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International Finance: The International Monetary System : A Review

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Introduction : The International Monetary Fund (www.imf.org) is like a central bank for the world's central banks. It is headquartered in Washington, D.C., has 184 member nations, and cooperates closely with the World Bank, which we discuss in The Global Market and Developing Nations. The IMF has a board of governors consisting of one representative from each member nation. The board of governors elects a 20-member executive board to conduct regular operations.

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The goals of the IMF are to promote world trade, stable exchange rates, and orderly correction of balance of payments problems. One important part of this is preventing situations in which a nation devalues its currency purely to promote its exports. That kind of devaluation is often considered unfairly competitive if underlying issues, such as poor fiscal and monetary policies, are not addressed by the nation.

International Monetary System

International Monetary System a system for promoting international trade and specialization while at the same time ensuring long-run individual Balance Of Payments Equilibrium. To be effective, an international monetary system must be able to:

- provide a system of exchange rates between national currencies;
- provide an adjustment mechanism capable of removing payments imbalance;
- provide a quantum of international reserves to finance payments deficits. In addition, because of the structural weaknesses of some countries, particularly developing countries, financial aid facilitates are required to help resolve problems of indebtedness (see INTERNATIONAL DEBT).

The three functions identified above are highly interrelated, and a crucial role is played by the degree of fixity or flexibility built into the exchange rate mechanism, as Fig. 98 indicates. Thus, if exchange rates are rigidly fixed (see fixed exchange rate system), balance of dis-equilibriums can only be removed by internal price and income adjustments (see balance of