The Strategz of the International Monetary Fund (IMF) in Financing its Member countries

UDC: 339.732.4

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The twentieth century was marked by numerous changes whose consequences and effects we can still notice and feel. Surely,one of the crucial processes is the transition of economies of most undeveloped countries and their transformation towards the market way of doing business. Many international institutions, with the International Monetary Fund being ahead, were following and helping the described processes. The purpose of this paper is to show the main goals, tasks, organizational structure and the way of functioning of the big and first of all very important international financial institution such as the IMF. Also, there will be described the ways in which the IMF forms its financial sources as well as the possibilities of the member countries to use these sources. The main aim of this work is to present the positive sides of the Fund doing the business, but also to point out the restrictive policy by which the Fund is directed in approving financial resources, and which is criticized a lot. Another aim of this text is to show, in its final consideration, the relationship between the IMF and the countries in transition with a special regard to the relationship towards this country.

1. Introdukcion

Numerous and varied economic changes have had a significant impact upon the transformation of the overall world economy for decades. We have witnessed the *restructuring* processes of the economies of many a socialist country, which abandon the so far planned and rigid method of business doing to implement more flexible and market oriented one. Along this long and tiresome path, the developing countries encounter a large number of problems, the majority of which are of financial nature. It is very important that these countries receive “generous“ aid, primarily financial, but technical and structural as well. The entire international monetary system should monitor and support the transition processes and the restructuring of national economies and show them the way into a *safer and better* future.

The International Monetary Fund is a set of international agreements and institutions that regulate international liquidity, the *convertibility* of one currency into another or into reserve holdings, as well as external balance regulatory procedures. [4, p.258Ć we can also say that the international monetary system comprises all the agreements on the international payment structures, the institutions and regulations that govern, convey and control these payments. The international monetary system objectives are primarily as follows:

- stabilization of overall economic activities and price levels;
- uniform development of international trade;
- employment and real income growth;
- exchange rate stability;
- multilateral payment system fostering, etc.

The international monetary system cannot be discussed, without mentioning a notion of monetary standard. In the beginning, the monetary standard meant a certain quantity of gold or silver representing other currencies and into which any currency could be converted. The later period of the overall monetary system development saw the change in the very meaning of monetary standard, which now means a set of all the institutions and varied payment methods applied in settling international debts and collecting international dues. The above interpretation refers to the international aspect of the monetary standard, however, it is important to point out that it can also refer to national institutions and methods of payment in the transactions within one country.

The key institutions through which the international monetary system works and achieves its objectives are:

- The **I**nternational **M**onetary **F**und;
- The **E**uropean **C**entral **B**ank and
- The **B**ank for **I**nternational **S**ettlements.

It is important to mention other international monetary conventions, unions, regional trusts, clearing organizations etc. too. They are also active within the international monetary system and facilitate its work. Common to all these organizations is that they accepted different accounting units and that they grantter period of the overall monetary system development saw the change i*n the very* meaning of monetary standard, which now means a set of all the institutions and varied payment methods applied *in settling international* debts and collecting international dues. The above interpretation refers to the international aspect of the monetary standard, however, it is important to point out that it can also refer to national institutions and methods of payment in the transactions within one count*ry.The key* instituti short-term loans – credits to the member countries for the purpose of improving their balances of payment and regulating international payments on the basis of settling their liabilities and collecting receivables. [4, p. 260ĆThe paper will be devoted sol*ely to the method of function*ing of the International Monetary Fund and its importance in the international economic trends. Further, the key ***objectives of*** **the IMF will be highlighted**, as well as its organizational structure and the competencies of its bo the World War I, the Great Economic Crisis in 1930's, the massive destructions during the world War II, made it necessary that a unique, international cooperative institution should be established for the purpose of dealing with crucial economic issues. The representatives of 44 countries in the world met at Bretton Woods, in July, 1944 and concluded an agreement on establishing a specialized United Nations agency, to be called the International Monetary Fund, and whose headquarters was to be in Washington.

The IMF Statute was adopted in December 1945 and the member countries agreed that the surveillance and management in three important spheres should be the liability of the IMF, namely [1, p. 163Ć:

- Regulations related to the foreign exchange policy and limitations as to payments on the basis of current balance of payment transactions;
- Supplying member countries with the financial resources to correct and prevent payments disbalances; and
- roviding a forum where member countries can discuss and cooperate in solving the international monetary issues.

