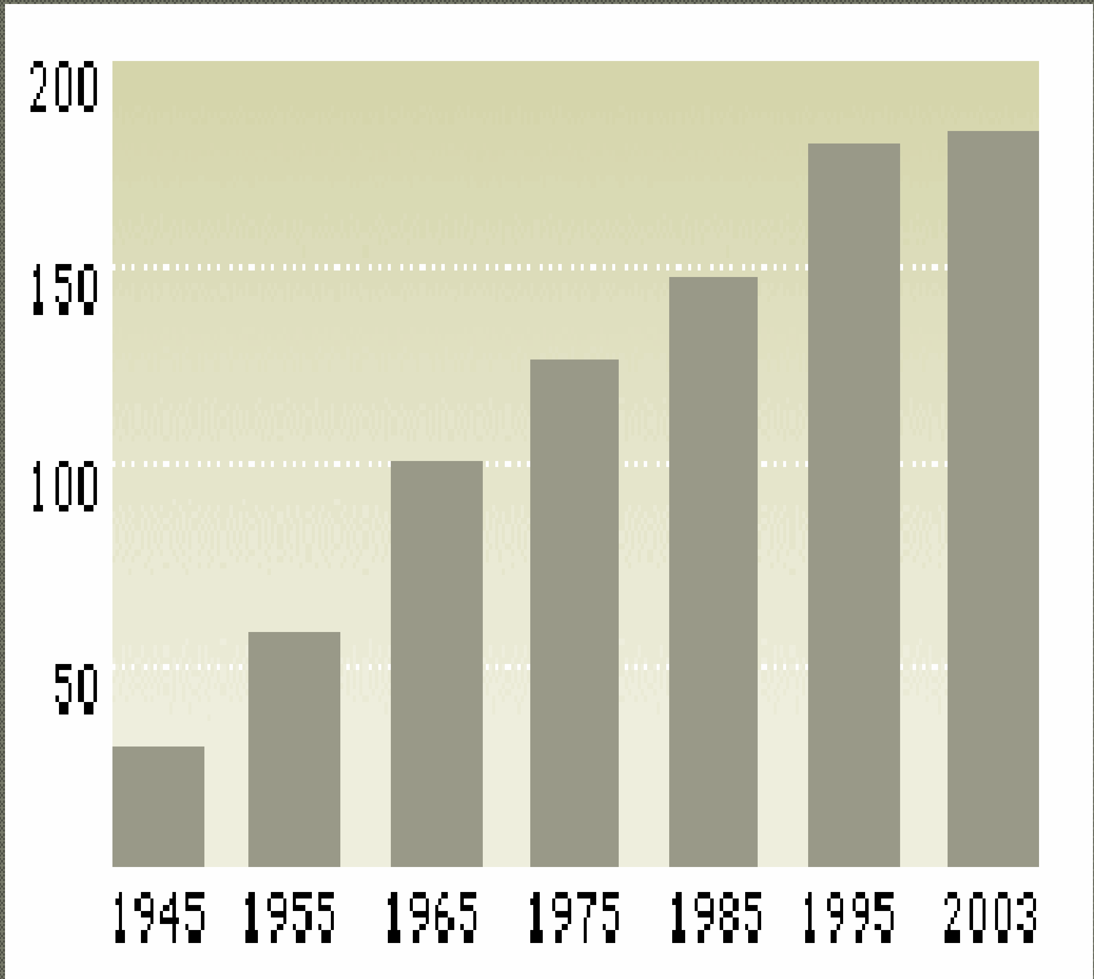
The International Monetary Fund

Created in 1944, at the Bretton Woods conference to prevent the kinds of chain reaction in the economic system that caused world currencies to collapse like in the Great Depression of the 1930s.

