THE INTERNATIONAL MONETARY FUND AND ITS ROLE IN DEVELOPING COUNTRIES
A SELECT ANNOTATED BIBLIOGRAPHY

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This is to certify that the dissertation was compiled under my supervision and guidance.

(MOHSTD.SABIR HUSAIN)  
READER
Dedicated to my Parents
"The richer you are, the more credit you can create by your own decision. The poorer you are, the harder must work to earn foreign exchange".

"The problem of International Monetary reform is like having a leaking roof: When it rains, one is too busy dashing about with buckets to catch the dripping water to climb up on the roof in the rain and fix it, and when it is raining there is no problem to worry about".

As above, the IMF playing with developing countries.

( Harry G. Johnson )
ACKNOWLEDGEMENT

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MOHD AKHLAS
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PART ONE

INTRODUCTION
THE INTERNATIONAL MONETARY FUND (I.M.F.)

MEANING AND DEFINITION:

According to Random House English Dictionary the IMF is "an international organisation that promotes the stabilization of the world's currencies and maintains a monetary pool from which member countries can draw in order to correct a deficit in their balance of payments."

HISTORICAL BACKGROUND:

The Second World War was the result of conflicts and tensions and the absence of co-operation among countries particularly after 1929. It was to avoid these sources of conflict and also to bring about co-operation among countries that a number of organisations were started even while the Second World War was being fought. For political co-operation, United Nations Organisation established economic and monetary co-operation, the International Monetary Fund was brought into existence. The IMF further used as Fund. The Fund helps countries with short-term capital to tide over any temporary difficulty in their balance of payments. The Fund helps in bringing about smooth international trade through fixed exchange rates. Thus the purpose of which this institution was created complementary. Besides, countries will have to be members of it.
The Articles of Agreement of the Fund were formulated at the United Nations Monetary and Financial Conference held at Bretton Woods in the United States of America in July 1944. The Fund came into existence on 27th December 1945, and its readiness to commence exchange transactions in March 1947. As on April 30, 1978 the Fund has 134 countries as its members. But at present, the Fund has 146 countries as members. The First Amendment to the Fund's articles creating the Special Drawing Rights (SDRs) took effect on 28th July, 1969 and the Second Amendment took effect on 1st April, 1978, which increases the power of the managing director of the IMF to supervise national exchange rate policies.

ORGANISATION OF THE FUND:

The initial capital of the Fund was US $ 8,800 million (or $ 8.86 billion). Each member of the Fund was assigned a subscription quota based on its national income and its position in international trade and the quotas ranged from $ 1 million for Iceland to $ 2,750 million for the United States of America. Each member country paid 25% of its quota in gold or dollar and the balance in its national currency which was kept within the country in the name of the Fund. As on June 30, 1978, the aggregate subscription quota was SDR 38.8 billion.
The following diagram shows the correct and present fund quota's which are essential for the member Countries for the international liquidity.

FUND QUOTA'S

How made up? How much?

- 25% Gold
- 75% National Currency
The highest authority of the Fund is the Board of Governors, consisting of one Governor and an alternative Governor for each member country. The Board of Governors has delegated many of its powers to the Board of Executive Directors which consist of 5 directors appointed by the members having the largest quotas (currently, the United States, the United Kingdom, West Germany, France and Japan) and 15 other directors who are elected by the other member-nations. The Managing Director is the Chairman of the Board of Executive Directors as well as Head of the Staff of the Fund (currently Mr. Jacques de Larosiere of France is Managing Director and Chairman of the Executive Board). His term is for 5 years, but may be extended or terminated at the discretion of the executive directors. He is responsible for the ordinary business of the fund, under general control of the executive directors, and supervises a staff of 1,400.

PURPOSES OF THE FUND:

The purposes of the Fund as set forth in the Articles of Agreement are as follows:

a) To promote international monetary co-operation through a permanent institution which provides the machinery
for consultation and collaboration on international monetary problems;

b) To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income of member-countries;

c) To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation;

d) To assist in the establishment of a multilateral system of payments in respect of current transactions between member countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade;

e) To give confidence to members by making the fund's resources available ...., thus providing them with opportunity to correct mal adjustments in their balance of payments without resorting to measures destructive of national and international prosperity and;

f) To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of member countries.

This list of objectives requires some interpretation. The IMF is based on the premise that countries with a basically
sound economic position and fixed exchange rates may, from time to time, be faced with temporary balance of payments difficulties. In the absence of the fund, these countries might attempt to correct their problems by resorting to direct exchange controls or bartering arrangements which would be injurious to the multilateral nature of world trade. The fund has resources that are made available to member countries to allow them to weather a stormy period without being forced to impose restrictions on current transactions. The IMF is not a substitute for a realistic valuation of currencies in the member-countries concerned.

THE FUND AND THE PAR VALUES

The Par value means "the value printed on the face of a stock, bond or other financial instrument or document."

When the Fund was established, the member countries agreed upon the par value of their currencies in term of gold or dollar. Each country was obligated to limit exchange rate fluctuation to 10% on either side of the par value. Most countries chose to stabilize the value of their currency by using the dollar to intervene in spot foreign exchange market.

If a member country feels that its present par value results in a fundamental balance of payments disequilibrium, it
can propose a change in the par value to the fund. A change of less than 10% does not need the approval of the Fund. Any greater change without approval of the Fund can result in the country's loss of its rights to use the resources of the Fund, and the country may be expelled from the membership. The Fund, however, is obliged to approve all such proposals if it finds that such a change is necessary to correct a basic disequilibrium. Most such proposals in the post war period have been devalued, but a few countries whose currencies have been in a strong demand have revalued their currencies upward.

**TRANSACTIONS OF THE FUND**

According to the provision of the fund, a member-country can purchase or draw from the Fund foreign currencies in exchange for its own currency up to 125% of gold quota. During any one year, however, a country can purchase from the fund foreign currencies only up to 25% of its quota limit or till the purchase of country's currency with the Fund becomes equal to 200% of its quota. We can illustrate this point with the help of India's membership of the IMF. India's subscription quota is SDR 940 million (As from June 1978, India's subscription quota has been raised from SDR 940 million to SDR 1145 million) of which 25% (SDR 235 million) is in dollar or gold with the IMF and 75% (SDR 705 million) is in the form of Indian rupees held by
the IMF with the Reserve Bank of India (RBI). In any given year India can purchase foreign currencies up to 25% of its quota i.e., SDR 235 million. It can continue to purchase foreign currencies year after year up to 125% of its subscription in gold or dollar (i.e. 5 × SDR 235 million = SDR 1175 million). Since India has to purchase foreign currencies by paying its own currency instead, the maximum it could buy is SDR 1175 million; this is the amount which India would pay to the IMF in terms of its own currency India's total currency held by the IMF would be SDR 705 million plus SDR 1175 million = SDR 1880 million; This is 200% of the total subscription quota of India.

The transactions of a member-country with the Fund are of a peculiar type - partly of the nature of borrowing and partly of purchases. Suppose India borrows SDR 190 million from the fund to meet an adverse balance with Canada. At the time of borrowing, India surrenders an equivalent amount of rupee to the Fund. After a given period, India will have to pay interest for the foreign currencies borrowed from the fund. Furthermore, at a later date, India will have to return the dollar to the fund and buy back its rupee. Thus transactions between the fund and the member-countries are partly of the nature of loans and partly of the nature of purchases.
The fund grants loan of foreign currencies to member-countries to correct any disequilibrium in their balance of payments position provided such equilibrium is only of a temporary nature; likely to be removed in the earliest possible period. For example, a country's balance of payments position may become adverse on account of usually large imports occasioned by crop failure or economic development. This type of disequilibrium is of a temporary nature and will disappear in the long run. The fund helps the member-countries in such cases. The IMF may also lend to countries to support the external value of their currencies.

STANDBY ARRANGEMENTS:

The Fund enters into "Standby arrangements" with a member, under which the member may draw upon the Fund's resources up to a specified limit and within an agreed period without any further reconsideration of the member's position. This is to help a country which intends to relax its exchange controls but fears an extraordinary drain from its monetary reserves as a result. The fund then agrees to stand ready to provide foreign currencies to meet the drain.

THE IMF AND THE DEVELOPING COUNTRIES:

The Fund has been particularly interested in the developing countries of the world and has been assisting them
to have a healthy balance of external payments and to maintain monetary stability at home. Whenever developing countries have asked for assistance from the fund to meet their adverse balances, the fund generally helped them.

In recent years, developing countries have started looking to the fund to assist them in their economic development. These countries find that they cannot finance their development schemes through their export surplus only. They, therefore, expect the fund to help them to secure the necessary foreign currencies to enable them to import foreign equipments and raw materials. It is for this reason that many proposals have been made recently to increase international liquidity so that, among other things, developing countries will have necessary foreign reserves to help them in their economic development.

Most developing countries think of the IMF as a bank - a potential source of loans to finance and implement development programme. Most industrial countries on the other hand, think of the IMF as a policy co-ordinating institution, working to maintain a stable international payments system. These divergent view about the IMF lead to major controversies over the conditions attached to fund lending.
Quotas of the 146 nations that are the members of the IMF currently total some 61,000 million SDRs, equivalent to roughly 66,000 million dollars at current exchange rates. Less than half the total is actually available for lending because only funds representing the quotas of countries in sound balance of payments position can be used. The IMF has the authority to supplement its quota resources by borrowing; it has obtained substantial sums by this means.

