International Monetary Fund (IMF)

Introduction

- The International Monetary Fund (IMF) ([http://www.imf.org/external/country/ind/index.htm](http://www.imf.org/external/country/ind/index.htm)) was established along with the International Bank for Reconstruction and Development (also known as World Bank) at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944. It was created to promote international monetary cooperation; to facilitate the expansion and balanced growth of international trade; to promote exchange stability; to assist in the establishment of a multilateral system of payments; to make its general resources temporarily available to its members experiencing balance of payments difficulties under adequate safeguards; and to shorten the duration and lessen the degree of disequilibria in the international balances of payments of members.

- The Articles of Agreement of IMF came into force on December 27, 1945. IMF is the principal International Monetary Institution established to promote a cooperative and stable global monetary framework. At present, 188 nations are members of the IMF. Since the IMF was established, its purposes have remained unchanged but its operations - which involve surveillance, financial assistance and technical assistance - have developed to meet the changing needs of its member countries in an evolving world economy.

Board of Governors

- The Board of Governors of the IMF consists of one Governor and one Alternate Governor from each member country. For India, the Finance Minister is the ex-officio Governor on the Board of Governors of the IMF. Governor, RBI is India's Alternate Governor. The Board of Governors usually meets once a year to discuss the work of the respective institutions at the Annual meetings, which are generally held in September / October. These Annual Meetings have customarily been held in Washington D.C. USA, for two consecutive years and in another member country in the third year. Last Annual Meetings of the IMF and World Bank was held in Tokyo from 12-13th October, 2012 and this year's Annual Meetings events will take place in Washington, D.C., October 11-13, 2013.

- Each spring, thousands of government officials, the private sector, journalists, civil society representatives, and other interested observers gather in Washington DC for the Spring Meetings of the IMF and World Bank. At the heart of the gathering are meetings of the IMF's International Monetary and Financial Committee and the joint World Bank-IMF Development Committee, which discuss progress on the work of the IMF and World Bank. Also featured are seminars, regional briefings, press conferences, and many other events focused on the global economy, international development, and the world's financial markets. The 2013 Spring Meeting of the International Monetary Fund and World Bank Group was held in Washington D.C from April 19-21.
International Monetary and Financial Committee

- The International Monetary and Financial Committee (IMFC) of the Board of Governors is an advisory body made up of 24 IMF Governors, Ministers, or other officials of comparable rank, representing the same constituencies as in the IMF's Executive Board. The 27th Meeting of the IMFC was held at Washington D.C on April 20, 2012 and chaired by Mr. Tharman Shanmugaratnam, Deputy Prime Minister of Singapore and Minister for Finance.

Executive Board

- The day-to-day management of the International Monetary Fund is carried out by the Managing Director. The Board of Executive Directors, consisting of 24 Directors appointed / elected by member countries / group of countries, is the executive body of the IMF, of which the Managing Director is the Chairman. Ms.Christine Lagarde, former Finance Minister of France, is the Managing Director of IMF for a five year term beginning 5th July 2011. There is one First Deputy Managing Director and three Deputy Managing Directors in place. Ms.Christine Lagarde, Managing Director, IMF last visited India during 19-22 March 2012.

- India is a founder member of the International Monetary Fund. It is represented at the IMF by an Executive Director, currently Dr. Rakesh Mohan, who also represents three other countries in India's constituency at the IMF, viz. Bangladesh, Sri Lanka and Bhutan.

India's Quota and Ranking

- India's current quota in the IMF is SDR (Special Drawing Rights) 5821.50 million, giving it a shareholding of 2.44%. Based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 17th in the list of 24 constituencies.

- The IMF reviews members' quotas once in five years and the last such review took place in December, 2010. India has already consented to its quota increase under the 2010 review and after the 2010 quota review comes into effect, our quota share will increase from the current 2.44% to 2.75%, making India the eight largest quota holding country at the IMF up from its previous position of being the 11th largest. In absolute terms, India's quota will increase to SDR 13,114.4 million from SDR 5,821.5 million (an increase of approximately US$ 11.5 billion or INR 56,000 crore). While 25% of quota increase (about INR 14,000 crore) is to be paid in cash (reserve currency), the balance 75% can be paid in securities. These securities are non-interest bearing note purchase agreements issued by RBI and can be encashed at any time required by the IMF. They do not entail any cash outgo unless the IMF calls upon India to encash a portion of these notes. The reserve asset portion of Quotas is counted as a part of country's Reserves.

Borrowings by India:

- India borrowed SDR 3.9 billion during the period 1981-84. Again during 1991 to 1993, India borrowed an amount of SDR 3.56 billion (SDR 1351.98 million under the Compensatory and Contingency Financing Facility and SDR 2207.925 million under Standby Arrangement).
Repayment of all the loans taken from International Monetary Fund has been completed on May 31, 2000. India is now a contributor to the IMF.

