CHAPTER – 5

IMF AND INDIA
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The IMF is an international organization of 185 member countries. It was established to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment and to provide temporary financial assistance to countries to help ease balance of payments adjustment. The International Monetary Fund (IMF) is an international organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rates and the balance of payments. It also offers financial and technical assistance to its members, making it an international lender of last resort. Its headquarters is located in Washington, D.C., USA.

IMF ACTIVITIES

(a) Surveillance involving the monitoring of economic and financial developments and the provision of policy advice, aimed especially at crisis-prevention.

(b) The IMF also lends to countries with balance of payments difficulties to provide temporary financing and to support policies aimed at correcting the underlying problems, loans to low-income countries are also aimed especially at poverty reduction.

(c) IMF provides countries with technical assistance and training in its areas of expertise.
Supporting all three of these activities is IMF work in economic research and statistics. In recent years, as part of its efforts to strengthen the international financial system and to enhance its effectiveness at preventing and resolving crises, the IMF has applied both its surveillance and technical assistance work to the development of standards and codes of good practice in its areas of responsibility and to the strengthening of financial sectors.

BRIEF HISTORY

The International Monetary Fund was formally created in July 1944 during the United Nations Monetary and Financial Conference. The representatives of 45 governments met in the Mount Washington Hotel in the area of Bretton Woods, New Hampshire, United States of America with the delegates to the conference agreeing on a framework for international economic cooperation. The IMF was formally organized on December 27, 1945 when the first 29 countries signed its Articles of Agreement. The statutory purposes of the IMF today are the same as when they were formulated in 1944.

PRESENT SCENARIO

In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone other major changes that have increased the importance and relevance of the purposes served by the IMF but that has also required the IMF to adapt and reform. Rapid advances in technology and communications have contributed to the increasing international integration of markets and to closer linkages among national economies. As a result, financial crises when they erupt, now tend to spread more rapidly
among countries. The IMF’s influence in the global economy steadily increased as it accumulated more members. The number of IMF member countries has more than quadrupled from the 44 states involved in its establishment, reflecting in particular the attainment of political independence by many developing countries and more recently the collapse of the Soviet bloc. The expansion of the IMF’s membership together with the changes in the world economy have required the IMF to adapt in a variety of ways to continue serving its purposes effectively.

ORGANISATION STRUCTURE OF IMF

The IMF has a Board of Governors, an Executive Board, a Managing Director and a staff of nearly 3,000 that roughly reflects the diversity of its membership. The Board of Governors is the highest policymaking body of the IMF and it consists of one Governor and one Alternate appointed by each member. The Board of Governors whose members are usually ministers of finance, heads of central banks, or officials of comparable rank, normally meets once a year. An International Monetary and Financial Committee (IMFC), currently composed of 24 IMF Governors, ministers or others of comparable rank (reflecting the composition of the Executive Board and representing all IMF members), usually meets twice a year. This committee advises and reports to the Board of Governors on the management and functioning of the international monetary system, proposals by the Executive Board to amend the Articles of Agreement and any sudden disturbances that might threaten the system. A committee with a similar composition, the Development Committee, maintains an overview of the development process and reports to the Board of Governors of the World Bank and the IMF and makes suggestions on all
aspects of the broad question of the transfer of resources to developing countries. The IMF Executive Board is responsible for conducting the business of the IMF and exercises the powers delegated to it by the Board of Governors. It functions in continuous session at IMF headquarters and currently consists of 24 Executive Directors, with the Managing Director (or one of the three Deputy Managing Directors acting for the Managing Director) as the Chairman. The Managing Director is selected by the Executive Board and is the chief of the operating staff of the IMF. The three Deputy Managing Directors are appointed by the Managing Director with the approval of the Executive Board. The number of votes that a member can cast is related to the size of its quota at the IMF. The five members with the largest quotas each appoint their Executive Directors, as can the two members with the largest creditor positions in the IMF over the two years preceding an election if these members are not part of the group of the five largest members. The remaining Directors are elected from among the other member countries that may form themselves into groups or constituencies. A number of important decisions specified in the Articles of Agreement require either 70 percent or 85 percent of the total voting power; other decisions are made by a majority of the votes cast.