At the end of September 1982, total use of the IMF credit outstanding was a little more than 18,000 dollars and another 9,000 million dollars had been committed but not yet drawn. The amounts still available for lending are not large in terms of the aggregate deficits of financially weak nations but are large enough to be of major significance to the sustainability of the overall monetary system. Furthermore, a major expansion of IMF lending resources is under way.

Under current IMF policies members are allowed to draw sums equal to their original contributions to the fund (25% of their quotas) automatically. When a member requests a drawing that goes beyond this "reserve tranche" a team from the IMF staff visits the purposed borrowing country to study the economic situation and to appraise the nation's economic policies. The IMF governor of the country, usually its Minister of Finance
or Central Bank governor, then addresses a letter to the managing director of the IMF summarizing his government policy objectives with respect of growth, inflation and balance of international payments and out living policy actions that the government has taken or is prepared to take to achieve these objectives. Performance criteria are established for drawings that involve credit in excess of country's quota.

Most developing countries paid little attention to the IMF as long as they could meet their financing needs through recognised channel for official aid through the private capital market. The frequently drew as much money from the IMF that they would be subject to "conditionality" requirements, they usually chose to pay higher rates of interest and get their funds from the private lenders began to question the country's ability to repay did they turn to the IMF.

**The leading borrowers from the IMF (1981-82)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1,925</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>1,465</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,375</td>
</tr>
<tr>
<td>South Korea</td>
<td>1,258</td>
</tr>
</tbody>
</table>
Pakistan 989
Philippines 867
Morocco 723
Zambia 652
Thailand 624
Peru 579
Others 7,043
Total 17,500

EXTENDED FUND FACILITY:

In September 1974, the IMF established an extended facility to provide, in certain circumstances, assistance to members to meet their balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under normal credit policies. For example, a member might apply for assistance under this extended facility, if it has been suffering serious payments imbalances relating to structural mal-adjustments in production, trade and prices and if it is prepared to implement a comprehensive set of corrective policies covering a period of two or three years. Alternatively, this facility is available to countries suffering from slow growth and with an inherently weak balance of payments position.
that prevents pursuits of an active development policy. Many developing countries are characterized by dependence on one or two export commodities and are inadequately equipped to mobilise and effectively allocate domestic savings. Such countries need long-term assistance to carry out an economic programme including, among other things, a strengthening of monetary and fiscal instruments and appropriate trade and exchange policies. Extended facility arrangements are limited to periods of not more than 3 years and purchases outstanding under this facility will not exceed 140% of the member's quota. The rate of interest under this facility will be from 4% to 6½%.

All the new members who have joined the Fund during the last few years are newly independent countries. Most of them are facing difficult problems in organising their monetary, fiscal and exchange systems, so as to provide a solid base for their economic growth. Over the years, the Fund has provided technical assistance to its members. But the addition of so many new members, many of them without sufficient trained personnel and all of them aspiring to a rapid rate of economic development, has posed a new challenge. To meet this challenge, the Fund is substantially expanding its capacity to render technical assistance to its members.
Besides, the Fund has organised, since 1964, a fiscal Affairs Department whose officers advise member-countries on matters relating to tax policy, tax system, tax administration, budgeting, etc. The fund has also organised the Central Banking Service to provide technical advice to those developing countries which wish to establish central banks or to improve or strengthen the existing one.

**FUND'S CONDITIONALITY:**

The IMF lays down that member-countries would be in a position to draw subject to "conditionality" requirements and they usually chose to pay higher rates of interest to get their funds from the private lenders. When the commercial lenders began to question the country's ability to repay they refer the matter to the IMF.

The objectives of IMF conditionality is adoption by the borrowing-country of the policies that will instill confidence that the borrowing country will reduce its balance of payments deficit to a level that could be financed by sustainable flows of capital from other sources. In calculating the requirements, the country takes into account the need of repayment to the IMF within the specified time. Initially, IMF loans were to be repaid within three to five years. Recently, repayment period have been extended to eight to ten years.
The IMF articles require special high majorities for votes on important issues. A 70% majority of the total voting power is required on such operational questions as the rates of changes on use of IMF resources and an 85% majority is required on basic matters such as changes in the structure of the IMF, changes in quotas and allocations of SDRs. Developing countries have enough votes to veto changes on any of the level together.

In most instances deficits countries (whether developing or industrial) have resented IMF conditionality because they believed that their financial problems resulted primarily from external developments over which they had no control. They argue that the countries whose policies cause their difficulties (developing countries excuse the oil exporting nations) should be the ones required to make the adjustment. Often the deficits are in very substantial part (although almost never entirely) the result of external development and dramatic increases in the prices of imports, industrial country trade restrictions that prevent developing nations from expanding exports on manufactures, a swing from negative to positive real interest rates in lending countries, etc. To the extent that it is industrial country policies that are causing problems for
the developing countries. These policies are likely to be wreaking havoc in industrial nations as well and those countries will already be doing every thing to better world economic conditions that their votes will approve.

If deficit countries simply wait for improved economic conditions to industrial nations to solve their problems for them they are likely to go bankrupt. There is some possibility that industrial country growth will surge, interest rates will fall and developing manufacturers will be welcomed in the United States, Europe and Japan before developing countries exhaust their resources, but a prudent leader of a developing country should not stake his political life on it. Nor is there any real likelihood that grants or loans will be made available in sufficient quantity either through commercial channel or official aid.

The hard reality is that many developing countries will have to bear most of the adjustment whether their problems are of their own making or external in origin. They have no alternative. Gradual adjustment involves much less hardship then sudden bankruptcy and loans from the IMF provide resources which permit the adjustment to be gradual. In the present
unsatisfactory world economic conditions, it is in the interest of developing countries and industrial countries alike that adjustment proceed at a delicately balanced pace. If deficit countries do not initiate adequate adjustment policies they are likely to "go bankrupt" with exceedingly nasty consequences both for the deficit countries themselves and for the banking system of the lending countries. If they are forced to adjust too quickly and cut back to sharply on their imports, recession will deepen both in the developing and industrial worlds. The IMF may be in the best position of all to foster this balance through its policy of conditionality. Moreover, developing countries that accept IMF conditionality will obtain more credit (official and commercial) than would otherwise be available, and the global monetary system to which the industrial countries attach so much importance will be more likely to survive.

**FUND'S MEMBERSHIP**

Actually, the use of the resources of the Fund is more a privilege than a right of membership. The IMF will seek foreign exchange to a member in small amounts with virtually no questions asked. In order to draw up to the maximum, however,
the country involved must demonstrate efforts to correct its problems.

Membership in the IMF also imposes some obligations on countries with surpluses in their balance of payments. If the Fund finds that its supply of a particularly currency is being dangerously reduced because of large surpluses by that country, the Fund can declare it a "Scarce currency". The Fund may attempt to borrow currency from the country whose currency is scarce or, if the member is unwilling to grant a loan, the Fund may buy the currency for gold at its established rate. If the situation becomes more serious, the Fund can ration its remaining supply among members and authorize members to impose exchange restrictions on dealings in the scarce currency. The deficit countries are obliged not to impose exchange restrictions on current transactions except as authorized by the Fund.

While the IMF quotas have been increased a potentially more important step was taken in 1968 with the creation of new type of reserve asset, book entries in a Special Drawing Account of the IMF. The "Special Drawing Rights" or SDRs, were to be divided among the member countries in proportion to their present IMF quotas.
THE IMF AND INDIA

What the IMF has been doing for developing countries can best be illustrated by taking the case of India. India is a founder member of the IMF. India's original subscription quota was SDR 400 millions. The present subscription quota is SDR 1,145 million of which SDR 77.5 million consists of gold.
The initial par value established by India with the Fund in 1946 was Rs. 3.309 per U.S. dollar; the par value was changed to Rs. 4.7619 per U.S. dollar in 1949 to Rs. 7.50 per U.S. dollar in 1966, to Rs. 7.28 in 1971 and Rs. 8.25 in June 1978.

In order to meet the balance of payments deficits, India borrowed $100 million from the Fund during 1948-49, which was paid back by 1956-57. In 1957, India entered into an agreement with the Fund for $200 million to meet its temporary balance of payments difficulties arising out of its development programmes. India arranged for another drawing to the tune of $250 million in 1962 from the IMF. The assistance had been invaluable to India which had dangerously low level of foreign exchange reserves. During 1965-66, India's balance of payments had become highly critical and India was faced with the problem of repayments due from India to creditor countries and to international financial institutions. India has wiped out her outstanding drawings from the IMF.
The creation of additional international liquidity through the SDR scheme helped supplement India's reserve resources. The IMF allotted SDR 326 million to India. Part of the SDR have been used by India to pay off her interest and other obligations to the IMF. The total holdings of SDRs by India as on April 30, 1977 came to SDR 173 million.

The Fund had also entered into the "General Arrangement to Borrow" (G.A.B.) in 1962, under which ten industrial countries provided the fund with standby credits of $6.0 billion to enable it to meeting at Washington in September, 1978 decided on a new allocation of 12.0 billion SDRs (one SDR is equal to about 1.25 U.S. dollars), at the rate of 4.0 billion SDRs a year over the three years period 1979-83. India's share of this second SDRs allocation by the IMF is estimated to be 358 million SDRs during 1979-83. India added 119 million SDRs to its foreign exchange reserves at the end of January 1979. In the beginning of January, 1979, India had its reserves about 180 million SDRs which was the balance, after transactions, out of the first SDR allocation of 326 million SDRs to our country in the initial three-year period 1970-72.

