INTERNATIONAL MONETARY FUND
AND
THE WORLD BANK

http://video.google.com/videoplay?docid=112129377629231653#
http://www.youtube.com/watch?NR=1&v=BhWKUbnILeo
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History behind the IMF and World Bank

- After the Great Depression in the 1930s there was a need for an organization to create a system for exchange rate stability
  - Uncertainty of the value of paper money (no longer used the gold standard)
  - Countries began cheating other countries in trade

- Countries’ economies affected by WWII
  - need for reconstruction in well-developed nations
  - need for development in the lesser developed nations
BRETTON WOODS CONFERENCE

- 1940s proposals for monetary system by Harry Dexter White (U.S.) and John Keynes (UK)
  - establish the value of each currency
  - eliminate restrictions and certain practices on trade
  - assistance for post-war reconstruction

http://www.youtube.com/watch?v=GVytOtPZe8

- Bretton Woods Conference, New Hampshire, July 1944 with delegates of 44 nations
  - final negotiations of the IMF and the World Bank took place
PURPOSES OF THE IMF AND THE WORLD BANK

- The *International Monetary Fund* (IMF) maintains international monetary cooperation among its members.

- The *World Bank* aids in the development and reconstruction of its members.
IMF BRIEFING

- Exchange rate stability, balance of payments disequilibrium, and growth of international trade
- Currently 182 member countries
- By sharing economic policies the system of buying and selling currencies would be stable

http://www.youtube.com/watch?v=Hg9Uma7y_JU&feature=related
PURPOSES OF THE IMF

Articles of Agreement of the IMF

i) promote international monetary cooperation

ii) expansion and balanced growth of international trade

iii) promote exchange rate stability
WHERE THE IMF GETS ITS MONEY

- Most comes from the *quota subscriptions*
  - the money each member contributes when joining the IMF

- General Arrangements to Borrow (1962)
  - line of credit set up with several governments and banks throughout the world
SPECIAL DRAWING RIGHT (SDRs)

- SDR is an invented currency
  - its value is based on the worth of the world’s five major currencies
    - US Dollar, French Franc, Pound Sterling, Japanese Yen, Deutsche Mark
- Countries add SDRs to their holdings of foreign currencies
  - keep available for need of payments that must be made in foreign exchange
ORGANIZATION

- **Board of Governors**
  - Each member country appoints one Governor and an Alternate Governor

- **Executive Board**
  - 24 Executive Directors which are representatives for the members

- **Managing Director**
  - the chairman of the Executive Board
Governors spend most of their time dealing with their own countries
- report their countries’ plans to their representatives
- only meet with entire IMF board once a year

Executive Board oversees the economic policies of the members
- holds meetings three times a week

Managing Director heads the IMF staff of about 2,600 people
- traditionally held by a European
POWER AMONG THE MEMBERS

- Size of the quotas determine voting power
- IMF decides on the quota for each member
  - richer countries have larger quota
- US having largest economy provides 18% of the total quota (about $35 billion)
  - US has largest voting power (18% or 26,5000)
Members with largest quotas

Largest IMF Members, by Quota, 1998
(In millions of SDRs and percent of total quotas)

- United States 18.25%
- Germany 5.67%
- Japan 5.67%
- France 5.10%
- United Kingdom 5.10%
A BIT MORE ON QUOTAS

- Quotas are reviewed every 5 years by the IMF
- Quotas also determine how much each member can borrow from the IMF when in need of aid
How much money a member can borrow from the IMF

- 25% of the country’s quota may be used

- If this is not sufficient, then members can borrow up to 3 times the amount of its quota
  - present plans for reform to Executive Directors

- If these plans are sufficient for the Executive Directors, the IMF grants the member a loan
**When is a country in need?**

- A country that had not taken in enough foreign currency to pay the other countries for what they have bought
  - spends more money than it takes in
- IMF will lend foreign exchange to that member
  - hoping to stabilize its currency which will strengthen its trade
Principal Users of IMF Financing, 1947–98*

(in millions of SDRs)

Mexico | Russia | Korea | Argentina | India | United Kingdom | Brazil | Indonesia-Philippines | Pakistan

Asian Crisis

- Financial crisis broke out in Asia in 1997
  - large declines in currencies, stock markets, and other asset prices

- affected emerging markets outside of Asia

- IMF arranged programs of economic stabilization and reform with Indonesia, Korea, and Thailand
IMF’S ACTIONS

- Temporary tightening of monetary policy
- Correct the weaknesses in the financial system
- Remove features of the economy that were impediments to growth
- Assist in reopening lines of external financing
- Maintaining a sound fiscal policy
WORLD BANK BRIEFING

Made up of 5 different organizations

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Center for the Settlement of Investment Disputes (ICSID)
iv) help establish multilateral system of payments and eliminate foreign exchange restrictions

v) make resources of the Fund available to members

vi) Shorten the duration and lessen the degree of disequilibrium in international balances of payments
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

- Founded in 1944 at the Bretton Woods Conference
  - to finance the reconstruction of countries affected by WWII
  - help with development of impoverished nations
- World Bank’s central institution
- 181 member countries
Lends to countries with relatively high per capita incomes

Money is used for:
- development projects (i.e. highways, schools)
- programs to help governments change the way they manage their economies

Provides technical assistance in projects
INTERNATIONAL DEVELOPMENT ASSOCIATION

- Established in 1960
  - assist the poorest developing countries

- lends to countries with annual per capita incomes of about $800 or less
  - It’s loans are known as “credits”

- 161 members
INTERNATIONAL FINANCE CORPORATION

- Established in 1956 to reduce poverty and improve people's lives in an environmentally and socially responsible manner (174 members)

- finances private sector investments, mobilizes capital in international financial markets, and provides technical assistance and advice to governments and businesses

- provides both loan and equity finance for business ventures in developing countries
MULTILATERAL INVESTMENT GUARANTEE AGENCY

- Established in 1988

- Helps developing countries attract foreign investment
  - Provides investment marketing services and legal advisory services to its members

- 152 members
INTERNATIONAL CENTER FOR THE SETTLEMENT OF INVESTMENT DISPUTES

- Established in 1966 to promote increased flow of international investment

- Provides facilities for the reconciliation of disputes between governments and foreign investors

- 131 members
WHERE THE IBRD GETS ITS MONEY

- through the sale of its bonds in international capital markets
- Members’ subscriptions to its capital stock
  - only 10% of the subscriptions is used by the Bank
- “Callable Capital”
  - portion of the subscriptions that the Bank borrows
  - the Bank charges a rate of interest rate on its loans to pay this back
WHERE THE IDA GETS ITS MONEY

- Mostly from governments’ voluntary contributions

- Replenishments
  - additional contributions which are needed every few years
DIFFERENCES BETWEEN THE IBRD AND THE IDA

- **IBRD** charges an interest rate on loans
  - Loans must be repaid within 15-20 years with a 5 year grace period

- **IDA** does not charge an interest rate, only a 0.75% service charge
  - Repayment period is 30-45 years with a 10 year grace period