RESOURCES OF IMF

Most resources for IMF loans are provided by member countries, primarily through their payment of quotas. Concessional lending and debt relief for low-income countries are financed through separate contribution-based trust funds.

(1) Quota System

Each member of the IMF is assigned a quota based broadly on its relative size in the world economy which determines its maximum contribution to the IMF's financial
resources. Upon joining the IMF, a country normally pays up to one-quarter of its quota in the form of widely accepted foreign currencies (such as the U.S. dollar, euro, yen, or pound sterling) or Special Drawing Rights (SDRs). The remaining three-quarters is paid in the country's own currency. Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account. The largest member of the IMF is the United States, with a quota of SDR 37.1 billion (about US $61.0 billion), and the smallest member is Palau, with a quota of SDR 3.1 million (about US $5.1 million).

(2) GOLD HOLDINGS

Valued at current market prices, the IMF's gold holdings are worth about US $103 billion as of end-March 2008, making the Fund the third largest official holder of gold in the world. However, the IMF's Articles of Agreement strictly limit its use. If approved by an 85 percent majority of voting power of member countries, the IMF may sell gold or may accept gold as payment by member countries but the IMF is prohibited from buying gold or engaging in other gold transactions.

(3) Borrowing Arrangements (GAB and NAB)

THE GENERAL ARRANGEMENTS TO BORROW (GAB)

The GAB enables the IMF to borrow specified amounts of currencies from 11 industrial countries (or their central banks) under certain circumstances, at market-related rates of interest. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion (about US $25 billion) with an additional SDR 1.5 billion available under an associated arrangement with Saudi Arabia.
The New Arrangements to Borrow (NAB)

The NAB is the facility of first and principal recourse in the event of a need to provide supplementary resources to the IMF. The maximum amount of resources available to the IMF under the NAB and GAB is SDR 34 billion (about US $54 billion). The NAB is a set of credit arrangements between the IMF and 26 members and institutions. These arrangements have been renewed twice most recently in November 2007 for a further period of five years from November 2008.

LENDING MECHANISM

Upon request by a member country an IMF loan is usually provided under an "arrangement" which stipulates the specific policies and measures a country has agreed to implement to resolve its balance of payments problem. The economic program underlying an arrangement is formulated by the country in consultation with the IMF and is presented to the Fund's Executive Board in a "Letter of Intent." Once an arrangement is approved by the Board, the loan is released in phased installments as the program is implemented.

IMF FACILITIES

Over the years, the IMF has developed various loan instruments or "facilities," that are tailored to address the specific circumstances of its diverse membership. Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF). Non-concessional loans are provided mainly through Stand-By Arrangements (SBA) and occasionally using
the Extended Fund Facility (EFF), the Supplemental Reserve Facility (SRF) and the Compensatory Financing Facility (CFF). The IMF also provides emergency assistance to support recovery from natural disasters and conflicts. Some other facilities are as follows:

(a) **Poverty Reduction and Growth Facility (PRGF) and Exogenous Shocks Facility (ESF):** The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies. Concessional lending arrangements to low-income countries are underpinned by comprehensive country-owned strategies, delineated in their Poverty Reduction Strategy Papers (PRSPs). In recent years, the largest number of IMF loans has been made through the PRGF. The interest rate levied on PRGF and ESF loans is only 0.5 percent and loans are to be repaid over a period of 5½-10 years.

The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks. It is available to countries eligible for the Poverty Reduction and Growth Facility (PRGF), the IMF's main instrument for financial assistance to low-income countries but that do not have a PRGF program in place. Financing terms are equivalent to a PRGF arrangement and more concessional than under other IMF emergency lending facilities.

(b) **Stand-By Arrangements (SBA):** The SBA is designed to help countries address short-term balance of payments problems. Stand-bys have provided the greatest amount of IMF resources. The length of a SBA is typically 12-24 months and repayment is normally expected within 2½-4 years. Surcharges apply to high access levels.
(d) **Extended Fund Facility (EFF):** This facility was established in 1974 to help countries address longer-term balance of payments problems requiring fundamental economic reforms. Arrangements under the EFF are thus longer-usually 3 years. Repayment is normally expected within 4½-7 years. Surcharges apply to high levels of access.

