

## **How Does the International Monetary Fund Function?**

Intergovernmental organizations (IGOs) have always played a very important role in the global economy. These groups are generally created through the enactment of a treaty and are composed of a group of member states. The goals of individual IGOs depend on their function and membership. Some of the most common and widely known IGOs include the United Nations, the World Bank, and the International Monetary Fund (IMF). This article looks closely at the IMF and its three main functions.

### **What Is the International Monetary Fund (IMF)?**

The International Monetary Fund (IMF) is an international organization that aims to accomplish a number of different goals. These include reducing global poverty, encouraging international trade, and promoting financial stability and economic growth.

The organization was created in 1945 and is based in Washington, DC. There are a total of 189 member countries, each of which is represented on the group's board. This representation is based on how important its financial position is in the world, so stronger, more powerful countries have a greater voice in the organization than nations which are much weaker.

The IMF functions in three main areas:

Overseeing the economies of member countries

Lending to countries with balance of payments issues

Helping member countries modernize their economies

### **Monitoring Member Country Economies**

The International Monetary Fund's primary job is to promote stability in the global monetary system. So, its first function is to monitor the economies of its 189 member countries. This activity, known as economic surveillance, happens at both the national and global levels. Through economic surveillance, the IMF monitors developments that affect member economies as well as the global economy as a whole.

Member nations must agree to pursue economic policies that coincide with the IMF's objectives. By monitoring the macroeconomic and financial policies of its member countries, the IMF sees stability risks and advises on possible adjustments.

### **Lending**

The IMF lends money to nurture the economies of member countries with balance of payments problems instead of lending to fund individual projects. This assistance can replenish international reserves, stabilize currencies, and strengthen conditions for economic growth. The IMF

expects the countries to pay back the loans, and the countries must embark on structural adjustment policies monitored by the IMF.

Lending through the IMF takes two forms. The first is at nonconcessional interest rates, while the other comes with concessional terms. The latter is advanced to countries with low income, and bears very low or no interest rates at all.

### **Technical Assistance**

The third main function of the IMF is through what it calls capacity development by providing assistance, policy advice, and training through its various programs. The group provides member nations with technical assistance in the following areas:

Fiscal policy

Monetary and exchange rate policies

Banking and financial system supervision and regulation

Statistics

The organization aims to strengthen human and institutional capacity. This is very important for countries with previous policy failures, weak institutions, or scarce resources. Through capacity development, member nations can help strengthen and improve growth in their economies and create jobs.

### **Understanding the International Monetary Fund**

The International Monetary Fund (IMF) is based in Washington, D.C., and currently consists of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting power.

The IMF's website describes its mission as "to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."

### **IMF Activities**

The IMF's primary methods for achieving these goals are monitoring capacity building and lending. **Surveillance**

The IMF collects massive amounts of data on national economies, international trade, and the global economy in aggregate, as well as providing regularly updated economic forecasts at the national and international levels. These forecasts, published in the World Economic Outlook, are

accompanied by lengthy discussions of the effect of fiscal, monetary, and trade policies on growth prospects and financial stability.

### **Capacity Building**

The IMF provides technical assistance, training, and policy advice to member countries through its capacity building programs. These programs include training in data collection and analysis, which feed into the IMF's project of monitoring national and global economies.

### **Lending**

The IMF makes loans to countries that are experiencing economic distress in order to prevent or mitigate financial crises. Members contribute the funds for this lending to a pool based on a quota system. These funds total around SDR 475 billion (U.S. \$645 billion) as of September 2017. (IMF assets are denominated in special drawing rights or SDR, a kind of quasi-currency that is comprised of set proportions of the world's reserve currencies.)