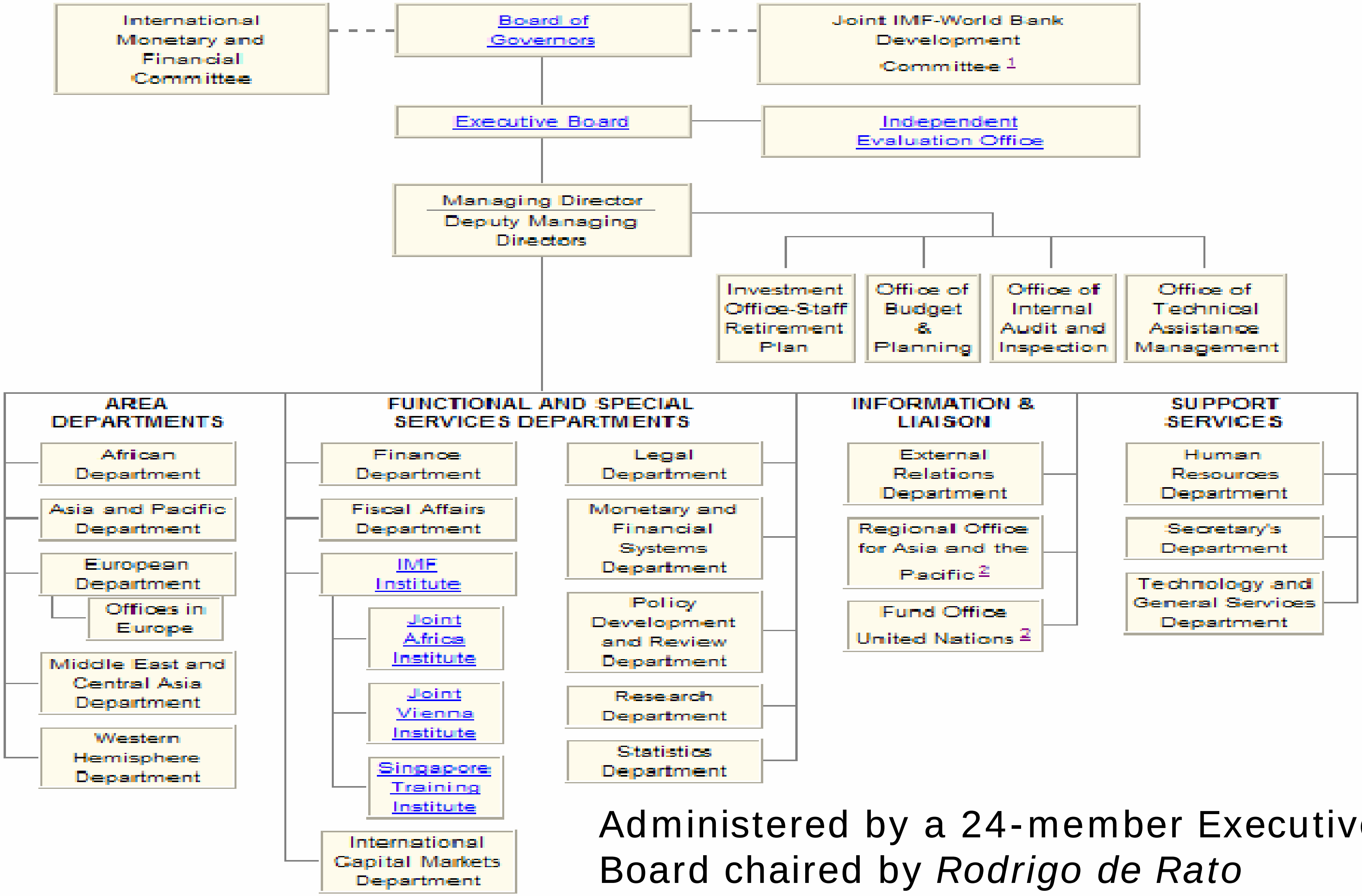
Growth in IMF Membership, 1945 – 2003

(Number of countries)



- In the beginning 29 member countries
- Today,184 member countries
- Staff of about 2680 persons
- Two-thirds are economists in 139 countries
- Headquarters in Washington, D.C.

Organization



Administered by a 24-member Executive Board chaired by *Rodrigo de Rato*

The IMF in short:

- IMF is a forum of national economic policies, international monetary and financial systems, which involves active dialogue with each member country
- Total quotas of $312 billion; outstanding loans of $71 billion to 82 countries *(According to the report of August 31, 2005)*
- Five largest shareholders:
  United States, Japan, Germany, France, United Kingdom
- China, Russia, and Saudi Arabia have their own seats on the Board.
- 16 other Executive Directors are elected for two-year terms by groups of countries, known as “Constituencies”.