Today, the IMF is an organization of more than 180 member countries, mostly developning countries, and is one of the most important international financial institutions. Of course, we can also state that this is an organization that, on one hand, was largely praised for its activities, however, on the other hand, its business strategy has often been severaly criticized and contested, both in scientific literature and in diplomatic circles.

1.1. The IMF's tasks and objectives

In a nutshell, the basic task of the IMF is to aid member countries that suffer financial problems and are faced with the balance of payment deficits. Such countries lack their own means to settle their debts, therefore they hope that, aided by the IMF, they will be in a position to define and conduct a set of stabilization measures and "revive" their economies. The Fund's task is also to foster the relations of trust with its members and be unbiased in analysing and finding solutions to their problems. It is important that the Fund's activities be flexible and adjustable to individual situations in every problem experiencing country. The Fund is expected to avoid the fixed pattern in granting aid to its members and to reduce a too strong an impact of highly developed countries when important decisions are to be made.

In accordance with the Statute adopted, come of the most important objectives the IMF will try to achieve continually are:

- promoting international monetary cooperation;
- supporting member countries in resolving various problems, primarily financial ones;
- maintaining the forein currency stability;
- growth and fostering a multilateral payment system on current transactions;
- clearing foreign currency limitations in order to promote international trade;
- fostering income growth, high rate employment, development of manufacturing capacities based on the growth of international trade;
- financial support to member countries in order that they avoid balance of payment disbalance and difficulties.

Whether the Fund is really devoted to achieving the above mentioned objectives and in which ways it embarks on accomplishing those tasks will be the subject of the following chapters of this paper.

1.2. The IMF organizational structure

For the purposes of a comprehensive analysis, we will briefly quote the IMF basic bodies. According to the Statute, the organizational structure of the Fund is made up of:

- The Assembly of Governors;
- The Executive Board;
- The Managing Director;
- The Council.

The decisions made at the Assembly of Governors and the Executive board are binding for all the member countries. The Executive Board is the instance where most conflicts arise among the countries on different levels of development and where the economic power based authority of one country often prevails over the force of arguments of the countries whose development level is lower. [6, p. 87Ć In its long history, the Fund has founded a number of subsidiary bodies that also contribute to the fund's activities, and these are: the Interim Committee for the international monetary system issues, Group 5 and Group 7.

2. The IMF sources of financing

There is a number of well known methods the Fund uses in obtaining funds for financing. It is very important that these sources be permanent, reliable and available at any moment. Obviously, the most reliable source of financing is the quotes provided by the member countries, paid at the moment a country joins the Fund. Also important are the loans from the member countries, various rates and taxes short-term loans – credits to the member countries for the purpose of improving their balances of payment and regul**ating international payments** on the basis of settling their liabilities and collecting receivables. [4, p. 260ĆThe paper will be devoted solely to the method of functioning of the International Monetary Fund and its importance in the international economic trends. Further, the key objectives of the IMF will be highlighted, as well as its organizational structure and the competencies of its boaid in that 25 percent of the quota is paid in special drawing rights, while 75 percent is paid in the national currency of a respective country, and this is the amount the fund keeps as assets on the account with the member country's Central bank. The quota may be said to represent the importance and power of a certain country in the world's economy, and is at the same time the benchmark in all the financial relations between the member countries and the Fund. The body in charge in the Fund does an audit on the quotas periodically and state whether it is necessary that the quotas of certain countries should be raised and in which manner the increase should be distributed among the member countries, to mutual satisfaction. The quotas may be increased only in case the member country improves its position and its relative share in the overall world economy, otherwise the desired increase is not possible. This issue is a frequent subject of debates in the fund, since it is impossible to satisfy the desires and interests of all the member countries. Therefore the rise in quotas was usually in favour of highly developed countries, and to the disadvantage of the developing countries.

The size of the quota determines:

- The volume of loan the country can get from the Fund;
- The number of votes the country has when it comes to deciding in the Fund (when joining the fund, each country is granted 250 initial votes, and at each 100,000 special drawing rights of its quota it gets one more vote);
- The country's participation in the allocation of special drawing rights (the country with a higher quota is entitled to a larger number of issued SDR).

The member countries with highest quotas, and consequently with the largest number of votes in the fund are: [8Ć

1. U.S.A (17.6%)	1. France (5.1%)	7. Saudi Arabia (3.3%)
2. Japan (6.5%)	2. Great Britain (5.1%)	8. Canada (3.02%)
3. Germany (6.2%)	3. Italy (3.36%)	9. China (3.03%)
		10. Russia (2.8%)

On the basis of the above data, it is not difficult to see which countries have a final say in making all important decisions in the International Monetary Fund and why it is they who are against raising the quotas of other member countries.