**India’s contribution to borrowing arrangements of the IMF**

- The Fund also supplements its quota resources temporarily through borrowing arrangements. In July 2010, India committed a maximum of up to USD 14 billion for the New Arrangements to Borrow (NAB) into which the previous Note Purchase Agreement (NPA) has been folded. This commitment is in the form of Promissory Notes or Securities issued by RBI on behalf of Government of India and can be drawn by IMF as and when it requires emergency funding. After the 2010 quota increase comes into effect, our NAB commitment is expected to be rolled back to about US $ 7.0 billion. These notes do not represent a cash outgo until the IMF makes a call upon India. As against the maximum commitment of US$ 14 billion, so far since 2010, claims of only about US$ 2 billion have been made upon India. These borrowings are treated as part of India’s reserves.

- In the wake of the ongoing Eurozone crisis, the IMF has proposed a new bilateral borrowing programme to augment its resources for crisis prevention and resolution and to meet the potential financing needs of all IMF members. 37 members representing three-fifths of the total quota of the IMF, have pledged contributions to enhance the IMF's resources by US $ 456 billion. At the Los Cabos Summit of the G20 held on June 19th, 2012, BRICS countries have announced their contributions, including US$ 10 billion by each of India, Brazil and Russia and US $ 43 billion by China.

- The IMF has committed that these new resources will be drawn only if they are needed as a second line of defense after resources already available from quota and existing borrowing arrangements are substantially used. If drawn, they would be repaid with interest. It has been clarified that quota resources would remain the basic source of fund financing and that the role of borrowing is to temporarily supplement the quota resources.

- The new borrowing programme is based on issuance of Promissory Notes by member countries that are securities of these countries which are encashable when required by the IMF. These note purchase agreements are denominated in Special Drawing Rights (SDRs) and do not entail any outgo of cash/hard currency until a call is made by the IMF to encash a portion of the securities. Further, the notes are treated as a part of the reserves of the issuing country and as such, they do not impact the holding of reserves of the issuer.

**Financial Transactions Plan (FTP):**

- The Financial Transactions Plan of the International Monetary Fund is the mechanism through which the Fund finances its lending and repayment operations, to its members, in the General Resources Account. The members of the Fund can take loans from IMF with limits
corresponding to their quota. IMF lends to its members in both foreign exchange and SDRs. Credit extended in foreign exchange is financed from the quota resources made available to the IMF by members. The creditor gets benefited as their position gets increased. When extending credit in SDRs, the IMF transfers reserve assets directly to borrowing members by drawing on the IMF's own holdings of SDRs in the General Resources Account.

- India agreed to participate in the FTP of the IMF from the quarter Sept-Nov 2002 in view of its strong Balance of Payment (BoP) position and comfortable reserve position. Effective participation in the FTP made India a creditor member with the IMF. Under this, India may be asked to make a purchase (issuance of credit) or a repurchase (debt servicing by our debtor) under the FTP. By participation in FTP, India is allowing IMF to encash its' rupee holdings as part of our quota contribution, for hard currency which is then lent to other member countries who are debtors to the IMF. While the participation in FTP allows India to earn additional interest on its' enhanced credit tranche position with IMF, the encashment of interest free rupee securities lead to perhaps higher borrowing cost as well as deterioration of fiscal position. To address this problem, it has been decided to replace special securities issued to the IMF by non-interest bearing non-marketable securities to be issued to the RBI. From 2002 (when India agreed to participate in the FTP) to 30th March 2012, India has made purchase transactions of SDRs 1599.96 million and repurchase transactions of SDRs 795.947 million.

**India's contribution to Iraq**

- In November 2003, India agreed to contribute US $ 0.35 Million for the Multi-donor Technical Sub Account for Iraq initiated by the IMF. It has contributed US $ 0.10 million (equivalent to Rs. 46,00,000) as first instalment in March 2004, the second instalment of US $ 0.10 million (equivalent to Rs. 45,00,000) in March 2006 and the third and final instalment of US $ 0.15 million (equivalent to Rs 64,41,750) was paid in March 2007.

**Poverty Reduction Growth Facility**

- For financing the Fund's concessional lending to Low-Income Countries (LICs) in the wake of the global financial crisis, on July 23rd, 2009, the IMF's Executive Board approved far-reaching reforms of the concessional lending facilities for low-income countries (LICs), creating a new architecture of facilities that is more flexible and tailored to the increasing diversity of LICs and their needs. The Executive Board approved a new concessional financing framework, under the reform package, under which a new Poverty Reduction and Growth Trust (PRGT) would replace the PRGF-ESF Trust. Separate loan and subsidy accounts would be instituted under the PRGT. These reforms became effective and operational on January 7, 2010, when all lenders and subsidy contributors to the PRGF-ESF Trust provided their consent.