India is already indebted to the IMF to the extent of more than $400 million. This special drawing facility would make practically no impact on her balance of payments situation. Yet, this is not the whole picture. India's advan-
tage, so also of other developing countries, is indirect. With the use of this new facility (Facility of Special Drawing Rights) it may be reasonable expected that developed countries would not be required to follow restrictive trade and aid policies due to their own balance of payments difficulties. This might ultimately lead to a better balance of trade situation and to a more liberal flow of multilateral aid to developing countries. Incidentally, it should be noted that India's foreign exchange reserves rose from Rs. 732 crores at the end of March, 1971 to over Rs. 900 crores in the beginning of May, 1975, mainly due to the allocation of SDRs from the IMF and some appreciation of the rupee value of reserves following the realignment in international exchange rates and also due to boost in exports and greater remittances by India residing abroad. This raising trend in foreign exchange reserves continued. In fact, India's foreign exchange reserves went up rapidly during the period - May, 1976 to January, 1979, and the position becomes so comfortable that the government decide to pay off some of the installments of IMF loans before they become due. But, due to heavy import of crude oil and fertilisers at a higher price, our foreign exchange reserves fell by Rs. 964.91 crores in the first half of 1980-81. Nevertheless, because of two loans totaling Rs. 812 crores from the IMF in August, 1980, our foreign exchange reserves were just about Rs. 5,000 crores by the end of October, 1980.
The IMF has approved SDR 5 billion loan to India in November, 1981, under its extended fund facility. It is a largest loan in the history of the IMF. This IMF loan will be made available in three instalments: SDR 900 million in the first year up to June 30, 1982, SDR 1.8 billion in the second year up to June 30, 1983 and the remaining SDR 2.3 billion in the third year up to June 30, 1984. The IMF is titled 'Statement of Economic Policies and Programmes'. These policies are for the promotion of exports at all cost. The IMF and Government of India deal is the opening up of the economy to foreign capital and the transnational co-operation through the elevation of export growth as the foremost national goal, the liberalisation of imports and the free import of technology.

On January 13, 1983, the IMF is understood to have recommended to the Government of India certain guidelines with a view to assisting the Indian economy to resuscitates itself from the current imbalances.

THE IMF AND INTERNATIONAL LIQUIDITY:

Meaning of Liquidity:

Liquidity to the stock of internationally acceptable means of payment, which must usually possess, or at least be
thought to possess, the properties of stable and predictable value. Such assets held by a country constitute its "reserves".

Before the IMF was started, countries had two methods available to make payments to others. One was through gold and the other through internationally acceptable currencies such as pound-sterling and the dollar. Every country, therefore accumulated and kept reserves of gold and/or pound and dollar. Many countries, in fact, preferred to keep their surplus in pound and dollar reserves in London and New York because of (a) stability in the value of these currencies (b) facility in international payments, and (c) interest income they brought for their owners. Hence, the pound-sterling and dollar came to known as international reserve currencies. After the IMF was started, one more method was available to countries to make international payments, viz., the facility of drawing on the fund's reserves of various currencies to make international payments. The problems of international payments and liquid reserves had five different aspects.

(a) International trade had been increasing rapidly, and during the 1960, it had more than doubled. This had necessitated an increase of gold and other currency reserves to facilitate international payments.

(b) Monetary gold reserves had been increasing at a lower rate than the increase in world production and trade. One
important reason why gold production had not increased, was the low price of gold at $35 per ounce, fixed in 1934. At $35 an ounce, it was not profitable to mine gold in large quantities except in those countries which had exceptional advantages or cheap labour.

(c) Countries had come to depend increasingly on the key currencies had been highly unstable in recent years, either because of persistent deficits in their balance of payments or because of rumours of possible devaluation. Hence, these currencies did not serve as good monetary reserves as they did before.

(d) Hitherto, it was not possible for all countries to increase the foreign exchange reserves in line with world trade. Whenever any country, such as Germany, had shown a net rise in its foreign exchange reserves, some other country somewhere had to show an equal net fall.

(e) In the meantime, developing countries in Asia, Africa and South America were requiring currencies of advanced countries to finance their economic development.

An idea of the growth of international liquidity can be had from the following table:
Official International Reserves at the end of years 1955-69 (in billion of SDRs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gold</th>
<th>Reserve Position in the IMF</th>
<th>Foreign Exchange</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>35.4</td>
<td>1.9</td>
<td>18.5</td>
<td>55.8</td>
</tr>
<tr>
<td>1960</td>
<td>38.0</td>
<td>3.6</td>
<td>20.2</td>
<td>61.8</td>
</tr>
<tr>
<td>1965</td>
<td>41.5</td>
<td>5.4</td>
<td>25.4</td>
<td>72.3</td>
</tr>
<tr>
<td>1969</td>
<td>38.9</td>
<td>6.7</td>
<td>33.0</td>
<td>78.7</td>
</tr>
</tbody>
</table>

Source: Annual report of the IMF, 1976.

Thus, while the demand for gold and international currency reserves had been ever increasing, the supply had not increased correspondingly. This was the problem of international liquidity and reserves.

The establishment of SDRs through the IMF, clarification of the (declining) role of gold, and growing recognition of the dollar as the key international reserve currency have combined to brighten hopes that the international reserve problem is on the way to bring solved in the year ahead. Continued international co-operation will be required to assure smooth functioning of the system, but no further major changes appear to be required now.
According to the annual report of the IMF, 1982, the IMF has taken credit for the fact that, during the financial year ending June, the liquidity, provided by it, increased substantially in terms of aggregate commitments as well as in gross and net purchases. The report emphasises went to non-oil developing countries. The increase in new commitments under standby and extended arrangements rose from SDR 10.3 billion in 1980-81 to SDR 11.3 billion in 1981-82.

While the number of arrangements concluded declined from 32 to 24, the new commitments included extended arrangement with India for SDR 5 billion - the largest commitment in the history of the fund. Again, the sharp increase in the rise in net purchases by members from SDR 1.9 billion in the previous year to SDR 5 billion, the highest level of net purchases since 1974. During the period 1971-80, the developing countries with fund-supported programmes generally achieved a significant improvement in their balance of payments in comparison with all non-oil developing countries. The rate of inflation is observed to have risen less in countries in that group.

The Fund, naturally finds great virtue therefore, in its established prescription for the health of developing countries' economies beleagured by an adverse external environment as well as by lax domestic policies. More particularly, it stresses
the need for appropriate exchange rate policies which, it points out, can help minimise the adverse effects on these economies of fluctuations in exchange rates between industrial countries, besides assisting in their structural adjustment in other ways.

**THE SPECIAL DRAWING RIGHTS (SDRs)**

The first Amendment to the Fund's Articles creating the "Special drawing right" (SDR) took effect on July 28, 1969. With the creation of this new type of reserve asset, book entries in a Special Drawing Account of the IMF. The SDRs were to be divided among the member countries in proportion to their present IMF quotas.

The first allocation of SDRs were made on January 1 of 1970, 1971 and 1972 - totalling about SDR $9.3 billion. Under the SDR plan, the Fund wrote into its books new reserves of about 3.5 billion per year for three years. Each member country was given a proportionate share in this reserve pool, the share depending upon a country's subscription to the Fund. U.S.A. was allotted the largest share in the reserve pool, viz., SDR 2.3 billion, followed by United Kingdom with an allocation of SDR 1 billion. This meant that the leading members of the IMF received the largest share of SDRs created during 1970-72.
Allocation of SDRs to member-countries was the first attempt to create international liquidity. Member-countries did not have to transfer their currency or other resources against the SDRs received in allocation; the SDRs are simply credited to participants accounts on the basis of their quotas in the Fund at the date of each allocation, and are then available for use in accordance with the rules of the scheme. The SDRs represent entirely a new form of proper money, unconditionally and automatically created, as if out of thin air. The SDRs allocated to participant-countries thus increased the international reserves of the recipient and, consequently, the sum of total of global liquidity. The new reserve asset proved readily acceptable, particularly in the later year of the 1970-73 period. Participation in the SDR scheme had also been widespread, with only 3 members not participating in the Special Drawing Account. The Board of Governors approved a resolution authorizing the allocation of SDR 4,000 million in each of the 3 years 1979, 1980 and 1981.

Under the SDR system a member-country can use SDRs to settle its debts to other member countries. The most radical aspect is that 70% of these new units need never be repaid. They are, in effect, newly created money. Gold, dollars and pounds and normal drawing rights with the IMF would continue to
be used for international payments and reserves, but the SDRs would serve an additional reserve units. A country running into deficit on its balance of payments need not rush for immediate aid, or take hasty restrictive action provided its deficit was less than its allocation of SDRs. Thus, SDRs helped to solve the problem of international liquidity.

**OIL CRISIS AND THE RECYCLING OF PETRO-DOLLARS**

The Organisation of Petroleum Exporting Countries (OPEC) raised the price of oil a number of times since October, 1973. This has created some serious problems for the world economy and the international monetary system. Inflationary pressures have increased tremendously; large shifts in the balance of payments situation have taken place in the oil importing countries, particularly in the developing countries; and the international liquidity situation has deteriorated. At the same time the members of the OPEC have acquired large foreign exchange resources popularly known as "petro-dollars", the disposal of which is causing serious headache. The oil crisis has, thus, posed serious problems for the countries of the OPEC, the developed economies and developing countries and above all the IMF.