3.2. Loans granted by the fund

It is true that the quotas of the member countries are a very reliable source of revenue and make the better part of the capital in the fund, however, the assets the fund borrows from various international monetary institutions, member countries and other creditors cannot be neglected. The loans are by all means an important additional source of finances. As to the borrowing policy the Fund pursues, the rule is observed that full loans and unused credit lines should not exceed the limit of 50% - 60% of total quotas.

Over the decades of the Fund's activities, two arrangements of borrowing have especially been important:

- General arrangement to borrow (GAB) and
- New arrangement to borrow (NAB).

The General arrangement to borrow (GAB) was concluded in 1962, between the IMF and ten highest developed countries in the world. Switzerland was to join the arrangement later. The fund was entitled to borrow the financial assets from eleven developed countries, according to the set conditions, at a market interest rate. The assets were most commonly borrowed for the purpose of improving the current, disbalanced situation within the international monetary system.

Table 1. *Chart of member countries participating in GAB, with the amounts of assets put at the disposal of the IMF* [5, p. 404Ć

The GAB member countries	Amount (in SDR billions)	The gAB member countries	Amount (in SDR billions)
USA	4,250.00	Canada	892.50
German Bundesbank	2,380.00	The Netherlands	850.00
Japan	2,125.00	Belgium	595.00
France	1,700.00	Sveriges Riksbank	382.50
Great Britain	1,700.00	Total:	**17,000.00**
The National Bank Of Switzerland	1,020.00	Agreement on association with Saudi Arabia	1,500.00

The potential amount of assets the Fund is entitled to use within the GAB can be found to amount to 17 billion of special drawing rights, with the additional 1.5 billion put at disposal by Saudi Arabia, within the associate agreement.

The New arrangement to borrow (NAB) was concluded in January 1997, between the iMF and 25 member countries. The need for this additional source of financing resulted from frequent crises and the increasing financial needs of the member countries. Today, this arrangement has a form of a credit agreement between the fund and 26 countries that lend their funds under specific, agreed conditions.

Table 2. *Chart of member countries participating in NAB, with the amounts of assets put at the disposal of the IMF* [5, p. 405Ć

NAB member countries	Amount (in DSR billions)	NAB member countries	Amount (in SDR bilions)
Australia	801.00	Kuwait	341.00
Austria	408.00	Luksemburg	340.00
The Central Bank of Chile	340.00	Malesia	340.00
Belgium	957,00	The Netherlands	1,302.00
Canada	1,381.00	Norway	379.00
Denmark	367.00	Saudi Arabia	1,761.00
The German Bundesbank	3,519.00	Singapur	340.00
Finland	340,00	Spain	665.00
France	2,549,00	Sveriges Riksbank	850.00
Monetary government of Hong Kong	340.00	The National Bank of Switzerland	1,540,00
Italiy	1,753.00	Tailand	340,00
Japan	3,519.00	Great Britain	2.549.00
Korea	340.00	USA	6.640.00
		Total:	**34,000.00**

The conclusion can be drawn that the countries presented above provide the total of 34 billion special drawing rights which the Fund is entitled to use within the New arrangement to borrow if the need for additional financial assets arises.

3.3 Revenues from rates and taxes

This aspect of income does not make an important part in the total aamount of assets the Fund has at disposal, however, it is not negligible. By collecting the rates and taxes, the fund encourages the member countries to employ the borrowed funds in as short a period as possible. We distinguish among the three most common types of rates and taxes:

- Commission – this is applied to all the transactions of purchasing currency from the fund, other than purchase within the *reserve tranche* is paid at the moment of transaction, in the amount of 0.5% of its value.
- Tax on stand-by and *expanded* agreements – is paid in the amount of 0.25%, however, only at the unused amount of borrowed funds, at the beginning of every twelve-month period.
- Time tax – is paid on the amount of stand-by funds that resulted from the purchase of convertible currency from the Fund, paid for by the national currency, and which the fund keeps in the currency of the member country.

