

## **THE BANKS: THE IMF, THE WORLD BANK, THE BANK FOR INTERNATIONAL SETTLEMENTS**

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### **Summary**

The international institutions that make up part of the international architecture discussed in this article are the International Monetary Fund, the World Bank and the Bank for International Settlements.

The International Monetary Fund was conceived at the Bretton Woods Conference in 1944 and set up in 1946. It acts as the guardian of a code of good conduct in international finance for its member countries and provides these countries with international liquidity in the event of balance of payments disequilibria. Its headquarters are located in Washington, D.C. Initial membership was 39; by the end of 2000 it had grown to 182.

The World Bank, formerly known as the International Bank for Reconstruction and Development, the sister organization of the IMF, was created at Bretton Woods to provide member countries with long-term finance for economic reconstruction and development. Initially the bank was primarily concerned with post-war reconstruction in Europe. From the late 1950s it rapidly transformed into the premier multilateral institution responsible for financing projects in developing countries, with a significant influence on policy reforms in those countries.

The Bank for International Settlements was founded on 20 January 1930 pursuant to the Hague Agreement on German war debt reparations and evolved in the post-war period into a bank for other central banks. It provides a dual service to the member central banks: assisting the management of foreign exchange reserves, and promoting international financial and monetary cooperation.

### **1. The International Monetary Fund**

The main structure of the post-World War II international monetary system was agreed on at a conference of 44 allied nations held at Bretton Woods, New Hampshire, USA, in July 1944. At the heart of the system was the International Monetary Fund (IMF), which was assigned the task of implementing, supervising, and monitoring the rules and arrangements that would govern international monetary relations in the post-war world. The discussion at Bretton Woods on the design of the new monetary system was based on two proposals: the British proposal prepared by John Maynard Keynes (Keynes Plan) and the U.S. proposal prepared by Harry Dexter White (White Plan). While there was general agreement about the exchange rate mechanism and the related modalities of the new system, the two plans differed mainly in how to provide financing for external imbalances. The Keynes Plan sought to create a supranational monetary institution able to issue a new international currency (which Keynes called the “bancor”) to be held and used by governments and central banks for setting external imbalances. The White Plan was more conservative and sought to limit the supply of reserve credit by providing it with a finite pool of national currencies and gold, rather than the power to issue a new money of its own. The plan finally adopted for setting up the IMF was much in line with the White Plan.

The IMF began operations in May 1946, with headquarters in Washington, D.C. Initial membership was 39 and this had grown to 182 by the end of 2000. The highest authority of the IMF is the Board of Governors, which consists for the most part of ministers of finance or central bank governors of the member countries. Each member country appoints one governor. The Board of Governors normally meets only once a year, having delegated many of its powers to the fund’s Executive Board, which appoints a managing director who serves as its chair and heads the IMF staff of some 2500 international civil servants. There has emerged an informal agreement that the managing director of the IMF will be a European (while its sister organization, the World Bank, is directed by a citizen of the United States). An Interim Committee established in the mid 1970s provides continuing advice to the Board of Governors on the functioning of the international monetary system. A Development Committee, established jointly with the World Bank, provides advice on the special needs of poor countries.

On joining the fund, each member contributes a sum of money known as a *quota* based, to some extent, on the size of its trade (which can be drawn on by the fund to lend to members with payment problems.) Thus the U.S. has the largest quota, accounting for about one-fifth of the total. The U.S. quota is about 20% of the total, and originally the U.K. had the second largest quota. New quotas were established in 1991, with Japan and Germany having 6% each and the U.K. and France each 5.5%. Voting power on the Executive Board is in proportion to quota. The bigger and wealthier the contributor's economy, the greater its quota, and voting power is allocated largely proportionate to quotas.

### **1.1. Objectives and Operation**

The design of the Bretton Woods monetary system was strongly influenced by the traumatic experience of the interwar period and the lessons drawn from it at the time. During that period countries had raised barriers against imports and devalued their currencies in an effort to improve their balance of international payments and raise their national income and employment. These “beggar thy neighbor” policies had resulted in more instability and restrictions and less world trade and income. Drawing on this painful experience, the Bretton Woods delegates incorporated in the Articles of Agreement a cooperative approach that eschewed exchange restrictions and competitive exchange depreciation and offered loans to countries with payment difficulties so that they could refrain from these and other measures inimical to world economic prosperity. The main objectives of the IMF as set forth in the articles of the IMF and adopted at Bretton Woods are:

- (a) To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.
- (b) To promote exchange stability, to maintain exchange arrangements among members, and to avoid competitive exchange depreciation.
- (c) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions that hamper the growth of foreign trade.
- (d) To give confidence to members by making the general resources of the fund temporarily available to them under adequate safeguards, thus providing the opportunity to correct maladjustments in their balance of payments without resorting to measures disruptive to national or international prosperity.

Over the years, new issues have come to the fore that required different approaches and strategies in pursuing these objectives. The means and methods used by the IMF have changed accordingly. However, in a broader sense the objectives listed above have continued to provide the broader setting for its operation to the present time. We now turn to a discussion of each of these objectives.

### **1.2. Promoting International Monetary Cooperation**

The IMF provides an impressive machinery to promote international monetary cooperation. Among other things, it affords ample opportunity for discourse between

member countries and provides them with technical assistance in managing fiscal, monetary, and foreign affairs in line with ongoing changes in both domestic and international economic environments. In particular, the Executive Board is the only forum where finance ministers and senior officials of central banks representing virtually the whole world meet on a regular basis, providing them with an opportunity for face-to-face dialog.

On joining the IMF, member countries commit themselves to supplying such information as the fund deems necessary, and the fund is authorized to act as a center for the collection and exchange of international monetary information. The IMF has thus become a vast source of published information on and analysis of the world economy in general and on individual countries. The fund's principal statistical publication, *International Financial Statistics* (IFS), has been published since January 1948. The annual *World Economic Outlook* provides a forecast for the world economy and has become the basis for economic outlook discussions in various international forums. The IMF also produces regular reviews of each member country's economic performance (called *Recent Economic Development*). Since 1976, the "Article IV missions" to member countries undertaken as part of exchange rate surveillance (see **Section 1.3. Maintaining Orderly Exchange Arrangements**) have been important in keeping the governments of all members in touch with world economic developments and in keeping fund staff and other governments informed of policies and developments in member countries.

The IMF provides technical assistance in macroeconomic management to member countries through its advisory missions and training programs. The bulk of such assistance goes to the less developed and transitional economies. The IMF Institute offers training for officials from member countries at its facilities recently established in Vienna as a cooperative venture between the fund and other international organizations. Technical assistance missions to participating countries provide instructions in fiscal and monetary and exchange rate management, and in related legal and statistical matters. In its attempts to promote international financial cooperation, the IMF works closely with other international organizations such as the Organization for Economic Cooperation and Development (OECD) and the Bank for International Settlements (BIS).

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### **Biographical Sketch**

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