**PROBLEMS CREATED BY THE RISE IN OIL PRICE**

The rise in the price of oil has worsened the inflationary situation in all countries. The price of oil goes into
the costs of many commodities and services and therefore, a rise in oil brings about cost-push inflation. Countries that have to pay for oil four times as much now as they did before October, 1973, have to incur higher costs for transport, for energy, for production in many industries, and for production of various oil-based products such as fertilisers, chemicals, etc. The general level of prices has therefore, registered a sharp upward trend throughout the world since the hike in oil prices.

The rise in oil prices has created huge balance of payments deficits for oil importing countries. Where the payments balance was already adverse or where there was only a slender surplus as in the case of developing countries, the situation has become very critical. Even advanced industrial countries had to cut down their imports of oil drastically. These conditions could be expected to continue and the payments situation of the oil importing countries would become far more serious. These have created a peculiar situation:

(a) The oil importing countries did not have the necessary means to pay for their imports of oil. Either they had to cut down their imports of oil or of other goods. Any sharp cut in imports would reduce the volume of international trade and would cause a world-wide depression.
(b) At the same time, through hike in oil prices, the oil exporting countries have acquired huge foreign balances, known as the "petro-dollars". These are foreign exchange reserves acquired by oil exporting countries from their large balance of payments surpluses. The countries of the OPEC are facing the problem of how to utilise their petro-dollars to their best advantage.

(c) Many industrial countries have managed to attract OPEC funds either by borrowing or by getting long-term investments in their industries, to pay for their purchases of oil. But this may not continue for long.

This seriousness of the problem can be understood from the fact that in a single year (1974) OPEC members accumulated something like $70 billion. In three years Arab members had increased their oil revenue by 10 times. On the other hand, the oil importing countries are facing heavy deficits which are piling up every year. The attempt to meet the situation by drastic cuts in their imports is not in the interest of international trade. These countries, therefore, must have the means of payment for their oil imports. At the same time, the lenders should have an opportunity to put thier petro-dollars to profitable use. There can be transfers of petro-dollars directly through loans and investments or through IMF arrangements. Industrial countries
have borrowed directly and they have attracted the funds of the OPEC through their industrial concerns. Some multinational giants of West Germany and USA have already been acquired by members of the OPEC. This method of recycling petro-dollars have obvious limitations. Industrial nations may not like for political reasons any large-scale acquisition of interest in some industries by the members of the OPEC. Moreover, as the volume of petro-dollars grows, the means of investment may not grow in the same proportion. But in the case of loans and investments to developing countries, the lending countries might find the degree of risk too much. Besides, the borrowing countries of their economies; nor will they like a substantial degree of control of industries passing into foreign hands. Necessarily, therefore, some other arrangement has to be made for recycling petro-dollars.

**SPECIAL OIL FACILITY**

The IMF has formulated certain schemes under which special funds have been set up with contributions from oil-exporting countries and industrial countries and from which the oil-importing countries could borrow to meet their deficits arising out of oil imports. The IMF set up the Oil Facility in June 1974 with SDR 2.5 billion mostly contributed by oil
exporting countries, to provide loans to countries hit hard by the hike in oil prices. Total borrowings made in connection with the oil facility amounted to SDR 6.9 billion. The loans are given for a period of 3 to 7 years at interest ranging between 6-7/8 and 7-1/8 per cent. On June 30, 1977, the amount of oil facility loans totalled SDR 6.6 billion. The oil facility was transmitted in March 1976. During the year 1980-81, the IMF had given aid to 23 poor countries to help them to pay for oil over the past six years. Among the poor countries eligible for the subsidies, India is one of them. Over the years subsidies received by India from the IMF is $31.8 million.

THE SUBSIDY ACCOUNT

The IMF established the "Subsidy Account" in August 1975, to assist the Fund's most seriously affected (MSA) members to meet the cost of using resources made available under the 1975 oil facility. The Subsidy Account is funded by contributions from 24 members and Switzerland—contributions received by June 1978 came to SDR 101 million. Eligible members to receive assistance from the Subsidy Account were those Fund members on the list of countries prepared by the Secretary-General of the United Nations that had seriously affected by the increased price of petroleum and petroleum products. This list included 39 Fund
member-countries. The objective of the subsidy Account was to reduce the effective rate of interest by 5% - approximately 2.7% as against 7.7% for other countries. So far 18 most seriously affected countries have received assistance from the Fund under the Subsidy Account.

THE TRUST FUND

In May 1976, the IMF set up a "Trust Fund" (TF) for the purpose of providing special balance of payments assistance to developing member-countries with the profits from the sale of gold (The Fund's first public auction of gold was held in June 1976 and by April 1977 the Fund has held 8 gold auctions involving a total of 5.73 million ounces of gold and the profits realised from these auctions came to SDR 436 million) and with any finances that may be available from voluntary contributions or from loans. Sixty-one countries would be eligible to receive assistance. The balance of payments assistance that will be provided on concessional terms will to support the efforts of eligible members that qualify for assistance to carry out programmes of balance of payment adjustment. The loans from the Trust Fund will bear interest of ½ to 1½ per annum and each disbursement of a loan will have to be repaid in 11 equal instalments starting after five years from the date of disbursement. By July 1977, 33 out of the 61 member countries have received loans from the Trust Fund.
Thus, on the one hand, there are countries with huge balances of foreign currencies, wanting to invest a large part of their balances in other countries; on the other hand, there are countries in need of foreign exchange resources for meeting their large oil bills. This, in substance, is the problem of recycling of petro-dollars. The problem is being solved by making the surplus resources of the first group of countries available to the second group by loans and investments. This solution has been attempted on a co-operative basis through the good offices of IMF.

COMPENSATORY FINANCING FACILITY

The IMF established the "Compensatory Financing Facility (CFF) in 1963, has so far provided "assistant to countries experiencing temporary balance of payments difficulties arising out of export shortfalls largely attributable to circumstances beyond their control".

During 1976, 44 member countries used the compensatory financing facility, drawing amounts of currencies totalling the equivalent of SDR 2,268 million, compared with SDR 239 million during 1975. This increase in purchases was partly due to the considerable export shortfalls experienced by Fund members during the recession in World trade, and partly due to an extensive
liberalization, agreed upon at the end of 1975, of members' access to the facility.

**NEW INTERNATIONAL ECONOMIC ORDER (NIEO)**

The need for full and equal participation by developing countries in the formulation and application of all decisions concerning the international community was discussed at the 6th special session of the United Nations General Assembly in 1974. The call for the New International Economic Order (NIEO) seeking to establish a more adjust and equitable system of international cooperation between the developed and developing countries on the basis of sovereign equality and the removal of the disequilibrium existing between them was given at this session. The 7th special session of the UN General Assembly in 1975 adopted a further resolution calling for accelerated development of developing countries through international economic co-operation.

During 1976, decision on development and a new international economic order were taken by the Economic and Social Council and by the General Assembly, which on 22 December, suspended its 1976 session in order to await the results of the Conference on International Economic Co-operation being held in Paris.
CONCLUSION

The IMF was seriously engaged in finding a permanent solution to the problem of international liquidity as far back as 1959. After a series of adhoc steps, the IMF introduced the system of SDRs and created additional international liquid reserves to the tune of nearly SDR 9.3 billion. The SDRs have become quite popular with member countries and have thus eased the problem of international liquidity.

It is wrong to criticise the role of the IMF in the recent international crisis. Persistent deficit balances of USA, and equally persistent favourable balance of payments of countries like France and West Germany and their refusal to readjust their exchange rates were important causes for international monetary crisis. The IMF set up "The Committee on Reform of International Monetary System and Related Issue" (also known as Committee of Twenty) in July 1972, to advise and report with respect to all aspects of reform of the international monetary system. The Committee of Twenty submitted its final report in June 1974 and its recommendations are being implemented by the IMF.

It January 1976, an Interim Committee of the Board of Governors on the International Monetary System and a joint Ministerial Committee of the Board of Governors of the Fund and
the World Bank on the "Transfer of Real Resources" to Developing Countries (Development Committee) was established and held their initial meeting from time to time and since then has met on a semi-annual basis. The salient features of the agreement are as follows:

i) Members are allowed to borrow more from the Fund through its normal credit channels. This will make more than $3,500 million available to developing countries alone.

ii) The IMF is to set up a special trust fund to help the poor countries, i.e., those which per capital annual incomes of less than $360. This fund will initially be financed by sale of IMF gold and contributions by other member-states.

iii) The IMF is to sell 25 million ounces of gold amounting to one-sixth of the IMF holdings. The anticipated profit of $1.7 billion would go into the Trust Fund which will provide between $400 million and $500 million annually over the next four years to the poorest nations.

iv) The Ministerial Committee of the IMF has given formal sanction to the floating of currencies as a legal system, specifying that no currency values need be set any longer in terms of gold.
v) Paper gold in the form of SDR would now be principal reserve asset in the international monetary system.