3.3. Special drawing rights

The introduction of special drawing rights into the international monetary system is an attempt to secure international liquidity in an organized manner, independently from national monetary policies. The basic goal of the creation of the new monetary mechanism within the IMF was to provide a long-term supply of assets of international liquidity in case of their scarcity. [1, p. 170Ć

Special drawing rights were introduced in 1969, for the purpose of overcoming an especially bad situation in the international monetary system and they are now one of the IMF's most important sources of financing. The fund issues the SDI periodically, most commonly in a five-year period, and trats them as a very important instrument in solving the international liquidity issues.

On the basis of its quota proportions, each country is granted a certain amount od special drawing rights which it may exchange for a convertible currency, through the Fund, every time it feels in demand for the particular currency. The special drawing rights system is based on the member countries' voluntary accession and participation. If one currency is in demand, the country whose currency it is is obliged to sell it. The upper limit of 300 percent of the value of the quota is the point beyond which the member country may, but need not sell its currency. The relationship between the member countries, that are simultaneously the players in this system, is based on the obligation of the country with a surplus in its balance of payment to receive the transfer of specialdrawing rights from the country with a deficit in its balance of payment, and grant it the convertible currency as a counter value. The surplus country accepts this obligation only on condition the Fund itself issues guaranties that it shall be entitled to exchange these special drawing rights for the assets of international liquidity whenever it choses to do so.

It is important to point out that as early as 1972 the special drawing rights have been implemented by the Fund as the accounting unit in its transactions, and are now largely used in the transactions of numerous other international institutions. Over time, the value of the special drawing rights was defined differently, to be based today on the values of the world's four key currencies: the US dollar, the British pound sterling, the Japanese yen and the euro. The so-called "currency basket" includes the currencies of five member countries of the Fund that achieve the largest scale exports in a five-year period, and these are: the U.S.A., Great Britain, Germany, Japan and France.

4. The IMF remittances to member countries, advantage or disadvantage?

In addition to the basic aid it provides to the member countries, which means the financial aid, the International monetary fund also provides the technical and expert aid, is engaged in solving numerous problems in the field of commerce and economic growth and, as such, represents the central institution of the international monetary system. The IMF member country, encountering balance of payment problems of primarily temporary and short-term character, is entitled to claim the necessary financial means from the Fund. The credit granted from the Fund is actually a financial support to the economic stabilization programme of the member country aimed at overcoming the troubles in economy and in its balance of payment. The Fund supports the adjustment programme with its own finances or by catalysing from numerous sources. [4, p. 263Ć

The chance that a member country be granted the necessary funds from the Fund is defined, primarily, by the amount of the quota paid, but also by the gravity of the balance of payment problems, by its readiness to conduct a stabilization programme and by the overall economic situation in the country.

The International Monetary Fund will grant the necessary budgets only after they have been satisfied that the stabilization programme, mutually agreed upon between the Fund and the member country, to be conducted in the respectve country is justified and efficient. The Fund may grant the *resources* in the form of:

- Regular drawing rights
- Drawings within financial facilities.

We will proceed by giving a detailed explanation of key characteristics, advantages and disadvantages of both forms of using the Fund's resources.

4.1. Regular drawing rights and stand-by arrangements

The regular drawing rights within the IMF primarily include the reserve tranche and the four credit tranches.

The reserve tranche is such a type of drawing the Funds resources where the Fund's reserves are increased in the currency of the respective member country up to the amount of 100% of its quota. In the beginnings of the Fund, the mentioned fixed portion of the quota was paid in gold, therefore the drawing within the reserve tranche was known as the "golden tranche". The rule adopted later specified that 25% of the quota need not be paid in either gold or American dollars, but can be paid in special drawing rights or in other convertible currencies, upon the prior consent of the Fund. The amount the country may dispose of in the form of reserve tranche is obtained in that the amount of the fund's receivables in national currency is subtracted from the value of the national quota resulting into a positive balance. The reserve position of the member country changes over time and may range from 0 to 100% of the quota, depending on the size in which the Fund does transactions with the country's currency. The right to drawing within the reserve tranche can be exercised rather easily, since the applications of the member countries on this basis are not part of the agendas of regular meetings of the Fund's supervisory bodies; such transactions are almost automatically approved of.

The member country encountering a balance of payment problem and a general disbalance of its own economy may apply to the IMF for the loan and exercise its right to it, but under special conditions. If it is the short-term and easily soluble problems, and the country simultaneously makes its best efforts to solve them, it can obtain the resources from the Fund within the first credit tranche. On the contrary, when the country suffers serious balance of payment problems and needs larger amount of resources to solve them, it is obliged to submit to the Fund the stabilization programme with the economic policy measures it plans to implement if it desires to realize the drawing rights in higher credit tranches (the second, the third and the fourth).

