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INTERNATIONAL CREDIT INSTITUTIONS:

IMF (International Monetary Fund)

Origin:

To cope with the monetary problems that arose during World War II a conference was held on July, 1, 1944 at Breton Woods, New Hampshire. Number of suggestions was proposed, leading finally to the establishment of an international monetary fund. It was in this conference that Articles of agreement of fund was drawn up and it was signed by 27 countries. The fund started its operation in May 1946. Its registered office is in Washington DC and at present 184 countries are its members.

Objectives:

The objectives are as follows:

- To promote co-operation among economics of world.
- To strengthen the economics of member countries by making fund's resource available to them.
- To promote exchange stability and to facilitate the expansion and balanced growth of international trade.
- To lessen the chances of an equilibrium in the international BOP of member countries.

Functions:

The functions of fund are as follows:

1. Establishment of par value:

Every country determines the par value of its currency in terms of gold. IMF can alter those parities, when required to preserve the international

2. Assistance to Members:

IMF provides assistance to members in times of financial crises. This assistance is provided by way of following schemes. BCF (basic Credit Facility). It is provided to control short term disequilibrium of BOP. SAF (Structural Adjustment Facility). This is provided to overcome long term disequilibrium of BOP. ESAF (Enhanced Structural Adjustment Facility) This also provided to cope with severe BOP problems and to promote growth of economy. Besides these, aid is also provided under SBFF (Buffer Stock Finances Facility) or CCFF (Compensatory and Contingent Financing Facility).

3. Gold Management:

IMF also plays a role in managing gold reserves of member countries. It supervises the transfer of gold among different countries and provides assistance in minimizing gold transfers.

4. Information Services:

IMF also provided technical and information services to monetary authorities of member countries.

5. Cooperation with other Institutions:

IMF also maintains contact with other international monetary institutions and helps them in achievement of mutual objectives.

6. Multilateral Payment System:

The fund assists its members in the foundation of worldwide multilateral system of payments. It also helps in the elimination of foreign exchange restrictions.

7. Exchange Stability:

IMF's main job is to ensure exchange stability among member nations. It also ensures favorable maintenance of BOP of member's countries. It also supervises exchange control policies of member countries.

Working of IMF:

The initial resources of fund were subscribed by its members. Quotas were allocated to all members. These quotas were based on size of economy and quantum of imports. Every member had to provide 25% of quota in gold and remaining in its own currency. In times of need a member can draw up to 25% of its quota. In special cases 100% drawings can be made but then the member would had to prove to the satisfaction of IMF that suitable steps are being taken to solve the problems.

As the amount borrowed rises, the funds started taking closer interest in the country's economic policies. Any country who borrows over and above 25% of its quota is required to explain in a "letter of intent" the type of economic policies it is going to exercise to put the economy on right track. The repayment to IMF is usually due in 3 to 5 years.

SDR (Special Drawing Rights) (Paper gold).

IMF played a great role in increasing the world liquidity. But during 1960 on account of certain factors the economic world felt a need of a new kind of money. The idea of SDRs was approved in the annual meeting of IMF. SDRs are a new kind of reserve currency basically designed to provide liquidity to ever growing world trade.

The amount of SDRs available to each member will depend on its quota. For example the member whose quota is 5% of the total quota will receive 5% of the total SDRs that are allocated.

Now what about the use of SDRs? They can be used in three ways. First they can be held as gold and exchange reserves are held by governments. Secondly they can be used by central banks of different countries to settle their debts and thirdly central banks can use them through IMF.

The first distribution of SDR amounting to \$9500 million was approved in 24th annual meeting of IMF in Sep.1969.

On 1st June 1996, Pakistan's share of SDR was of worth \$275 million out of the total SDRs of 145.3 billion.

IMF and Pakistan:

BOP of Pakistan has been in deficit since long. Moreover due to bad government, malpractices, misuse of industrial credit, Pakistan is constantly compelled to seek help of IMF and other international credit institution> IMF has been providing assistance to Pakistan under SAF, ESAF and various other programs. But the burden of loan has been accumulated so huge that problems arising out of it seem endless.

According to statistics our total external debt amounts to 49.6% of our GDP (Rs.1536.7 billion) this proportion is extremely alarming and dangerous. Besides thus we also have to pay massive interest on these loans. (Internal borrowing amount to 50.4% of GDP (Rs. 1558.8 billion) which is yet another burden). Apart from this our BOP have been in deficit since long. BOP deficit for the year 2000 was US\$3894 million. However IMF experts now say that in view of present policies of Pakistan government it is expected that this figure would drop to below soon.

To manage the eternal debt of Pakistan and to find a way out of fiscal problems our present government has entered in SBA agreement with IMF. Where under agreement Pakistan will receive monetary aid, Pakistan people will again be facing increasing cost of utilities and petrol. Further there will be large scale privatization, subsidies will phase out, GST will be imposed without giving any rebate to any sector and SBP will not be allowed to influence exchange rate in any way.

At present, there is a need to realize that our economy is sick of cancer, not of flue and it needs a major surgery and complete restructuring. Let's hope that our present government will be able to do justice across the board and will be able to put the economy on right track.