(e) **Supplemental Reserve Facility (SRF):** This facility was introduced in 1997 to meet a need for very short-term financing on a large scale. The motivation for the SRF was the sudden loss of market confidence experienced by emerging market economies in the 1990s which led to massive outflows of capital and required financing on a much larger scale than the IMF had previously provided. Countries are expected to repay loans within 1-1½ years. All SRF loans carry a substantial surcharge of 3-5 percentage points.

(f) **Compensatory Financing Facility (CFF):** The CFF was established in 1963 to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports often caused by fluctuating world commodity prices. Financial terms are similar to those applying to the SBA except that CFF loans carry no surcharge.

(g) **Emergency assistance:** The IMF provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict. Emergency loans are subject to the basic rate of charge although interest subsidies are available for PRGF-eligible countries, subject to availability. Loans must be repaid within 3½-5 years.

**SPECIAL DRAWING RIGHTS (SDRs/XDRs)**
Special Drawing Rights (SDRs/XDRs) is IMF’s unit of account allocated to participating members in proportion to their IMF quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange reserves from other members and to make international payments including to the IMF. The SDR is not a currency, nor is it a liability of the IMF, rather it is primarily a potential claim on freely usable currencies. Freely usable currencies, as determined by the IMF, are the U.S. dollar, euro, Japanese yen, and pound sterling. Members are allocated SDRs unconditionally and may use them to obtain freely usable currencies in order to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations.

* The value of the SDR is based on a basket of currencies, comprising the U.S. dollar, euro, Japanese yen, and pound sterling, and is determined daily based on exchange rates quoted on the major international currency markets.

* The SDR interest rate is determined weekly based on the same currency amounts as in the SDR valuation basket, prevailing exchange rates, and representative interest rates on short-term financial instruments in the markets of the currencies included in the valuation basket.

**SDR Composition**

SDRs have the ISO 4217 currency code XDR. At present, the currencies in the basket are the euro, the pound sterling, the Japanese yen and the United States dollar. Before the introduction of the euro in 1999, the Deutsche mark and the French franc were included.
in the basket. The determination of the currencies in the SDR basket and their amounts is made by the IMF Executive Board every five years.

<table>
<thead>
<tr>
<th>Period</th>
<th>USD</th>
<th>DEM</th>
<th>JPY</th>
<th>GBP</th>
<th>FRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981–1985</td>
<td>0.540 (42%)</td>
<td>0.460 (19%)</td>
<td>34.0 (13%)</td>
<td>0.0710 (13%)</td>
<td>0.740 (13%)</td>
</tr>
<tr>
<td>1986–1990</td>
<td>0.452 (42%)</td>
<td>0.527 (19%)</td>
<td>33.4 (15%)</td>
<td>0.0893 (12%)</td>
<td>1.020 (12%)</td>
</tr>
<tr>
<td>1991–1995</td>
<td>0.572 (40%)</td>
<td>0.453 (21%)</td>
<td>31.8 (17%)</td>
<td>0.0812 (11%)</td>
<td>0.800 (11%)</td>
</tr>
<tr>
<td>1996–1998</td>
<td>0.582 (39%)</td>
<td>0.446 (21%)</td>
<td>27.2 (18%)</td>
<td>0.1050 (11%)</td>
<td>0.813 (11%)</td>
</tr>
<tr>
<td>Period</td>
<td>USD</td>
<td>EUR</td>
<td>JPY</td>
<td>GBP</td>
<td></td>
</tr>
<tr>
<td>1999–2000</td>
<td>0.5820 (39%)</td>
<td>0.3519 (32%)</td>
<td>27.2 (18%)</td>
<td>0.1050 (11%)</td>
<td></td>
</tr>
<tr>
<td>2001–2005</td>
<td>0.5770 (45%)</td>
<td>0.4260 (29%)</td>
<td>21.0 (15%)</td>
<td>0.0984 (11%)</td>
<td></td>
</tr>
<tr>
<td>2006–2010</td>
<td>0.6320 (44%)</td>
<td>0.4100 (34%)</td>
<td>18.4 (11%)</td>
<td>0.0903 (11%)</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: http://www.imf.org
Purpose of SDR

(a) SDRs were basically created to replace gold in large international transactions. Being that under a strict (international) gold standard, the quantity of gold worldwide is relatively fixed, and the economies of all participating IMF members as an aggregate are growing, a perceived need arose to increase the supply of the basic unit or standard proportionately.

