

# Objectives and Functions of IMF

## Origin of IMF

The origin of the IMF goes back to the days of international chaos of the 1930s. During the Second World War, plans for the construction of an international institution for the establishment of monetary order were taken up.

The IMF was established in 1944. 44 founding member countries sought to build a framework for international economic cooperation. Today, its membership embraces 190 countries, with staff drawn from 150 nations. India is one of the founder- members of the Fund. The IMF has its permanent headquarters at 700 19<sup>th</sup> street, N.W., Washington, DC 20431, but has offices in Paris, Tokyo, New York, and Geneva.

## Objectives

Article 1 of the Articles of Agreement (AGA) spell out the objectives for which the IMF was set up. These objectives are as follows:

1. To establish international monetary co-operation amongst its members. This is done through a permanent institution for collaboration and consultation in several issues.
2. To ensure foreign exchange rates stability and maintain orderly exchange arrangement among its members. Also, it works to rule out the unnecessary competitive exchange depreciation.
3. To relax or eliminate the exchange rate and fix them at a particular level to ensure the flow of international trade.
4. To create a multilateral trade and payment system in place of the bilateral trade agreements with regards to current transactions between members.
5. To promote international trade to achieve balanced growth. This ensures the promotion of high-income levels and employments among its member countries.
6. To help the backward countries attain balanced economic growth.
7. To promote capital investment from developed to backward economies to develop their economic resources.
8. To eliminate or reduce maladjustments or disequilibrium in the balance of payments among the member nations.

## Functions

Three key functions are:

**A) Regulatory Function:** The Fund functions as the guardian of a code of rules set by its (AOA— Articles of Agreement).

**B) Financial Function:** It functions as an agency of providing resources to meet short term and medium term BOP disequilibrium faced by the member countries.

**C) Consultative Function:** It functions as a center for international cooperation and a source of counsel and technical assistance to its members.

The other major functions of the IMF:

1. It functions as a short-term credit institution.
2. It provides machinery for the orderly adjustments of exchange rates.
3. It is a reservoir of the currencies of all the member countries from which a borrower nation can borrow the currency of other nations.
4. It is a sort of lending institution in foreign exchange. However, it grants loans for financing current transactions only and not capital transactions.
5. It also provides machinery for altering sometimes the par value of the currency of a member country. In this way, it tries to provide for an orderly adjustment of exchange rates, which will improve the long-term balance of payments position of member countries.
6. It also provides machinery for international consultations.