- To meet projected demand for concessional financing through 2014, it was estimated that loan resources of SDR 11.3 billion (US$17 billion) and subsidy resources of SDR 2.5 billion
in end-2008 net present value terms (or about US$4.7 billion in cash terms) would be needed. Given the available resources, additional loan resources of SDR 10.8 billion (US$16 billion) and new subsidy resources of SDR 1.5 billion (US$2.8 billion) would need to be mobilized. It is envisaged that, as in the past, the required additional loan resources will be mobilized through bilateral contributions. Most of the needed subsidy resources, however, will come from the IMF’s internal resources—including the use of resources linked to the limited sales of gold approved by the Executive Board on September 18, 2009, with additional bilateral contributions of SDR 0.2 - 0.4 billion being sought to complete the financing package. It is expected that these measures will boost the resources available to LICs to SDR 11.3 billion (US$17 billion). The reform also provides exceptional interest relief (i.e., zero interest payments on concessional loans through end-2011) and permanently higher concessionality.

- As of December 31st 2011, India made a bilateral commitment under the PRGF-ESF Trust Subsidy Account of 11.7 million SDRs.

Emergency Natural Disaster Assistance (ENDA):

- The Executive Board of the IMF, on 21.1.2005, has approved opening of a sub-account by expanding the scope of their administered account for Emergency Post Conflict Assistance (EPCA) to subsidize the rate of charge on emergency purchases in cases of Emergency Natural Disaster Assistance (ENDA) to PRGF eligible member countries. IMF has targeted resource mobilization through grant contributions by members to be in the range of SDR 45 to 60 million. These grant contribution will be used by IMF to subsidize the rate of charge to 0.5% per annum on emergency natural disaster assistance, at the same rate as is being charged by IMF for loans under PGRF - lending facility for low income countries.

- India had originally agreed (in March 15, 2005), to contribute up to SDR's 1.5 million over the next five years to support the Fund's efforts to Emergency Natural Disaster Assistance (ENDA) for the PRGF eligible member countries. Accordingly, India paid an amount of Rs. 1,86,07,305 (i.e. equivalent to SDR 300000) towards India’s first annual contribution to ENDA facility of IMF in January 2008. Subsequently, on receipt of request from the IMF, the matter has been reconsidered and accordingly India made the payment of remaining committed amount of SDR 1.2 million in two instalments of SDR 600,000 each by December 2009. In view of this, India paid an amount of Rs. 4,42,08,665 (i.e. equivalent to SDR 600000 at the rate of Re 1=SDR 0.013752) towards India’s second contribution to Emergency Natural Disaster Assistance Facility of IMF in February 2010.

Heavily Indebted Poor Countries (HIPC / Multilateral Debt Relief Initiative (MDRI)):

- The Multilateral Debt Relief Initiative (MDRI) provides for 100 percent relief on eligible debt from three multilateral institutions, viz. the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) - to a
group of low-income countries. In June 2005, the Group of 8 (G-8) major industrial countries proposed that three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) - cancel 100 percent of their debt claims on countries that have reached, or will eventually reach, the completion point under the IMF-World Bank Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative entailed coordinated action by multilateral organizations and governments to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. The initiative is intended to help them advance toward the United Nations' Millennium Development Goals (MDGs), which are focused on halving poverty by 2015. At the IMF, it was agreed that all countries with per-capita income of US $ 380 a year or less (HIPCs and non-HIPCs) will receive MDRI debt relief financed by the IMF's own resources. HIPCs with per capita income above that threshold will receive MDRI relief from bilateral contributions administered by the IMF. India endorsed Multilateral Debt Relief Initiative (MDRI) in September 2005. Under the HIPC initiative, India has given debt relief to the tune of Rs. 120.08 crores to seven HIPCs (viz. Guyana, Mozambique, Nicaragua, Tanzania, Uganda, Zambia and Ghana).

Article IV Consultations

- Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year, to review the economic status of the member countries. Article IV consultations are generally held in two phases. During this exercise the IMF mission holds discussions with the RBI and various line Ministries / Departments of Central Government. The Article IV Consultations are concluded with a meeting of IMF Executive Board at Washington DC which discusses the Article IV Report. The last round of annual Article IV Consultations with the IMF Staff were held during October 25–November 9, 2012

Regional Training Centre

- In July 2004, the Government of India approved IMF's proposal for setting up a joint training program at the National Institute of Bank Management, Pune. The Training Program will provide policy oriented training in economics and related operational fields to Indian officials and officials of countries in South Asia and East Africa. The first training program was held during July 2006. RBI is the nodal body to co-ordinate the training program with the IMF. The Institute caters to participants from regional countries, especially in the SAARC region. Australia is providing financial assistance for the Institute.