Purposes:

- Promote international monetary cooperation, exchange stability, and orderly exchange arrangements
- Foster economic growth and high levels of employment
- Temporary financial assistance to countries to help the balance of payments adjustments

* Summary of the Article #1 of Articles of Agreement

Operations:

- Monitoring economic and financial developments and policies, in member countries and at the global level, giving policy advice to its members based on its more than fifty years of experience.

- Lending to member countries with balance of payments problems, supporting adjustment and reform policies aimed at correcting the underlying problems.

- Providing the governments and central banks of its member countries with technical assistance and training in its areas of expertise.

Operations …*continued* :

- IMF looks at the performance of the economy as a whole (macroeconomic performance)
- Focuses also on the financial sector policies
  Ex: regulation and supervision of banks and other financial institutions.
- Pays attention to structural policies that affect macroeconomic performance.
  Ex: labor market policies (affect employment and wage behavior)

Current Role:

- Enormous economic challenges; *in the early 1990s*

- Purposes have remained the same

- But, operations have developed:
  Surveillance,
  Financial assistance,
  Technical assistance

- Its role has become more important because of the expansion of its membership. The number of member countries has more than quadrupled from the date it was formed.

Current Role …*continued:*

In September 2000, the IMF's then managing director Horst Köhler set out some major priorities for the work of the IMF:

- Promoting sustained non-inflationary economic growth
- Being in the center of competence
- Focusing on its core macroeconomic and financial areas of responsibility
- Working in a complementary fashion with other institutions established
- Being an open institution

How the polices are determined:

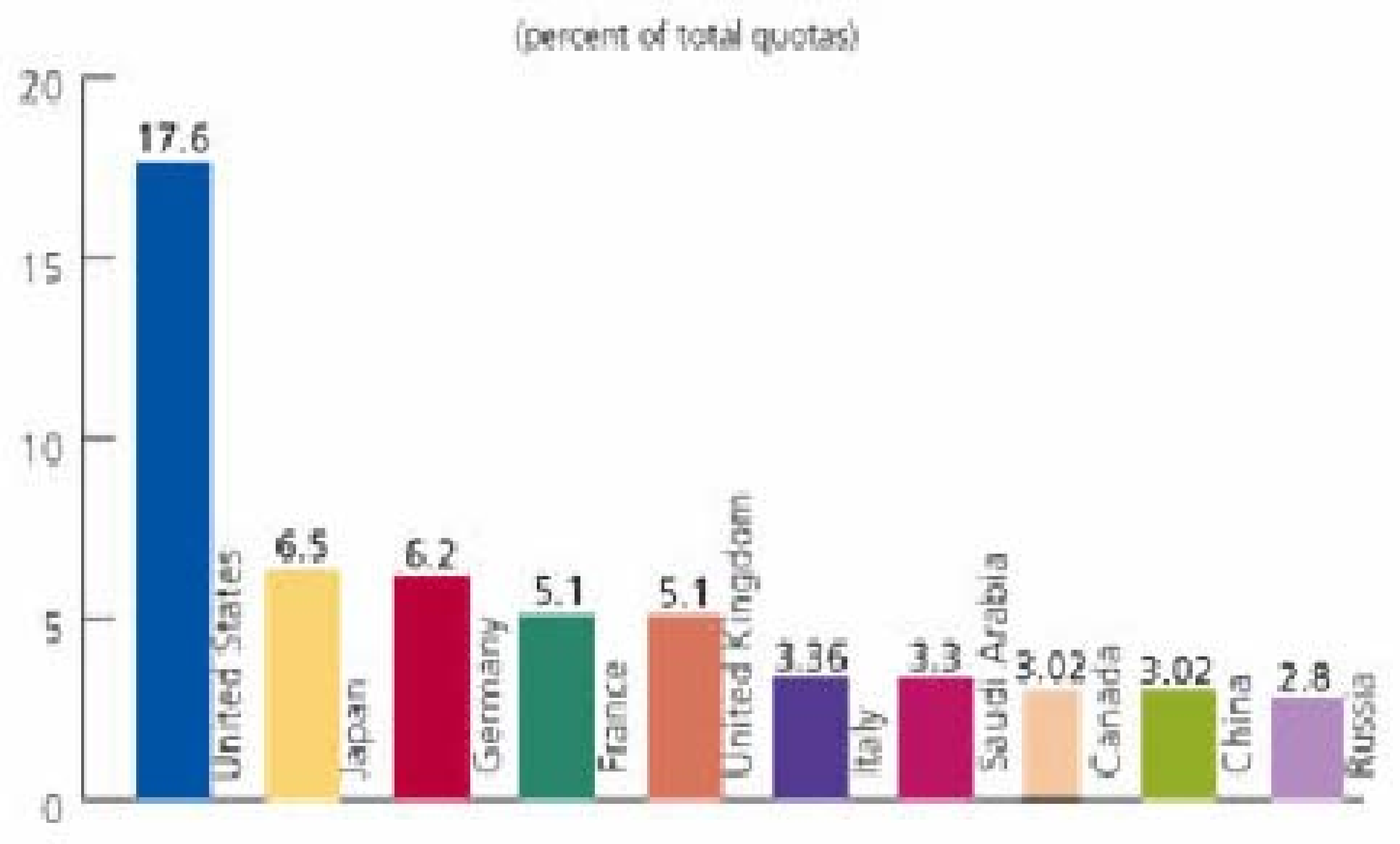
… in their headquarters in Washington:

