TANYA
Assistant Professor (Guest Faculty)
Department of Economics
D.K. College, Dumraon
B.A. Economics
Part - 01 Paper - 02.
Topic - Functions of IMF

FUNCTIONS OR WORKING OF IMF:

The major functions of IMF are —

1. Maintaining Exchange Stability —

One of the basic objectives of the IMF was to establish reasonable exchange stability and to discourage fluctuations in exchange rate.

The main arrangement made by Fund to ensure stability are —

(a) Each member country declared a par value of its currency in terms of gold or as a common denomination or in terms of US dollar.

(b) When devaluation becomes necessary, a member may devaluate up to 10% by merely informing the fund but greater change requires the approval of fund

(c) Members are forbidden to go in for multiple exchange rates.

(d) Members are forbidden to buy or sell gold at prices other than declared par value

(e) The Funds acts as the lender of the last resort & provides financial assistance to member

countries to meet temporary deficits in their BOP.

2. Credit Facilities - In order to help the member countries to correct disequilibrium in their BOP, the IMF operates various borrowing facilities

(1) Basic credit facility - A member nation can purchase from the fund other currencies of SDRs in exchange for its own currency, to finance payment deficits. The loan is repaid when the member repurchases its own currency. A member can unconditionally borrow from the fund in a year equal to 25% of its quota.

(2) Extended Fund Facility - The IMF started extended fund facility in sept. 1974 to assist the member countries with severe BOP problems for long periods.
Under this arrangement of IMF provides additional borrowing facility upto 140% of the member quota. This facility is a limited for a period upto 3 years & rate of interest is low.

(3) Compensatory Financing Facility - In February 1963, IMF established compensatory financing facility to provide additional financial assistance to the member countries, particularly primary producing countries facing shortfall in export earnings.

4. Buffer stock facility - It was started in 1969 The purpose of this scheme was to help the primary producing countries to finance contribution to buffer stock arrangements for the stabilisation of primary product prices.

5. Trust Fund → The IMF has sold gold in public auctions at prices much above the price prevailing in the market. Part of the profit so earned has been used to establish a trust fund on 31st August 1975 for making conditional loans to less developed countries.

3. Balancing Demand & Supply of Currencies another important function of the IMF is to maintain balance between demand and supply of various currencies. Articles of Agreement empowers the IMF to declare a currency which is in great demand as scarce currency & ration its supply among the buyers

4. Determination of Par Value - The original article of agreement of the IMF, under the Bretton Wood System of adjustable pegging required every member country to declare par value of its currency in terms of gold or US dollar.

5. Maintenance of Liquidity → Another important function of the IMF is to maintain liquidity of

its resources. The member countries borrow from the fund by giving their own currencies in exchange

6. Allocation of Profits → The IMF allocate 20% of its profits to the countries whose currencies with the Fund in a particular year is 15% of its quota. The remaining 80% of the profits are distributed among the members in proportion of their quotas

7. Fund provides Machinery for International Consultation – The Fund brings together representatives of the principle countries of the world affords an excellent opportunity for reconciling their conflicting claims. This constructive approach have led to the expansion & balanced development of world trade & world production

IMF has thus contributed to promotion & maintenance of high levels of employment and real income and to development of productive resources of the member countries.