(b) SDRs are used as a unit of account by the IMF and several other international organizations. A few countries peg their currencies against SDRs, and it is also used to denominate some private international financial instruments. For example, the Warsaw convention, which regulates liability for international carriage of persons, luggage or goods by air uses SDRs to value the maximum liability of the carrier. In Europe, the Euro is displacing the SDR as a basis to set values of various currencies, including Latvian lats. This is a result of the convergence criteria which now apply to states entering the European Union.

(c) SDRs are the basis for the international fees of the Universal Postal Union, responsible for the world-wide postal system. As a spinoff from the postal services, SDRs are also used to transfer roaming charge files between international mobile telecoms operators and charges for some radio communications.

IMF ASSISTANCE TO INDIA

(a) Financial Assistance

While India has not been a frequent user of IMF resources, IMF credit has been instrumental in helping India respond to emerging balance of payments problems on two
occasions. In 1981-82, India borrowed SDR 3.9 billion under an Extended Fund Facility, the largest arrangement in IMF history at the time. Again in 1991-93, India borrowed a total of SDR 2.2 billion under two stand by arrangements, and in 1991 it borrowed SDR 1.4 billion under the Compensatory Financing Facility.

SDR ALLOCATIONS TO INDIA

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SDR ALLOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>38,500,000</td>
</tr>
<tr>
<td>1998</td>
<td>284,916,664</td>
</tr>
<tr>
<td>1997</td>
<td>589,791,667</td>
</tr>
<tr>
<td>1996</td>
<td>1,085,250,003</td>
</tr>
<tr>
<td>1995</td>
<td>1,966,633,125</td>
</tr>
<tr>
<td>1994</td>
<td>2,763,180,833</td>
</tr>
<tr>
<td>1993</td>
<td>3,584,905,00</td>
</tr>
<tr>
<td>1992</td>
<td>3,260,405,000</td>
</tr>
<tr>
<td>1991</td>
<td>2,426,405,000</td>
</tr>
<tr>
<td>1990</td>
<td>800,000,000</td>
</tr>
<tr>
<td>1989</td>
<td>1331,250,000</td>
</tr>
<tr>
<td>1988</td>
<td>2,068,750,000</td>
</tr>
<tr>
<td>1987</td>
<td>2,856,250,000</td>
</tr>
<tr>
<td>1986</td>
<td>3,493,750,000</td>
</tr>
<tr>
<td>1985</td>
<td>3,825,000,000</td>
</tr>
<tr>
<td>1984</td>
<td>3,999,750,000</td>
</tr>
</tbody>
</table>