- The Executive Board meets three times a week, maybe more.
- The Board has a voting system:
  - The larger the economy, the more voting power it has
  - But, most decisions are based on consensus

Quotas

- IMF's main resources: subscriptions (quotas)
- Countries pay 25 percent of their quota subscriptions in Special Drawing Rights (SDRs) or major currencies
- IMF can call on the remainder, payable in the member's own currency, to be made available for lending as needed
- Quotas,
  - -Determine the amount of financing that each country can receive from the IMF
  - -Are the main determinant of countries' voting power in the IMF.
  - -Broadly reflect members' relative size in the world economy
- The United States of America, the world's largest economy, contributes most to the IMF, 17.5 percent of total quotas

Members with Ten Largest Quotas



Taking a closer look:

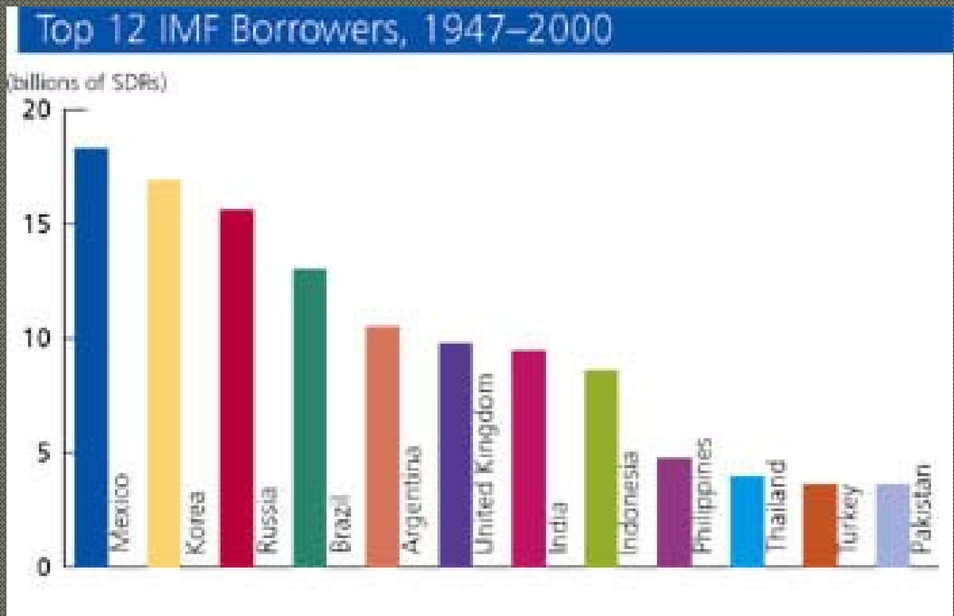
Studying IMF's policies in terms of positive and negative, direct and indirect effects

Positive effects

The IMF offers financial assistance:

Three implemented facilities:

