

**TOPIC: INTERNATIONAL MONETARY FUND (IMF)**

C.P.A College

**Dr.S.NAGALINGAM,**  
M.Com., M.Phil., P.G.D.C.A., Ph.D.,  
Assistant Professor,  
PG & Research Department of Commerce,  
Cardamom Planters' Association College,  
Bodinayakanur.

## International Monetary Fund (IMF)

The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being.

The international monetary system refers to the operating system of the financial environment, which consists of financial institutions, multinational corporations, and investors. The international monetary system provides the institutional framework for determining the rules and procedures for international payments, determination of exchange rates, and movement of capital.

The international monetary system is the framework within which countries borrow, lend, buy, sell and make payments across political frontiers. The framework determines how balance of payments disequilibrium is resolved. Numerous frameworks are possible and most have been tried in one form or another.

### Objectives of the IMF

IMF was developed as an initiative to promote international monetary cooperation, enable international trade, achieve financial stability, stimulate high employment, diminish poverty in the world, and sustain economic growth.

Initially, there were 29 countries with a goal of redoing the global payment system. Today, the organization has 189 members.

The main objectives of the International Monetary Fund (IMF) are mentioned below:

1. To improve and promote global monetary cooperation of the world.
2. To secure financial stability by eliminating or minimizing the exchange rate stability.
3. To facilitate a balanced international trade.
4. To promote high employment through economic assistance and sustainable economic growth.
5. To reduce poverty around the world.

The International Monetary Fund (IMF) is an international organization that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.

Quotas of member countries are a key determinant of the voting power in IMF decisions. Votes comprise one vote per 100,000 special drawing rights (SDR) of quota plus basic votes. SDRs are an international type of monetary reserve currency created by the IMF as a supplement to the existing money reserves of member countries.

- The IMF's mission is to promote global economic growth and financial stability, encourage international trade, and reduce poverty around the world.
- The IMF was originally created in 1945 as part of the Bretton Woods agreement, which attempted to encourage international financial cooperation by introducing a system of convertible currencies at fixed exchange rates.<sup>1</sup>
- The IMF collects massive amounts of data on national economies, international trade, and the global economy in aggregate and provides economic forecasts.

## Features of International Monetary System

### 1. Multiple Currencies

The system consists of over 180 national currencies that act as units of account and mediums of exchange for global trade. Each country has its sovereign currency.

### 2. Floating Exchange Rates

Most major currencies have floating exchange rates limited by supply and demand market forces. This feeds flexibility but can lead to volatility.

### 3. Reserve Currencies

A few dominant currencies like the US dollar, euro, Japanese yen, and British pound act as extra currencies for global trade, investments, and central bank reserves.

### 4. Free Capital Flows

There are fairly few rules on the flow of capital among nations. This eases global investment and trade.

### 5. Role of Central Banks

Central banks handle monetary policies and foreign exchange rates within their economies. They aim for price stability, financial health, and balanced payments.

### 6. Functions of IMF

The International Monetary Fund promotes global monetary cooperation, sets standards, and gives financing to member countries in need. It also publishes economic data and research.

## **7. Functions of World Bank**

The World Bank gives financing, policy advice, and technical assistance to growing countries for economic action projects.

## **8. Financial Globalization**

Growing integration of global financial markets has shaped the modern international monetary system. But it also brings risks of financial contagion.

## **9. Need for Reform**

There are calls to reform the system to address global economic imbalances, financial flux, and lack of replica for emerging economies.

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