Source: http://www.imf.org/external/index.htm

At the time of independence, India’s Rs. 1,200 crores were deposited in United Kingdom but the debt rose to Rs. 3353 crores within one year of attaining freedom. The amount of external debt went up to Rs. 3,25,000 crores up to 1995. India has got aid from IMF
during various times in various amounts and has been getting aid from various international agencies from time to time. India's balance of payment had become highly unfavorable during 1948 and 1949 due to large scale import of food grains from abroad. To meet the then crisis Government of India purchased US $ 100 million from the Fund. Between 1947 to 1955, India borrowed US $ 100 million twice to tide over its BOP difficulties. In 1954 and 1955, India repurchased its own currency from IMF by paying US $ 47 million and US $ 25 million respectively. In 1957, IMF gave a loan of US $ 100 million to tide over the problem of serious decline in foreign exchange reserves of the country which was made available in three installments. In July 1961, Government of India entered into an agreement with IMF under which it acquired the right to purchase foreign currencies of the value of US $ 250 million from IMF which included 110 million US currency, German Marks of the value of US $ 45 million, Pound Sterling worth US $ 60 million, French Franc equivalent to US $ 15 million, Italian Lira equivalent to US $ 5 million. In July 1963, Government of India secured from IMF a standby credit of US $ 100 million which was not utilized due to improvement of BOP position of the country. In March, 1965 another standby credit of US $ 200 million was secured by Government of India. In 1966 and 1967, government of India further secured loans of Rs. 225 crores and Rs 90 crores respectively. US $ 90 million was purchased by India in Dec. 1967 were under the decision on compensatory financing of export fluctuations to meet the BOP difficulties caused by temporary shortfall in export earnings. India has also been allocated US $ 126 million from IMF under SDR scheme for development purpose and has utilised worth US $ 41.75 million up to July 1970. India borrowed eight times from 1957 to 1975 a total sum of US $ 1764 millions. India was one of the 39 “most seriously affected
countries" available for Fund's assistance under interest subsidy account. IMF had disbursed an aggregate subsidy of 27.5 million SDR among 18 countries during the year 1976-77 with India receiving SDR 10.1 million. India also received loan disbursement at concessional terms to overcome BOP difficulties amounting to SDR 521.09 million from July 1, 1978 to Feb. 21, 1981 from IMF. In 1979, India entered into an agreement with IMF for a loan of US $ 5.6 billion under the extended fund facility and started receiving the loan in installments for a three year period beginning from November 9, 1981. It was record breaking loan, the largest ever granted by the IMF. The loan was to carry an interest rate of approximate 10 - 12 % as compared with 15 - 17 % chargeable by international banks. India borrowed SDR 3,260,405,000 in 1992, SDR 3,584,905,000 in 1993, SDR 2,763,180,833 in 1994, SDR 1,966,633,125 in 1995, SDR 1,085,250,003 in 1996, SDR 589,791,667 in 1997, SDR 284,916,664 in 1998 and SDR 38,500 in 1999. After 1999, India has not gathered any financial help till now from IMF due to its strong foreign exchange reserve condition.

**IMF Selects India to Participate in FTP**

In view of its strong BOP and comfortable forex reserve position, India has been selected for the first time by IMF to become a member of its Financial Transaction plan (FTP). Accordingly. India has contributed US $ 205 million FTP in the year 2002, thereby turning India from a debtor into a creditor to IMF. The decision to select India as a member of FTP from September-November 2002 quarter is a strong signal of country's strength and the resilience of its external sector to the international community, an RBI release said in Mumbai on June 28th, 2003. The IMF selects countries with strong BOP
and forex reserves position for contributing to the FTP. Payments to Fund in SDR million (based on existing use of resources and present holding of SDRs) are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>SDR Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2.63</td>
</tr>
<tr>
<td>2004</td>
<td>10.60</td>
</tr>
<tr>
<td>2005</td>
<td>10.57</td>
</tr>
<tr>
<td>2006</td>
<td>10.57</td>
</tr>
<tr>
<td>2007</td>
<td>10.57</td>
</tr>
</tbody>
</table>

Source: http://www.imf.org/external/index.htm

The amounts of charges shown and their due dates are estimates and subject to change.

(b) Technical Assistance

In recent years, the Fund has provided India with technical assistance in a number of areas including the development of the government securities market, foreign exchange market reform, public expenditure management, tax and customs administration and strengthening statistical systems. Since 1981 the IMF Institute has provided training to Indian officials in national accounts, tax administration, balance of payments compilation, monetary policy, and other areas.

Data Dissemination System

IMF Data Dissemination Systems participants are IMF member using SDDS IMF member, using GDDS IMF member, not using any of the DDSystems non-IMF entity using SDDS non-IMF entity using GDDS no interaction with the IMF. In 1995, the International Monetary Fund began work on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the
public. The International Monetary and Financial Committee (IMFC) endorsed the guidelines for the dissemination standards and they were split into two tiers - The General Data Dissemination System (GDDS) and the Special Data Dissemination Standard (SDDS).

The International Monetary Fund executive board approved the SDDS and GDDS in 1996 and 1997 respectively and subsequent amendments were published in a revised “Guide to the General Data Dissemination System”. The system is aimed primarily at statisticians and aims to improve many aspects of statistical systems in a country. It is also part of the World Bank Millennium Development Goals and Poverty Reduction Strategic Papers.