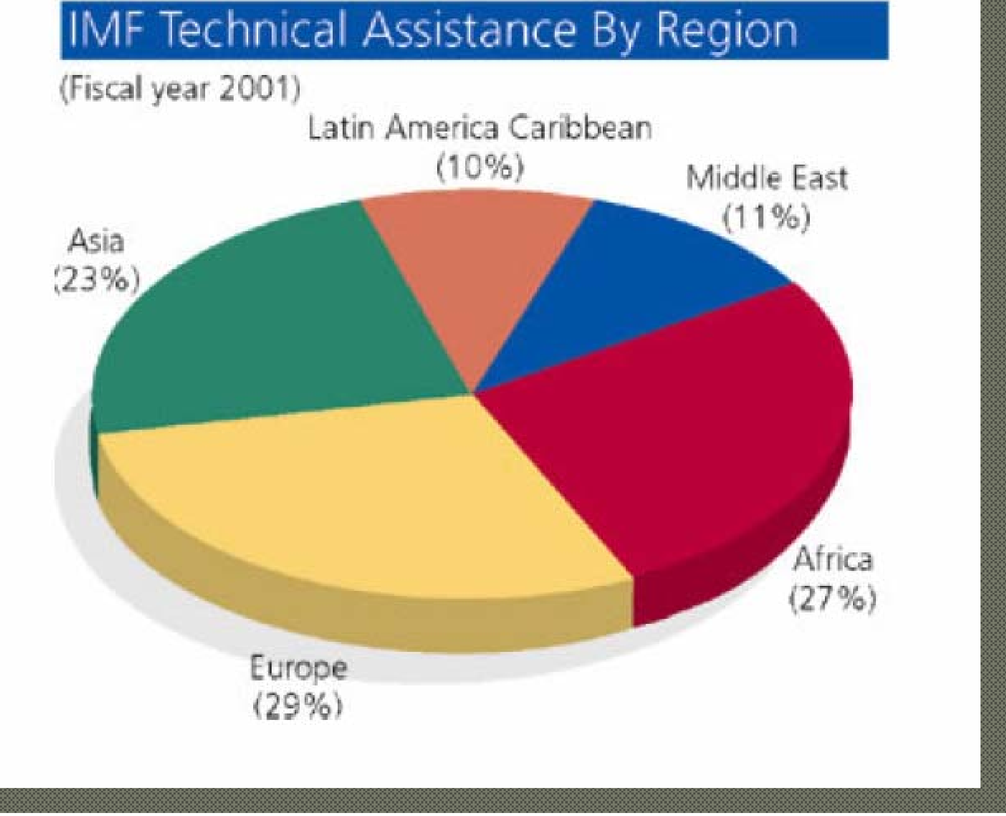
- Stand-by Agreement
- EFF (Extended Fund Facility)
- PRGF (Poverty reduction and Growth Facility)



Positive effects …*continued*

The IMF offers technical assistance to transitional economies:

- The former Soviet Republics
- South Korea in the 1997 financial crisis



Negative effects

The structural adjustment is undemocratic and inhumane:

- Causing social problems
- Foreign corporations and investors take advantage of local cheap labor, but have no regard for the environment

The gap between the rich and the poor is getting bigger?

Example of Argentina

The IMF has become a tool of the USA?

Direct effects of policies

Helping countries out of poverty; methods:

- Guiding the countries to pursue sound policies and good governance
- More effective international support

By providing technical assistance, the IMF helps countries in:

- Strengthening their monetary and financial sectors
- Designing strong fiscal policies and management
- Budget formulation, expenditure management, and the management of internal and external debt
- Compiling, managing, and disseminating statistical data and improving data quality
- Drafting and reviewing economic and financial legislation

Indirect effects of policies

- Strengthening the International Monetary and Financial System
- Globalization has increased the risk of financial crises. These crises exposed flaws in the international financial system.
- To reduce the risk of future financial crises and to promote the speedy resolution of those that do occur, the IMF has been working with its member governments, and with other international organizations, regulatory bodies, and the private sector, to strengthen the international monetary and financial system.

Speculations about the IMF

"Debt is an efficient tool. It ensures access to other peoples' raw materials and infrastructure on the cheapest possible terms."

* *Susan George, « A Fate Worse Than Debt », (New York: Grove Weidenfeld, 1990)*

A Case Study: Turkey

- Stock market plunged in the crisis of the year 2000
- Interest rates increased to more than 1,200 percent in that financial crisis
- Analysts feared that the crisis could spread to Russia and other struggling economies

A Case Study: Turkey

The first 10 months of the year of the crisis:

- Marked one of the most stable economic periods in recent Turkish history.
- Turkey had won praise from the IMF and international financial analysts for its financial policies.
- Perfect model of neoliberal economic virtue according to the IMF; “the last place a crisis should break out”.