The IMF has taken keen interest in the problem of recycling petro-dollars. It set up the "Special Oil Facility" in 1974, and the "Subsidy Account" in 1975, to assist the Fund's most seriously affected members to get funds from oil facility at lower rate of interest. A Trust Fund has been set up to assist 39 most seriously affected countries. It is thus clear that the IMF had done its best to solve the current monetary problems. If the solutions are not spectacular or if the efforts have not borne immediate fruit, the fault does not lie with the IMF.

In this connection, we may refer to the special difficulties which have increased because of the tremendous hike in oil prices. The IMF facilities available to the developing countries are limited. Their quotas are small and, therefore, their normal drawing rights are also relatively small. The SDR allocation to them are not significant, as they are based on their subscription quota to the IMF. The foreign exchange reserves of these countries are also very limited. Under these conditions, the Oil Facility, the Subsidy Account and the Trust Fund have been set up by the IMF specifically to help the developing countries.
The Fund has been helping the developing countries in many other ways. It has provided them technical advice through its experts. Besides, its training programmes for officials of central banks is being improved upon and expanded.

During 1981-82, conditional liquidity provided by IMF through its General Resources Account increased substantially in terms of both aggregate commitments as well as in gross and net purchases, according to the IMF Annual Report, 1982. All of the new balance of payments assistance made available by the Fund during the financial year, as well as new commitments, was to non-oil developing countries.

During 1981-82, for the first time, the Fund's commitments involved a higher proportion of borrowed resources. The Fund is likely to continue to supplement its ordinary resources by borrowing in the next few years. In addition, since quota subscriptions are the primary source of the Fund's financial resources, the Executive Board assigned high priority to its work on the eighth general review of quotas, with a view to completing this not later than December, 1983. On the other hand, there was no addition to the stock of SDR after the last SDR allocation of SDR 4 billion in 1981.
Gross purchases by member-countries of the Fund increased from about SDR 4.4 billion in 1980-81 to SDR 7.06 billion in 1981-82 and net purchases from SDR 1.9 billion to SDR 5.0 billion the highest level of net purchases since 1974. New commitments by the Fund under Standby and extended arrangement increased from SDR 10.3 billion in 1980-81 to SDR 11.3 billion in 1981-82. These commitments included SDR 5.0 billion in an arrangement with India, the largest commitment in the history of the Fund. By the end of the financial year on April 30, 1982, the aggregate commitments under arrangements outstanding had risen to SDR 16.2 billion.

Under-drawn balances under the aggregate commitments amounted to about SDR 11.2 billion at the end of 1981-82, or about 68% of commitments. This level reflected the facts that (i) member's purchases are subject to phasing over the life of an arrangements, which may be up to three years, and (iii) arrangements can become "inoperative" in that a member may be unable to draw for reasons other than phasing of purchases. In most cases, standby arrangements have become inoperative because domestic credit expansion has exceeded the quantative ceilings set in the programme, in some cases, as the result of unforeseen exogenous factors.
The fund's review of upper credit tranche arrangements during the period 1971-80 shows that: Developing countries with Fund-supported programmes generally achieved a significant improvement in their balance of payments, and the rate of inflation rose less in countries with Fund programmes than non-oil developing countries as a whole.

The Fund commitments during 1981-82 involved about SDR 6.0 billion in borrowed resources under the policy of enlarged access, compared with SDR 4.5 billion in ordinary resources. To finance these growing commitments, the Fund entered into borrowing arrangements with the Saudi Arabian Monetary Agency and with the Central banks and official agencies of certain industrial and developing countries.

On 11th February, 1983 the IMF increased the lending pool for member-countries, which are having financial trouble to about $ 99 billion. This would be an increase of about 47% in the Fund's resources, compared with 40% sought by US delegate Treasury Secretary Donald T. Regan. Developing countries affirmed that quotas must "at least" be doubled in order to meet the financing requirements of crisis-stricken countries in the years immediately ahead.

On February 12, 1983, The Governor of the Reserve Bank of India, Dr. Manmohan Singh, who took part in the just
concluded meeting of the interim Committee of the IMF, as an alternative Governor for India, welcomed the agreement on the expansion of the Fund's resources as a constructive step.

The Committee has recommended an increase of about 4.7% in quota from the current level of SDRs 61 billion to SDRs 90 billion ($99 billion). At the same time he said that developing countries would have been happier had the increase been double the present size of the quotas as had been urged by them.

In the case of India specifically the quota has fallen from 2.8% to 2.4%. The effect is that the voting power is also reduced, the drop being from 2.7% to 2.4%. Another adverse effect is that the share of the country in any future issue of SDRs - which are resources credited to the members of the Fund, which they can draw without any conditionality requirements - will also be adversely affected. However, as Dr. Manmohan Singh explained, because of the agreed increase in quotas, which has resulted in India's share going up from SDR 1.7 billion to 2.2 billion, the country's access to Fund facilities has improved in absolute terms.

Both Dr. Manmohan Singh and Mr. R.N. Malhotra, India's Executive Director of the Fund made it clear that India,
along with other developing countries, attached the greatest importance to the access of this group to the Fund facilities being kept unimpaired.

The IMF has co-operated with many international organisations such as the World Bank and the GATT (The General Agreement on Tariffs and Trade) to promote economic development of primary goods producing countries. It has introduced the scheme of Compensatory Financing to help developing countries whose export earning decline temporarily. This move is welcomed by observers since it broadens the activities of the Fund on constructive lines. It is thus, clear that the Fund has played or playing an important role in the field of international finance.

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Publications:

2. Annual Reports of the Executive Directors.
3. Financial Statement (Quarterly).
5. IMF Survey (bi-monthly).
7. IMF Staff Papers (three times a year) Washington from February 1950.
10. Finance and Development, Washington from June 1964 (q)
11. Direction of Trade (Monthly) etc.
SCOPE AND IMPORTANCE OF THE TOPIC

The IMF is a most important financial institution established by the United Nations. The IMF has been playing a significant role in assisting its member countries to cope with the difficulties and complex adjustment problems. The IMF's recent adjustment policies, which shall touch on the Fund's role in exercising surveillance over the exchange rate policies and related policies of its member countries.

Due to the huge literature on the IMF, I am writing few more lines on the topic to show the importance and scope of it.

The IMF lending has a special character that distinguishes it from lending by other financial institutions. The IMF financing is linked to corrective policy action in the borrowing countries—policies that promise to put the economy back on trade over medium term. The IMF seek to help and encourage its member countries to adjust in an orderly way that is, before a crisis has occurred and the country is left with no option but to take draconian action. Experience shows that the disruptions that follows policies born of crisis are inevitably damaging to national and international
The expansion in the IMF's financial operation has been matched by a much greater emphasis on conditional financing. After the first wave of oil price increase, some two third of Fund lending was made under special facilities not requiring important measures of adjustment. But conditions have changed, and this policy has been put to an end. Over the past two years more than 80% of resources provided by the IMF to its members went in support of programs involving rigorous adjustment policies.

Sound fiscal and monetary policies are always at the heart of the programs. But since the balance of payments problems of many countries today are after attributable to deep-rooted weakness, the IMF is placing emphasis on measures to improve economic efficiency and to strengthen and productive base of members economies. Because of the more structural character of payments deficits the Fund has strengthened its collaboration with World Bank. So as to ensure that over adjustment programs with member countries are consistent with proper investment and production strategies.

The scientific utility of bibliographic research is paramount. The savings in effort and time of a person reaps
in having available comprehensive listing of various types of documents. I was given the task of preparing a select annotated bibliography of more than 250 articles on the IMF and its role in developing countries, as it was supposed that it might be great use to the Researchers, Economists, Statisticians, Data Collectors, and Financialmen.

METHOD OF COMPILATION:

This survey is based on the literature available on the topic (The IMF and its role in developing countries) in important libraries Viz. Maulana Azad Library, Seminar Libraries of Department of Commerce and Economics, A.M.U., Aligarh, Delhi Public Library, Delhi, J.N.U. Library, New Delhi, Delhi University Library System, Delhi, Indian Council of World Affair Library, New Delhi, Indian Council of Social Science Research Library, New Delhi, Indian Institute of Economic Growth Library, Delhi, Institute of Foreign Trade Library, New Delhi, Indian Institute of Public Administration Library, New Delhi, Ratan Tata Library, Delhi School of Economics, Delhi University, Delhi, B.H.U. Library, Varanasi etc. were made. All the important periodicals and other relevant documents covering the subject field, were selected for this purpose. Although this bibliography is essentially
selective in nature, I have tried my level best to cover all aspects of the topic.

The relevant bibliographical notes from secondary sources were noted down on cards of 7" x 4" size. Thereafter the primary sources were consulted and the annotation were written.

The annotation has been taken to mean "notes" which go with the title and supplement this information in it, as distinguished from an 'abstract' which is a summary of the whole article containing the maximum possible and important information, arguments and conclusions. The secondary sources consulted are:

1. Guide to Indian Periodical Literature,
2. Index India,
3. Indian News Index, and
4. Indian Press Index.

A list of primary periodicals consulted including Serial Numbers, Abbreviations used, Their representative place of origin and frequency arranged alphabetically has been given on the page No.
STANDARD FOLLOWED:


ARRANGEMENT:

Efforts have been made to arrange the entries under co-extensive subject headings. For this purpose a comprehensive list of subject headings based on the terminology used in Colon. Classification, Library of Congress List of Subject Headings, and Sear's List of Subject Headings has been compiled.

