TOPIC: INTERNATIONAL MONETARY SYSTEM

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International Monetary System

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 is a set of conventions and rules that support cross-border investments, trades, and the reallocation of capital between different countries. These rules define how exchange rates, macroeconomic management, and balance of payments are addressed between nations.

Functions of International Monetary System

Let us discuss the functions of the International Monetary System through the points below:

- Facilitates the free flow of different currencies in the open market.
- Restrict intervention from government or central banks only in cases of currency stabilization.
- Third, facilitate global trade of goods, services, and money.
- Fourth, Maintain a system that regulates the exchange rates through the forces of the market and not by any particular institution or organization.

Objectives of the International Monetary Fund

1. International Monetary Cooperation

The most important objective of the IMF was to establish monetary cooperation among the various member countries. One of the major causes of the Second World War was the absence of monetary cooperation amongst the countries of the world.

2. To Ensure Stability in Foreign Exchange Rates

There was a lot of instability in foreign exchange rates before the Second World War, which produced adverse repercussions on international trade. So, IMF was established to eliminate this instability of foreign exchange.

3. To Eliminate Exchange Control

Every country has resorted to exchange control as a device to fix its exchange rate at a particular level before the Second World War, which produced adverse effects on international trade. So IMF came up to remove or relax these exchange controls.

4. To Promote International Trade

Another important objective of the IMF was to promote international trade by removing all the obstacles and hindrances, which had the effect of restricting it.

5. To Promote Investment of Capital in Backward and Underdeveloped Countries

IMF exports capital from the richer to the poorer countries so that the poor countries can develop their economic resources for achieving a higher standard of living.

6. To Eliminate or Reduce the Disequilibrium in the Balance of Payments

IMF helps to reduce the disequilibrium in the balance of payments by selling or lending foreign currencies to the member nations.

Membership of International Monetary Fund

The International Monetary Fund (IMF) is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

1. **India a member of IMF**

International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944. At present, 187 nations are members of IMF. India is a founder member of the IMF.

2. **Largest member of the IMF**

The IMF's largest member is the United States, with a quota (as of April 30, 2016) of SDR 83 billion (about $118 billion), and the smallest member is Tuvalu, with a quota of SDR 2.5 million (about $3.5 million)

3. **Members' Quota in International Monetary Fund**

Most of the IMF's financial resources are collected through subscriptions of assigned quotas. "Each member country of the IMF is allotted a quota on the basis of the country's respective size in the world economy. A member country's financial commitment determines its voting strength and has a bearing on its access to IMF financing."

4. **Quotas of International Monetary Fund**

Quotas are the building blocks of the IMF's financial and governance structure. Each member is assigned a quota when it joins the Fund and is required to make its quota subscription payment in full. Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account, and reviewed at regular intervals.

5. **Borrowing and Lending Programme of IMF**

The IMF provides financial assistance and works with governments to ensure responsible spending. The IMF offers various types of loans that are tailored to countries' different needs and specific circumstances. Loans to low-income countries carry a zero interest rate.

India and IMF

India is a founder member of the IMF. India's Union Finance Minister is the Ex Officio Governor on the IMF's Board of Governors. Each member country also has an alternate governor. The alternate governor for India is the Governor of the RBI. There is also an Executive Director for India who represents the country at the IMF.

- India's quota in the IMF is SDR 13,114.4 million that gives India a shareholding of 2.76%. Read about the Special Drawing Rights – Created in 1969 by International Monetary Fund (IMF) at the linked article.
- This makes India the eight largest quota holding country at the organization.
- In 2000, India completed the repayment of all the loans it had taken from the IMF.
- Now, India is a contributor to the IMF.

The emerging economies have gained more influence in the governance architecture of the International Monetary Fund (IMF).

- The reforms were agreed upon by the then 188 members of the IMF in 2010, in the aftermath of the global financial meltdown.
- More than six percent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.