The strategy of crediting the member countries is carried out in four stages, i.e., four credit tranches, each of which covers 25 percent of the national quota. With each subsequent credit tranche the credit conditions become significantly stricter, which is one of the main reasons that many countries avoid applying to the Fund for money. The credit tranches are distinguished in the following way:

- The first credit tranche – the drawings that increase the Fund's reserves in the member country's national currency to the amount from 100% to 125% of its quota.
- The second credit tranche – the drawings that increase the Fund's reserves in the member country's national currency to the amount from 125% to 150% of its quota.
- The third credit tranche – the drawings that increase the Fund's reserves in the member country's national currency to the amount from 150% to 175% of its quota.
- The fourth credit tranche – the drawings that increase the Fund's reserves in the member country's national currency to the amount from 175% to 200% of its quota.

The stand-by arrangements, contrary to credit tranches, are rather simply and urgently approved of, without too much formality. These arrangements were introduced into the regular practice of the IMF in the 1950's and are limited as to the amounts and the period of time they can be used. When approving of this form of credit, the Fund defines the obligations, i.e., the standards the member country must comply with during the stand-by arrangement period. Further, the respective country is obliged to submit to the fund a "letter of intents" in which it expressly stipulates all the stabilization measures it plans to implement for the purpose of improving its balance of payment position, and which are in accord with the defined objectives of the fund. A very important element of the stand-by arrangement is the so-called "clause on consultation" which is of binding character for both parties in the arrangement. Since the granted monetary sum is divided into several time defined tranches, the above clause allows for the Fund to have a constant control over the realization of the previously agreed objectives, as well as an insight into the overall condition on the basis of which to decide whether to approve of the subsequent trances of the stand-by arrangement to the country. If the Fund's bodies in charge find that the country does not implement the stabilization programme in accordance with the regulations of the agreement, they first send that country a report on the state of affairs they observed, and, in case no remedy is made by the member country, further payments as per stand-by arrangement are cancelled.

4.2. Drawings within financing facilities

Over the decades of its work, the IMF granted a large number of various financial facilities and thus aided the member countries that at one time encountered the balance of payment and othe economic problems.

*The **C**ompensatory **F**inancing **F**acility* is an additional opportunity to use the Fund resources, besides the reserve tranche, the credit tranches and the stand-by arrangement. The main objective of this type of financing is the mitigation of the balance of payment difficulties of the member countries that are both the producers and the importers of primary products. These countries do need financial aid in case of a sudden and unexpected fall in the prices of the primary products on the world market. The granted resources can be used in a short-time period, on condition the disorders in a respective country are due to the action of external factors, that the said country could neither control nor prevent their disastrous impact. The Fund will otherwise refuse to grant help to its member. Such a form of financial facility is relatively rarely used, primarily because of the short-term period of use and a temporary effect upon the improvement of the economic situation in the financed country.

*The **C**ompensatory and **C**ontingency **F**inancing **F**acility* is in many ways similar to the previous type of facility. Entitled to this kind of aid are the member countries that encounter the economic disbalances resulting from the shortfall in export earnings or the excess costs in import of cereals (the rise in import prices and interest rates). The amount the country can qualify for under this condition is 122% of its quota, on condition it has used all the previously mentioned types of financing. It is important that the total indebtedness does not exceed the amount of 70% of the overall credit arrangements concluded between the respective country and the IMF.

*The **B**uffer **S**tock **F**inancing **F**acility* is one more type of aid the Fund provides for its member countries. This facility becomes important in case of unfavourable trends and disbalances on the international raw materials market, and certain countries are no longer in a position to acquire enough supplies for an undisturbed production process. In such situations, the Fund can provide the necessary financial resources up to 50% of the national quota value of the member country.

*The **O**il **F**acility* was first implemented during the oil shocks in 1973 and 1974. In this case, the IMF objective was to provide aid for the countries-importers of oil that suffered significant disbalances due to the high rise in oil prices in the period. The oil facilities amounted up to 75% of the national quota value, they were oriented exclusively towards one sphere of business activities and were mainly temporary and short-term in character.

*The **E**xtended **F**und **F**acility* resulted from the constant claims from the member countries that a new form of financing be introduced which will be of long-time character of use and pay-off period and at the same time be approved in larger sums. These funds are especially granted in two cases: [3, p. 37Ć

- When the economies of the member countries suffer a disbalance of payment due to the structural disorders in production and on the market, and when the price and cost dispabalnce is largely present;
- When the economies of the member countries are characterised by a slow growth and an inherently poor state of the balance of payment which makes the active growth policy impossible to pursue.