So, due to that fact, following questions have been asked:

- Why declaration of some bad loans triggered a crisis in this situation, whereas it usually shouldn’t have been the case?
- Who decided to lower the interest of financing productive Turkish investments, which would be brought to a standstill by astronomical interest rates, to the interests of international wealth management?

A Case Study: Turkey

Deploying IMF policies like:

- Reducing government spending
- Privatizing public services,
- Opening completely to international investment,
- Accumulating foreign exchange reserves to protect your currency

are no protection at all from economic failure.

What the future holds for the IMF and how it should seek to evolve

Suggestions for evolution paths for an organization as complex as IMF is extremely difficult

Prerequisite is being in a top position in terms of knowledge about:

- Economics and sociology
- Having access to accurate and impartial global statistics

The following suggestions project our current knowledge of the world order and socio-economic aspects of the IMF's policies.

They can be seen mostly as rolling back the ideas of "Free Market Economy"

Some of the criticisms … *hightlights*

For years, the Fund has set severe loan conditions that in many cases have led to the deepening the crises.

There is widespread belief regarding the Asian and Latin American crises that the IMF went too far on imposing policies such as:

- *Control on government spending*
- *Higher taxes*
- *Higher interest rates*
- *Liberalized markets*
- *Fewer state controls*

… and the criticism continues!

Deputy Prime Minister of Thailand:

“Deflationary effect of implementation of the IMF’s policies was stronger than predicted.”

Claims of double standards, in the Asian crisis, as Korean and Indonesian authorities were prevented by the IMF from bailing out their troubled financial institutions and corporations whilst international investors benefited from the IMF's packages and were making the most of the opportunity to buy Asian assets cheaply.

Is there a negative trend in the IMF's policy-making structure? *Yes, No, …Maybe*

Having heard the criticisms and considering the responses of the IMF,
We found that the common accusation that IMF is favoring *big international investors* and the *top economies* when designing and implementing its policies is ***NOT*** well-supported in terms of ***available impartial facts and statistics***.

So, in this front, we have not identified clear negative trends.

But, we do have some recommendations for the Board of Governors:

- A more humane approach and less aggressive policies in lending to troubled countries which ensure a sustainable development and prosperity for that country.

- The aim of Reduction of Poverty has not had any tangible success and new approaches must be designed and put in place in order to achieve that.

- Targeting development in the IT sector worldwide to narrow down the digital gap currently apparent between the developing countries and the developed ones.

Some outrageous recommendations: Are we undermining the principles of *Free Market Economy*?

Imposing a cap for exchange rate fluctuations in the order of, for example, 2% weekly.

Implementation mechanism:

- Intervention like *Central Banks*
- The method used by market makers in major exchanges, like NYSE (Basically similar to the Central Banks)

But why intervention in the international markets?

- If there is a real difference between the current exchange rate and the fundamental equilibrium level, this adjustment can take place over time smoothly.

- This measure can alleviate the problem of violent and speculative liquidations of assets and investment transfers.

Is such a measure unprecedented? No

There exists similar mechanism for the banking industry which ensures the deposits of the customers in case of the default of the financial institution. (FDIC in the USA).

So, having such a body, acting in the international level, can calm the markets

Two other measures proposed to avoid the build-up and the consequent violent unwinding of the speculative positions

IMF can:

- Issue guidelines for setting the interest rates by the central banks, thereby avoiding such differences in the real interest rates between countries.
  [In short: avoiding the build-up of Carry Trades]

- Eliminate highly-leveraged positions from currency markets which are first to be unwound at first signs of trouble.

One last suggestion to the IMF …

- Taking a more active role in persuading countries to adopt ***reasonable exchange rate regimes***.

- Countries have been free to adopt any exchange rate regime they wish after the collapse of Bretton Woods system, but, this has led to some ***major trade problems***.

- Some countries, by holding the value of their currencies ***artificially low*** against the major currencies, have boosted their exports and their competitiveness rather unfairly.

Final remarks…

- You have seen the results of our analyses of current shortcomings of the IMF and its policies.

- We have sought to come up with some concrete and reasonable suggestions which could improve the health of the global financial system.

- We mention that these suggestions are:
  - open to question
  - may even spark some other imbalances and deficiencies in other sectors of the economy.

- We do acknowledge the hardship that the organization faces in its day-to-day business in drafting new viable policies.

Thank you for your attention ...

Q&A