The IMF established a system and standard to guide members in the dissemination to the public of their economic and financial data. Currently there are two such systems: General Data Dissemination System (GDDS) and its superset Special Data Dissemination System (SDDS), for those member countries having or seeking access to international capital markets. The primary objective of the GDDS is to encourage IMF member countries to build a framework to improve data quality and increase statistical capacity building. This will involve the preparation of data describing current statistical collection practices and setting improvement plans. Upon building a framework, a country can evaluate statistical needs, set priorities in improving the timeliness, transparency, reliability and accessibility of financial and economic data.
(e) Other Assitances by IMF to India

Besides receiving loans to meet deficits in its Balance of payments, India has benefited in certain after respects from the membership of the Fund by virtue of being a member of the fund. India is also member of BIRD (World Bank) from which it has been receiving financial aid for its various development projects. It has been getting advisory help from the fund under the Fund surveillance conditionality. A fund team of four to five economists often visits India. These economists exchange views with Indian officials of India's balance of payments and exchange rate problems and suggest monetary, fiscal and other measures to solve them. The Fund has also been providing short term training courses to Indian personnel on monetary, fiscal, banking, exchange and balance of payments policies through its central Banking service department, the Fiscal Affairs Department and the IMF Institute. Thus India has gained much as a member of the Institute.

ROLE OF IMF

The IMF is helping low-income countries to progress toward the MDGs and contributing to the approach embodied in the Monterrey Consensus through each of the Fund's three key functions—lending, technical assistance and surveillance. The IMF provides low-income countries with policy advice, technical assistance, and financial support. Low-income countries receive more than half of the technical assistance provided by the Fund and financial support is extended at low interest rates and over relatively long time horizons. Low-income countries with high external debt burdens are also eligible for debt relief.
(1) Concessional Lending: The IMF provides financial assistance to low-income countries experiencing protracted balance of payments problems through its Poverty Reduction and Growth Facility (PRGF) and for temporary needs arising from exogenous shocks through the Exogenous Shocks Facility (ESF). The interest rate on PRGF and ESF loans is concessional (only 0.5 percent), and loans are repaid over a period of 10 years (with 5½ years' grace). In addition, the IMF provides Emergency Assistance for natural disasters and to post-conflict countries. The assistance is repaid over 5 years (with 3½ years' grace) and donor contributions are used to subsidize the interest rate to 0.5 percent for low-income countries.

(2) Technical assistance: Adequate policy-making capacity is critical for sustainable development and growth. The IMF provides assistance and training generally free of charge to help member countries strengthen the capacity of their institutions and officials to manage economic and financial policies. In recent years, the Fund has reinforced its efforts in low-income countries by establishing regional technical assistance centers in the Pacific, the Caribbean, East, West, Central Africa and in the Middle East.

(3) IMF promotes international cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(4) IMF facilitates the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
IMF promotes exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

IMF assists in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

IMF injects give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

INFERENCEx

This chapter makes an attempt to deal with a prominent international Financial Institution i.e. IMF and its organization, its genesis, its working, its advantages and the aid and assistance provided by it to our country from time to time to tide over our difficulties. Our country has been enormously helped by it but there should be a word of caution. We has an example of Bolivia which was in dire need of economic assistance in 1985. At that time, Jeffery S. of Harvard University and IMF advised that price control be abolished, govt. Expenditure be reduced, import duties and taxes be reduced and PEs be disinvested. Bolivia did and economic indices became stable, dearness came under control and Bolivia model became prominent in the World. But after 17years, there was problem. During the last few years, investment came in natural gas sector only in Bolivia which reduced the number of employments available and had the negligible effect on the economy. Unemployment increased and nothing significant could be achieved. Home
industries weakened and no break-through could be achieved in the poverty alleviation. This all can be attributed to IMF policies. Bolivia could know about the ill effect of IMF policies only after 17 long years. Therefore, India should also be very cautious and should not follow its advises blindly. But we know that USA has pressurized Russia and Israel in the past not to transfer high technology to use. If we become dependant on western nations for cheap products, then our capacity will decrease gradually and we would become dependant on other forever. However, the other advice tendered by IMF seems to be correct in which it says that such rules be framed so as to check short term portfolio investment and to prevent Indian economy from being unsafe. However we should not be in a rat race for foreign capital and should effectively utilize our savings. The contribution played by IMF in out growth is very significant today, we are a strong economy and have become a creditor rather than debtor to the IMF. We should continue to strengthen our resources so that we may not require any outside assistance and should strengthen the hands of international institutions like IMF so that it can help the needy countries.