Under the heading the entries are arranged alphabetically by authors and then by titles. The entries are serially numbered. The following items of information are continued in the various entries.

a) Serial number
b) Name of the author/s
c) A full Stop (.)
d) Title of the contribution including sub-title followed by colon (:) 

e) A Full Stop (.)

f) Title of the periodical in abbreviated form as far as possible. This is to be underlined.

g) A Full Stop (.)

h) Volume number

i) A comma (,)

j) Issue number

k) A semi colon (;)

l) Year of publication

m) A comma (,)

n) Month of Publication

o) A comma (,)

p) Date of publication

q) A semi colon (;)

r) Inclusive pages

s) A bracket ( )

t) Column number: in case of Newspaper's published article.

Specimen Entry

1. MAHROTRA (KN). International monetary issues and the developing countries. \textit{For Tr Bul.} 10, 1; 1979, J1; 1-5.
Explanations:

Mr. K.N. Mahrotra's article appears in the Foreign trade bulletin, having volume number 10 and its issue number is 1. It was published in July 1979, from page number 1 to 5.


Explanation:

Mr. Suresh Bedi's article appear in Economic Times daily English newspaper. Its volume number is 9 and issue number is 243 on November 1982, on page 5 from column number 3 to 6.

**ALPHABETICAL INDEX**

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<td>Pak &amp; Gulf Econ</td>
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<td>MSA</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>Organization of Petroleum Exporting Countries</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>SDRs</td>
<td>Special Drawing Rights</td>
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<td>SFF</td>
<td>Supplementary Financing Facility</td>
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<td>United States of America</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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PART TWO

BIBLIOGRAPHY
BIBLIOGRAPHY

CREDIT CANCELLATION, BANGLADESH


Bangladesh will not get the remaining 580 million SDR out of 800 million SDR which the IMF had committed in December 1980. The IMF fund had been meant for financing Bangladesh's balance of payments deficit for three months and the limited purpose assistance was no longer operative. So far IMF has disbursed 220 million SDR in three instalments. The remaining 580 million SDR was not disbursed despite reminders. Under the agreement, 31930.30 million SDR was under extended fund facility and 480.70 million SDR was under supplementary fund facility. This aid freeze by IMF has caused surprise in financial circles, especially since Bangladesh had implemented some of IMF's controversial conditionalities.

CREDIT CANCELLATION, DEVELOPING COUNTRIES


The IMF has cut off more than 1/4th of the loans made by it to financially troubled countries due to the inability of the borrowing countries to meet its requirements.
The cut offs involve an estimated $4.9 billion in undrawn portions of one and three year balance of payments loans to 15 countries including Romania and the Solomon Islands. The figure amounts to almost 27\% of the $18.4 billion in loans that the IMF had authorised in the current year.

CREDIT, BALANCE OF PAYMENTS

3. CULTER (David S). The Liquidity of the IMF. *Fin & Dev.* 16, 2; 1979, Ja; 36-9.

Since the beginning of 1974, the IMF has provided unprecedentedly large amounts of balance of payments financing to its members. In doing so, it has made extensive use of borrowing and drawn heavily on its own resources. As a result, increased attention has been focused on the liquidity of the fund. That is, the relationship between the demands that might be made on the fund's resources and the means the fund has available to meet these demands.

4. DOLLARS ONE hundred million credit from IMF. *Eastern Econ.* 41, 2; 1963, J1, 12; 81.

The IMF made a standby arrangement with government of India for the drawings of $100 million from the fund over
the next twelve months. Net drawings from the fund on the part of Indian Government currently amount to $250 million. India's quota in the fund is 600 million, of which $77.5 million has been paid in Gold. The standby arrangement will help the Indian authorities to meet any temporary difficulties in the country's balance of payments situation.


Proposals are currently under discussion, under the aegis of the IMF, to create a new fund or credit facility to assist nations, developed as well as developing, with acute balance of payments difficulties. Create additional SDR's of the order of 3 billion and substantially expand IMF quotas. What do these proposals add up for the developing countries? Even if these proposals do imply some gain for the developing countries, do they go for enough to meet the balance of payments difficulties which these countries are likely to face in the foreseeable future?


After world war II, under Keynes' inspiration,
determined efforts were made to avoid a repetition of the inter-war depression and autarky and to restore international trade. The IMF emerged. It was not quite what Keynes wanted. Its initial resources were $8,000 million instead of 25,000 million. Keynes wanted the IMF to create deposits, instead they consisted of member country's subscription to the IMF. Each country's was one quarter in gold, three quarters in its own currency. Ultimately it could draw out the whole of its quota in gold or foreign exchange, i.e. four times as much gold as it had subscribed. This was how the IMF added to international liquidity. The IMF lends money to a country for a period and on conditions. While the IMF does a fine job in helping countries over temporary balance of payments difficulties, it is not equipped to solve persistent deficits and this for the basic reason that the countries of the world will no longer accept. A single world monetary authority controlling credit by means of a world reserve currency attached to gold.

7. IMF CREDIT to India. *Eastern Econ.* 50, 1; 1968, Ja, 5; 19.

The IMF has approved a drawing of an equivalent of $90 million by India to meet payments difficulties caused by a temporary shortfall in export earnings during the year ended
August 31, 1967. India's total quota in the fund is $750 million. Outstanding drawings currently total $417.5 million.


The IMF is at present examining the possibility of borrowing on private capital markets in order to meet its growing refinancing needs. Reservations concerning such a step have been voiced in particular by the oil-importing developing countries. The IMF tried to meet the increased demand for official balance of payments financing by means of the policy of enlarged access. Whereas the use of the credit tranches was originally restricted to 100% of the quota, it was extended in May 1981 to an annual-level of 150% of the quota or 450% over a three-year period. Cumulative borrowing can amount to 600% of the quota. The fund with SDR 1.1 billion over a period of two years to finance the policy of enlarged access. The IMF is at present viewed only as a means of bridging the gap until completion of the next quota increases.


In recent years has been the slow growth of inter-
national liquidity compared to the growth of international trade. The IMF observes that although the nominal value of global reserves increased by 18% during 1974, real reserves decline as export price rose by 35% to 40%. World reserves which were 57% of the value of imports in 1958 had dwindled to 36% by 1967. The present monetary arrangement under the IMF to create enough liquidity for financing world trade. The IMF to adopt alternative steps to meet the international liquidity could be increased by through raising the quota of every member country of the IMF, which would enable the fund to grant larger accomodation to the countries suffering from balance of payments problems. The IMF to mobilise quickly large additional resources in defence of the international monetary system.

10. LARGE IMF credit, other announced. Chile Econ Rep. 135; 1982, Jl-Ag; 4.

The Chilean Government has negotiated on $800 million standby credit with the IMF. The loan, in the form of SDRs, will be used to strengthen the country's reserve position to compensate for lower exports and a favourable balance of payments resulting from the international recession. The loan is expected to case other chilean entities' acess to
international credit markets. A number of other significant credits was announced in recent year.


The Association of the Third World Economists, meeting recently in Havana, referred to the IMF and the IBRD as the "self appointed gendarmes of the internal life of nations seeking their aid". The growing power of the IMF and "the irresponsible and arrogant way in which it is being wielded against the poor", the story has repeated itself over and over again. The latest example of successful sabotage attempt by the IMF is Jamica. Between 1950 and 1970 Jamica's external debt increased by 1 billion dollars and the servicing of this growing debt contributed to the payments deficit and made further borrowing necessary. In short, Jamica, prior to 1972, was a typical example of neo-colonial exploitation with growing poverty and unemployment for the people and the growing strangle hold of international finance capital and the multilinger be covered. The IMF, as usual, put forward its pet diagnosis that Jamica's payments crisis could be over come by curtailing supply, imposing drastic real wage-cuts and reducing public investment as well as welfare and relief expenditure. The IMF promptly agreed to give 698 million dollars
to the new, "acceptable" Government which replaced Manley's.

CREDIT, BALANCE OF TRADE, DEVELOPING COUNTRIES

12. IMF WARNING against protectionism. *Eastern Econ.*

69, 12; 1977, Se, 16; 556-7.

The IMF has warned that continued protectionism in some countries will harm the open international trading system. The domestic and external economic difficulties of many countries, particularly, unemployment, have rise to presures for protectionis' measures. The oil-exporting countries emerged as the principal surplus group. The combined current account deficit of non-oil developing countries will be about the same as the resealed deficit for 1967-72. These countries and the more now concentrated in a small number of countries whose capacity to expand imports is comparatively low in relation to their export earnings. Non-oil producing countries reduced their current account deficit from 38 billion dollar in 1975 to $26 billion in 1976.


The use of import controls by developing countries
is enshrined in multilateral trade agreements and is supported by an influential body of literature and thought which has emerged since 1945. The main aspects of the theoretical debate and practical experience with controls. On the basis of recent research and analysis. The view is that poor export performance and inefficient production for domestic markets can be directly related to the excessive use of trade controls by developing countries.

14. MANJAPPA (HD). Recent trends in terms of trade.
   *Eastern Econ.* 77, 10; 1981, 4; 459-60.

Even as the trade between the non-oil developing countries and industrialised countries has expanded considerably, the balance of trade has gone markedly against the LDCs. This has been due mainly to the depressed price of primary products exported by these countries. We can go a long way in mitigating the imbalance in the trade between the non-oil exporting countries and the rest of the world.