In such cases the resources are granted for a period of three years, in the amount of not more than 140% of the national quota value. The member country qualifying for these extended facilities is obliged to periodically submit to the Fund the explanation of the measures and activities undertaken for the purpose of stabilization of economic flows.

*The **E**nhanced **A**ccess **P**olicy* means a greater opportunity of access to the IMF resources. If a deficient member country needs a larger amount of financial resources, exceeding the value of credit tranches and extended facilities, the enlarged access policy can be implemented. Prior to that, the Fund has to be satisfied as to the gravity of the problems the country suffers and the adequacy of the measures it implements to improve its balance of payment and its economic situation. In introducing this form of financing the main idea is that the policy be temporary in character and that it be implemented up to the moment of the increase in the member countries quotas, because it is then that the conditions for drawing larger sums of resources within the regular drawing rights arise.

*The **S**upplementary **F**inancing **F**acility* is such a form of financing deficit suffering member countries that need more resources than they can qualify for within regular arrangements, and with longer periods of use and pay back periods. In order to satisfy these needs, the IMF concluded an agreement on loans with fourteen suficit experiencing countries which agreed to place certain resources at its disposal under previously agreed, specific conditions. The countries granted the supplementary financial facitilies are obliged to pay the debt back in the period of three and a half to seven years.

*The **S**tructural **A**djustment **F**acility* was introduced for the purpose of providing financial support to developing, low income countries, on a concession basis in the period from 1981 till 1991. The primary aim was to give financial support to the member countries faced with a long-lasting balance of payment deficit, support their stabilization programmes and allow for them to use the resources on a longer term basis. Prior to using the facility, the country was obliged to prepare, together with the IMF and the World Bank, a three-year economic policy programme it intends to implement in the coming period of its financial recovery.

*The **E**nhanced **S**tructural **A**djustment **F**acility*, as well as the previously mentioned one, proved to be a very efficient and most frequently used measures implemented towards the stabilization of the economic activities of the deficit suffering countries. To pay the resources on this basis, the IMF uses its own resources accumulated from preferential loans and the rich countries' donations. The user country can qualify for the resources of up to 190% of its national quota value.

*The **S**ystemic **T**ransformation **F**acility* was introduced with clearly defined purpose and objective in the period of the largest-scale transformations of the developing countries' economies. This type of facility was available to all former socialist countries in their transit from planned and rigid economy to the market economy. Furthermore, one objective was also the improvement of relationships and political dialogue between these countries and the IMF. These countries were entitled to use the resources to the amount of up to 50% of their national quota value, in two tranches, under extremely favourable conditions.

On the basis of the review of the facilities offered by the IMF to its member countries we can conclude that certain forms are founded on rather favourable conditions, therefore they were used far more frequently in relation to other, short-term and ineffective facilities.

5. The IMF policy of conditionality

The policy of conditionality the IMF pursues in granting resources and providing aid to the member countries is a most commonly criticised and challenged field of the Fund's business activities. The policy of conditionality was introduced into the regular financial resources approval procedure in the 1960's and means a certain security for the Fund that the member countries will use the funds in accordance with the previously defined conditions and that they will pay the money back in an agreed period of time.

5.1. Conditionality policy implementation and member countries' critical attitudes

The member country of the IMF experiencing the balance of payment difficulties and a falling trend in economic activities is entitled to apply to the Fund for a necessary amount of financial resources to solve these problems. The question is: is this really a starting point in the country's recovery or is it something virtually different? This is the issue the IMF and the highly developed countries, on one side, and the developing countries, on the other, have never reached an egreement about.

It is the attitude of the Fund that it ensures a rational use of the borrowed resources and their timely servicing from the part of the financed countries. The Fund also uses conditionality as a mechanism to monitor the operationalization of the previously concluded stabilization processes which in the first place include the structural and the balance of payment adjustments in the area of money supply, budget deficits, currency rates, liquidity, solvency, etc. Prior to obtaining the needed resources, the member country is obliged to submit to the Fund the so-called "letter of intent" to be analysed. In this document the country agrees that its objectives and policies will comply with the regulations stated in the IMF Statute, that it will be strict in implementing the stabilization programme previously concluded with the Fund, and that it will mak its best efforts towards improvement of its balance of payment position in order that it be in a position to pay the resources back in as short a period as possible. The severity of the conditionality principle depends primarily on the type and volume of the resources granted to the member country, but also on the length of the period it will use them. Thus we can conclude that it is only the reserve tranche that is automatic and unconditioned. With all other financial mechanisms the Fund is fully entitled to either grant the resources or to decline. As already mentioned, when using financial resources in the form of credit tranches, it is only in the first tranche that the conditions are relatively favourable and mild, gaining sharply in strictness with each subsequent tranche.

