

*Classnote by Dr Gangarani Das*

Qn. What are the objectives and functions of IMF ?

Ans. The main objectives of IMF are as follows-

i) International Monetary Co-operation: The most important object of the fund is to establish international monetary co-operation amongst the various member countries through a permanent institution that provides the machinery for consultation and collaborations in various international monetary problems and issues.

ii) Ensure exchange stability: Another important objective of the fund is to ensure stability in the foreign exchange rates by maintaining orderly exchange arrangement among members and also to rule out unnecessary competition exchange depreciations.

iii) Balanced growth of trade: IMF has also another important objective to promote international trade so as to achieve its required expansion and balanced growth. This would ensure development of production resources and thereby promote and maintain high levels of income and employment among all its member countries.

iv) Eliminate exchange control: Another important objective of the fund is to eliminate or relax exchange controls imposed by almost each and every country before 2nd world war as a device to deliberately fix the exchange rate at a particular level. Such elimination of exchange controls was made so as to give encouragement to the flow of international trade.

v) Multilateral Trade and Payments: To establish a multilateral trade and payment system in respect to current transactions between members in place of the old system of bilateral trade agreements was another important objective of IMF.

vi) Balanced growth: Another objective of IMF is to help the member countries especially the backward countries, to attain balanced growth by exchange the level of employment.

vii) Correction of BOP maladjustments: IMF also helps the member countries in eliminating or reducing the disequilibrium or maladjustments balance of payments. Accordingly, it gives confidence to member countries by selling or lending funds foreign currency resources to the member countries.

viii) Promote Investment of Capital: Finally, the IMF also promotes the flow of capital from richer to poorer or backward countries so as to help the backward countries to develop their own Economic resources for attaining higher standard of living for its people, in general.

Functions of IMF are :

i) The fund operates as a short term credit institution.

ii) It acts as a reservoir of the currencies of all the member countries. A borrowing country can borrow the currency of another country out of this reservoir.

iii) The IMF is like a lending institution in foreign exchange. It extends loans in foreign exchange to the member countries for financing only the current transactions and not the capital transactions.

iv) The IMF provides a machinery through which the par value of the currency of a member country can be altered. The IMF provides a mechanism for ensuring smooth adjustment of the exchange rates and improvement in the long term balance of payments position of the member countries.

v) The IMF provides machinery to the member countries for international consultations.

vi) The IMF provides technical advice to the member countries on various economic problems on monetary and fiscal matters.