15. SENGUPTA (Amjun). Trade problems of developing economies.
   *Econ Wkly.* 17, 5-7; 1965, 4; 187-92.

The most important prerequisite for progress in any theorising about the international economics of development
today, the problems of foreign trade and capital flows associated with the economic growth of the developing countries is a clear awareness of the problems faced by the developing economics and a careful sorting out of the basic issue involved. The net inflow of long-term capital into the developing countries looks brighter. The annual average of such total net inflow was $2.6 billion during 1951-55, $4.7 billion during 1956-59, and $6.0 billion during 1960-62. But this has not basically modified the dependence of the developing countries on merchandise exports as their principal source of foreign exchange.

16. SRI RAO-International Economic relations. Mys Econ Rev. 67,8; 1982, Ag; 3-5.

The changes in IMF regulating, recognition of the need for transfer of resources for development purposes, negotiation relating to code of conduct on transfer of technology are part of these efforts to rectify the asymmetrical relationship between the Developed and the Developing countries. But these efforts have remained feeble. Most of the gains that the developing countries have made in international negotiations has been conceptional. It has sprouted a desire to attain economic development and equality.
This has led to a meet to bring about changes in the pattern of trade and economic relations. There is increasing perception that the present economic system need to be reoriented to take into account the developments in the last two or three decades to make it responsive to the trade and development needs of the developing countries.

**CREDIT, BALANCE OF TRADE, INDIA**

17. IMF AID. *Econ Trnd.* 9, 17; 1980, Se, 1; 15.

The IMF has granted a credit of Rs. 282.40 crores to India towards meeting balance of trade problems. The slack demands for Indian products abroad and growing international protectionism has effected country's foreign currency earnings with Indian agricultural production having declined by 10% due to last year's draught.


In 1979-80 and 1980-81, India has witnessed a sharp inflationary upsurge, an upsurge affecting a wide range of commodities including foodgrains. A second implication of the
growth trade deficit is the frantic search for foreign loans and "aid". The economic survey, on the basis of an estimated Rs. 4000 crores trade deficit, had predicted a Rs. 2000 crores deficit in current account of the balance of payments. Since the actual trade deficit has turned out to be much larger, the current deficit has obviously also been correspondingly larger. Despite the IMF loan which India took last year, as well as the larger commercial borrowing than even before, reserves has obviously been depleted to a much larger extend than was anticipated.


The new export-import policy, announced on April 5, marks an important step in the process of the tightening of the IMF grip on the economy. In the secret agreement signed between the IMF and the Indian Government, it was explicitly stated that the IMF loan would be terminated, among other things, if "India imposes or intensifies import restrictions for balance of payments reasons". As a further clarification, the Indian Government had promised to the IMF in its "statement of policy" that "the import policies for 1982-83 and 1983-84 will contain significant steps aimed at liberalising imports". Now
it has made good that promise made to its IMF masters. Our balance of payments crisis, far from getting alleviated, is worsening. The trade deficit in 1981-82 is going to be about 6000 crores of rupees.


The sharp deterioration in India's external trade balance since 1976-77 should get mitigated this year at least to some extent notwithstanding the growth in export as well as the decline in imports leaving much to be desired in terms of projections. The trade gap narrowing down to Rs. 2,923 crores from Rs. 3,144 crores during the corresponding period last year. The adverse trade balance in 1980-81 aggregated to over Rs. 5,700 crores. The external trade deficit, through modestly, indeed, is a matter of some gratification. But, surely, this ought not make us complacent. Only recently accommodation has been secured to as large an extent as SDRs 5 billion from the IMF, under its extended facility arrangement for a period of three years during which the balance of payments position has to be restored to the even keel. The SDRs holdings at the end of March, 1981, were of the order of 490.5 million, and gold holdings to the tune of Rs. 225.58 crores.
India is affected by the current international monetary disturbances, particularly because of their unsettling effects on its exports and imports and because of its increased burden of servicing and repayment obligations in strong currencies such as yen or the D-mark. However, developing countries like India are not in a position to significantly influence the course of events in the international monetary scene, except perhaps by a joint stand. In the circumstances, they have no other immediate option but to adjust their exchange rate policies and programmes to the emerging exchange market situation with a view to minimising the adverse effects of the monetary upheavals on their own trade and payments position. Exchange rates and exchange controls are not policies per se but just tools to be used effectively to serve the best interests of the country. It is naive to take exchange rates as sacrosanct. Devaluation has acquired an emotive connotation in India, so that unless we begin to look at the issue involved with an open mind, we will deny ourselves the advantages arising from the use of one of the most important tools for managing our balance of payments. How has the Indian rupee fared during
the recent monetary upheavals; is the current rupee exchange rate realistic; what impact do the current rates have on India's balance of payments; what considerations are relevant for evolving a realistic rupee exchange rate policy?

CREDIT, BALANCE OF TRADE, NORWAY


Norway has successfully pursued policy that might be followed with advantage by developing countries that have already built an industrial base, that of expanding manufacturing industries in the framework of an open economy with low tariff barriers.

CREDIT, BALANCE OF TRADE, TUNISIA


Tunisia attained independence in 1956 as a beylik or monarchy, and was proclaimed a republic the following year. The Tunisian Government devoted much of its attention to the task of defining and consolidating the country's economic and
political relation with the rest of the world and wanted to improved trade balance, raising foreign exchange reserves, and a comfortable budgetary position. The government launched its first operational plan, the Three-Year-Plan covering the period 1962 through 1964. Tunisia's critical financial situation in mid 1964 posed a grave threat, not only to the gains already achieved under the three-Year Plan but also to the prospect of further efforts to promote the growth of the economy. In October 1964 a comprehensive stabilization program for the gradual restoration of internal and external balance. The IMF approved a one-year stand-by arrangement for Tunisia in the amount of $14.25 million, which was fully utilized. The par value of DI = US $ 1.90476 was agreed with the IMF and become effective on September 28, 1964. The exchange rate adjustment was accompanied by certain changes in export and import duties.

CREDIT, OIL FACILITY


The IMF organised a substantial recycling of funds
from the countries with payments surpluses to the countries with payments deficits under multilateral auspices and for the purpose was the oil facility. Compared to the gross inter-group imbalance of $101 billion in 1974 and 1975, this special IMF facility could only come forth with something like $7.9 (SDR 6.5) billion. Other drawings from the fund in the course of the same two years, amounted to $6.3 (SDR 5.2) billion. The IMF either is prepared or is preparing to meet the possible new demands for financial intermediation. True, Fund quotas will soon be revised from SDR 39 billion to SDR 59 billion. A new SDR allocation of SDR 12 billion will have been made between 1979 and 1981 and a supplementary financing facility has been set up with funds amounting to SDR 7.75 billion to assist members with balance of payments that are large relative to their quotas.


During the past years, 33 member countries of IMF used the oil facility, drawing amounts of currencies which totalled the equivalent of 1,716 million SDRs. Of this the purchases were made by India totalling SDR 200 million.
26. INDIA TO seek IMF aid. *Econ Trnd.* 9,14; 1980, Jl,16;5.

India will seek the IMF for a credit of about Rs. 300 crores from its oil facility. This will be in addition to Rs. 540 crore loan from the IMF Trust Fund already granted.

**CREDIT REPAYMENT, INDIA**

27. IMF GRANTS repayment concessions. *Eastern Econ.* 50,3; 1968, Ja, 19; 111.

The IMF has agreed to India's request for adjustment in the repayment of some of its credits. It will also accept repayment in easy instalments. Repayment of the $187.5 million loan, drawn in April 1966 and repayable by December 31, last year has been extended until March, 1971. A stand-by arrangement of $200 million, drawn in March, 1965 and repayable in October this year, has been extended by two years to October 1970. Normally, IMF loan run for a term of three to five years. The March 1965 stand-by arrangement of $200 million, initially for three years, but payable only in October this year after taking into account certain adjustment, is being extended by another two years to make a full-year term.
The rate of growth of industrial production during 1964-65 may at best work out to be 8%, this will be 1% less than the rate for 1963-64. During 1963-64 there had been some optimistic developments. Our foreign exchange reserves had increased a little (by Rs. 10.8 crores) and we had also repaid a modest sum of Rs. 23.8 crore to the IMF. During the current financial year our exports have continued to rise, but a large part of this increase has earned no free foreign exchange, because it has gone to the rupee payment countries. This is a critical position particularly because the next six months are going to be lean season for exports and become over the next 16 months there is a repayment obligation of Rs. 95 crores to the IMF.


The termination of the Rs. 5,000 crore IMF loan, alleging that it had led to a recession in the country's economy. The country's economy had been hit by recession following a credit squeeze dictated by the IMF. The disastrous implications of the loan would be felt only after 1984 when the
nation begins repaying it along with the interest of 12% per annum. This would work out to Rs. 10,000 crore per annum for nine years. Besides the IMF loan, the country would have to pay a foreign debt of Rs. 15,000 crore. This would mean that 50% of the country's export earnings would be used for repayment.