The member countries that were in a position to use the resources provided by the Fund in any way are generally severe critics of the conditionality policy. These countries maintain that the fund pays little heed to the real and current situation in the problem experiencing country, but rather implements a fixed programme of stabilization measures that is expected to ensure positive outcomes. The Fund's programmes often do not take into consideration individual political and social conditions, the level of economic development of individual countries, nor the internal and external factors that actualy generate the problems. The Fund insists on the fast recovery of the country, neglects the development approach to problem solving and its only aim is to recover its resources, safely and in the shortest period possible. Having the previous in mind, many countries prefer any other form of crediting to the financial deals with the IMF. When such attitudes of the developing countries towards the conditionality policy and *approval* of the resources by the IMF are taken into consideration, the next question arises: who is really right and who is to be trusted, the Fund's officials or the financed countries?! It might be most sensible to weigh the arguments of either parties and believe that either is partly right.

Even if the developing countries wish to borrow freely in the capital market and conclude financial deals with other creditors, they cannot evade the IMF. The Fund plays an important role on the international financial market reflected in that the international banks increasingly link their estimates of the country's credit rating with its "good" relations with the Fund. It is evident that the conditionality employed by the Fund is the basic source of trust, which is why this institution is highly reputed on financial markets and with international banks. The international banks condition the loans to a country by its prior concluding a credit arrangement with the IMF. Hence many developing countries apply for the resources to the Fund, mainly or exclusively for the purpose of obtaining a "certificate" to get a "green light" to use the necessary financial resources on international market. [2, 132Ć

The developing countries keep criticizing the Fund for its conditionality policy and insist on more liberal conditions in using financial resources. They maintain that the fund should pay more attention to real causes of the problems, the factors that really caused a problem situation, the national interests and objectives of each individual country. Many countries believe that the IMF is in fact a financial institution that protects the interests of the developed countries and follows the principle that rich countries should be made richer, and poor countries should fall into yet deeper poverty. Many countries are evidently bitter and dissapointed and the only way out of this situation they see in relieving the conditions, in the implementation of more flexible measures and in raising the quotas within the IMF. An interesting example is that of Slovenia, which in the period of its own transformation and recovery decided not to accept the IMF project, employed its own experts in the execution of the stabilization programme and completed it successfully.

6. Critical account of certain aspects of the IMF activities

The conditionality policy was subject to much criticism and disapproval from the part of certain officials and member countries. Furthermore, some maintain that the Fund pursues an inadequate monetary, fiscal and foreign trade policy as regards the financed countries.

In the analysis of the proposed stabilization programme, the IMF takes special care about the measures of monetary and fiscal policies, with special emphasis upon interest rates raising. The primary goal of the Fund is to limit the crediting activity of the central and commercial banks in the financed country in the course of implementing the stabilization programme. On one hand, it means limiting the credit amounts that certain banks grant to certain clients, and, on the other hand, the increase in the credit costs, i.e., the interest rate growth. If the country, however, experiences significant inflation problems, the policy of increasing the interest rates could only further aggravate the situation. If this is combibed with the fiscal control the IMF conducts as part of its stabilization programme, it becomes evident why certain countries avoid the aid it offers. In such conditions, the prospects that the *problem experiencing* countries will make any improvement are poor, as the investors have no interest in investing money in such economies. Thus, despite the IMF's "*best intentions*", the transition country becomes increasingly poor and sink into an ever more serious economic and debt crises.

Part of the IMF stabilization programme is also a measure related to the liberalization of foreign policy, that is, lifting the obstacles in foreign trade and limiting the role of the state in the country's economic relations with other countries. In the developing countries, the consequence of the the liberalization of foreign trade was a surge of inexpensive products from the countries with highly productive economies, which further resulted into an abrupt fall of the national industries, wage reduction, unemployment and the overall impoverishment of the country.

Namely, the IMM further worsened the situations in many countries since its programmes of fiscal strictness and restrictive monetary policy frequently resulted in high interest rates, sometimes over 20%, sometimes exceeding 50%, and sometimes even higher than 100%. In such conditions, starting business and setting up new companies was made virtually impossible. [7, p. 205Ć

7. The past and the present relationships between the IMF and Serbia

At the Bretton Woods conference, when the IMF and the World Bank were established, one of the participants was the then SFRY. The period when the Yugoslavia's relations with the IMF were at their highest was that between 1980 and 1991, when seven stand-by arrangements were granted, the total amount of 3.5 billion special drawing rights. Until the end of this country, the Fund granted twelve stand-by arrangement. The decision of the Board of executive directors of the IMF of 14 December, 1992 was that the SFRY did not exist any longer, consequently, it could no longer be a member of the Fund. The conditions were simultaneously stated under which the successor countries may "inherit" the membership, and Serbia and Montenegro inherited 36,52% of the assets and the liabilities of the former SFRY. [9Ć The Republic of Serbia and Montenegro was granted a new stand-by credit in 2001, to be consumed in four equal tranches of 50 million special drawing rights each. Naturally, all the above explained conditions as to the policies of business activities, conditionality and financing the member countries had to be fully observed by our country. Serbia and Montenegro were further granted a three-year financial arrangement on extended financing, amounting to 650 million special drawing rights. The said arrangement supported the operationalization of the programme of economic stabilization and reforms in the 2002 to 2005 period and could be consumed in a number of credit tranches of 50 million special drawing rights each.

The Fund set a large number of conditions that Serbia and Montenegro had to comply with prior to being allowed the access to the resources. The conditions mainly referred to: macroeconomic policy and fiscal system reforms, liberalization of foreign currency and trading systems, restructuring of banks and large state-owned companies, increasing the amount of foreign currency reserves and relieving inflation pressures, reviving the production processes, introducing a new tax system, pension plan reform, etc. On concluding the negotiations between the representatives of the IMF and the Government of Serbia the Minister of Finance announced that a successful conclusion of the arrangement with the IMF leaves no doubt as to the further cooperation with the World Bank, which so far was also successful. As regards the reduction of the public debt from the previous 170% to 44%, a positive assessment of the Serbia's credit worthiness is no surprise. A positive decision of the IMF will produce a domino effect upon a succession of economic parametres related to investments in this country, the effect of which is yet to be seen. [9Ć

8. Conclusion

On the basis of the objectives, tasks and work methodology presented, a conclusion can be drawn that the IMF is by all means a significant monetary institution that operates on an international scale. Its policy of conditionality as well as its close links with highly developed countries are, however, much criticized. The very fact that the U.S.A. may veto a large number of important decisions, related, among other, to the admission of new member countries, increasing certain quotas or granting resources to the member countries, reveals that the US and other powerful countries largely control the Fund's operations and direct its activities for the purpose of achieving their own objectives.

The fact that the IMF really offers a range of opportunities to member countries to use the financing resources in the form of reserve tranche which is unconditioned and automatic, the four credit tranches and numerous facilities is undisputable. The question, however, remains as to whether all these are *supported* by "generous" intents of the IMF, whether it really wishes to provide aid to the problem country, fully apprehend its problems and execute an individually *planned* stabilization policy, or is only interested in recovering the granted resources in as short a period as possible. The answers to this questions range in number and variety, some justifying and supporting the IMF policy, some preferring the attitudes of the developing countries that the conditions are far from favourable and that its policies are destructive for their economies. The member countries primarily insist on being granted longer periods in which they could use and pay back the borrowed funds, on raising the quotas and on *observing* the national objectives and policies. The advocates of the IMF policy, however, maintain that the stabilization programmes are professionaly designed, adapted to each country, that they do not threat their national sovereinty and it is only by their implementation that any positive affects may be achieved in the economic relations and the foreign trade of *disbalance of payment encountering* countries. The IMF explains its *possible errors* and failures by the fact that a large number of countries apply to the Fund when it is already too late and that in such circumstances, in the presence of deep economic crises and overwhelming foreign debts some substantial improvements and solutions to a large number of problems are hardly possible.

A specialized international institution, the IMF has obviously so far granted financial and expert support to numerous member countries, made efforts to improve their balance of payment positions and stabilize their economies. The facts show that in certain cases the Fund succeeded in its efforts, however, in a large number of countries it only caused more serious problems and deeper economic crises the results of which hit the pauperized population the hardest.

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