EXCHANGE RATES

30. AGHEVLI (Bijan B). Exchange rate policies of selected Asian countries. *Fin & Dev.* 19, 2; 1982, Je; 39-42.

The varying experience of seven Asian countries facing similar rates of imported inflation shows the importance of coordinating monetary and exchange rate policies in these countries. The exchange rate policies of India, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand in 1973-78 reveals that countries with higher rates of inflation pegged their currency to the U.S. dollar and those with lower inflation rates adopted managed float. The exchange rate is generally regarded as affecting resources allocation through its impact on three section: the export, import competing, and non-traded sections.
With the demise of the era of fixed parties, the IMF entered a period of transition. Describes some of the changing roles of the IMF, the new code on floating exchange rates, and the witleveen fund for lending to less-developed countries. Members must not manipulate exchange rates in order to prevent effective balance of payments adjustment or to gain unfair competitive advantage. Maintenance of an exchange rate in terms of the SDR, or another denomination. A currency whose exchange is tied to the SDR is the Saudi riyal is an example. Co-operative arrangement by which members maintain the value of their currencies of other members.

The fierce resistance of the developing countries to the system of floating exchange rates which the industrialize countries are favouring at present. The consequences of floating rates for the foreign trade, indebtedness and reserves of the developing countries and their implications for the situations in their domestic economies as a whole. In early 1976 has set
the seal on what had been common practice: It laid down that IMF members may choose their own exchange rates system. Floating exchange rates are thus no longer contrary to the IMF statutes.

33. GOLDSTEIN (Morris) and YOUNG (John H). Exchange rate policy: Some current issues. Fin & Dev. 16, 1; 1979, 7-10.

Over the past few years there have been substantial changes in the structure of exchange rates and also marked short-run fluctuations. Aggregate price indices for the various groups of countries show that the exchange rate system has been operating in recent years in the context of high and variable inflation. The average rate of inflation for the industrial countries, as measured by the deflators of gross national product, was about 12% in 1974, 11% in 1975 and was still close to 7% in 1977 and 1978. These may be compared with an average inflation rate of these countries in the period of 1961-64 of about 2.5% and in 1965-69 of 3.7%. The inflation experience for other group of countries over recent years has been even less encouraging, with average inflation rates in the non-oil developing countries, having been roughly twice as high as in the industrial countries.
During the decade 1972-82 which witnessed large fluctuations in gold price. Gold price traced out two principal cycles during the decade, moving up from 1971 it reached a peak in December 1974, then fell till the third quarter of 1976, rose again till early 1980, after which it fell upto June 1982. Several developments in world economy could have influenced these movements in gold prices. The study, has, however, led them to conclude that the gold price cycles in the last decade were generated principally by speculative behaviour which, in turn, was influenced by cyclical forces in the world economic system. Specifically, the impact of three factors, inflationary expectations, exchange rate fluctuations and changes in interest rates.

The present-day international monetary system concern the arrangement governing the rates at which domestic monies of individual countries may be exchanged for one another.
This arrangement is in fact an undertaking by signatories of the articles of the IMF to restrict the variations of the spot rates of exchanges of their currencies for currencies of other signatories taking place within borders to a range of 1% point either side of a par value defined in terms of gold declared to the fund. As has been the tradition for centuries, countries hold a part, at least, of their foreign reserves in the form of gold. Gold is generally acceptable among monetary authorities that it can readily be converted to US dollars. A third form in which authorities hold reserves in claims on the IMF or on its members. The international monetary system is to avoid unnecessary changes in exchange rates in the interest of furthering the growth of international trade, persistent surpluses or deficits in the balance of payments of individual countries must be avoided.

35. LIPSCHITZ (Leslie) and SUNDARARAJAN (V). Pegging to a currency basket in a world of floating rates. *Fin & Dev.* 17, 2; 1980, Je; 25-8.

In an attempt to minimize fluctuations in their exchange rates, many countries, particularly in the developing countries, peg their exchange rates either to a single currency or to a basket of the currencies of their major trading
pattern. A method of deriving an "optional basket based on relative price and exchange rate movements.


The exchange rate policy pursued by India since August, 1971. Exchange rate policy has a vital influence on the structure and balance of a country's trade, the magnitude of the transfer items, the overall balance of payments situation, the foreign exchange reserves position and the burden of external debt and its servicing. The impact of India's exchange rate policy will be studies from some of these angles. An effort will also be made to compare the structure of exchange rates of the rupee vis-a-vis some major currencies under the present policy with the structure would have prevailed under an alternative policy.

38. RAJENDRA KUMAR. End of the old IMF. *Econ & Pol Wkly.* 8; 40; 1973, Oc, 6; 1808-10.

The IMF's enforcement of the rules of exchange rate stability and convertibility, was not responsibility towards its members. The Fund Agreement, relating to "promotion and
maintenance of high levels of employment and real income and the development of the productive resources of all members as primary objectives of economic policy. India's amendment would have required the fund "to assist in the fuller utilisation of the resources of economically under-developed countries". The IMF which are now in progress must devote considerable attention to the problems and needs of the less-developed countries must have an effective voice in the fund's decision-making process.


The new international monetary system that is being hammered out. Beginning early sixties a major concern with international monetary experts has been the adequacy of international reserves to enable international trade to grow without restrictions. Many steps taken in the past indicate that the shortage of reserves is not a myth. The present dollar crisis more than any other incident that occurred previously has forced attention on the adjustment mechanism that must go along with a system of fixed exchange rate system. Another complication noted in the working of the IMF system arose from the dollar being treated as a reserve currency. To create additional
reserves through SDRs, when necessary; Introduction of the 'band' proposal so that rates are allowed to fluctuate over a wider margin than is permitted now, and a machinery for examining and advising the proper parity among currencies. The ability to enlarge the reserve coupled with the scope for larger fluctuation in the exchange rate would make the system more viable. A modified fixed exchange rate system such as the one envisaged alone would require India to decide on the currency to which the rupee should be tied.

40. TYSON (Geoffrey). Britain: Setting the political scene. Capital. 163, 4082; 1969, Oc, 2; 617-8.

The IMF is an indication that the fund endorses the present par value system and is opposed to any introduction of floating exchange rates. The failure of the U.S. economy to cool off is described as "a major disappointment of the year". Now, as in the past year and a half, the crucial problem for the UK is to "divert resources" to the exporting sector, although elsewhere in the report the direction are quite complimentary to this country.

EXTENSION OF CREDIT QUOTA, DEVELOPING COUNTRIES

41. BALASUBRAMANIAN (V). US alone opposes quote hike. HT. 59, 244; 1982, Se, 6; 1(2-3).

The United States gave their support to a substantial
increase in IMF quotas for augmenting fund resources for the needs of the eightees. The industrial countries joined hands with the developing countries for immediate action on implementing the proposal for quota increases. The developing countries which may be responsible to a considerable extent for their own troubles, thanks to their pursuit of 'unduly' expansionary financial policies, which have generated domestic inflation and misdirection of resources, as well as external imbalances which nothing that many oil-exporting developing countries, however, are making efforts to adjust the imbalances in their economies.

42. BALUSUBRAMANIAN (V). US climb down on IMF quotas. HT. 59, 313; 1982, Nv, 14; 5 (7-8).

The Regan administration would agree to an increase of 40% in the aggregate IMF quotas, not standing at $67 billion. The agreement on quota increase should be worked out by April next year and put into effect by the end of 1985 (The bankers are demanding the fund should pay an "umbrella role" in ensuring the safety and liquidity of the huge loan). The bankers now have to agree to the rescheduling of instalments of interest or replacement of capital. The fund to do by entering into extended financing arrangement with the countries concerned and
enforcing on them the monetary, fiscal, trade and other structural adjustment disciplines which are worked into such agreements. A few days ago, the IMF approved a $1.07 billion loan to South Africa and it has in the works on application from Hungary for a $580 billion loan. Thus, one year after the IMF had made the largest single loan in its history to India. The Regan administration assumes a forth-coming on its financial support to developing countries for their industries.

43. RISE IN IMF loans. Econ Trnd. 10, 18; 1981, Se, 16; 22.

The total amount approved under the stand by and extended arrangement and other commitments by the IMF in the first half of 1981 reached an unprecedented SDR 10.1 billion compared to SDR 4.1 billion in the same period of 1980 and SDR 9 billion for the whole of 1980. The member purchases in the six months of the current year amounted to SDR 3.8 billion as against SDR 1.6 billion in the same period of 1980 including reserve tranche purchases.

EXTENSION OF CREDIT QUOTA, INDIA

44. FOREIGN AID. Eastern Econ. 50, 8; 1968, Fe, 23; 318.

Credit agreements for a total amount of $187.09
million (Rs. 140.32 crores) were signed with foreign countries and institutions during the quarter October-December, 1967, compared to $130.17 million (Rs. 97.63 crores) in July-September, 1967. The total amount authorised by the lending countries/institutions for India's economic development come to $10,122.59 million ($8350.48 or Rs. 3976.4 crores before devaluation, and $1772.11 million or Rs. 1329.08 crores after devaluation). This excludes US commodity assistance and all grants and drawings from the IMF. Of the fresh assistance of $187.09 million, $144 million was non-project aid and the balance of $43.09 million for various projects. The total amount of non-project aid committed, in terms of agreements signed, so far by the consortium countries for 1967-68 amounts to $298.76 million (Rs. 224.07 crores). In accordance with IMF's policy of compensatory financial assistance to member-countries. On December, 29, 1967, IMF acceded to India's request for a rescheduling of repurchase commitments totalling the equivalent of $387.5 million. According to the repurchase schedule agreed by the IMF, India would have to effect repurchases to the extent of $97.5 million during the calendar year 1968.
IMF deal is that it seeks to abridge India's economic sovereignty. In other words, the people have voted the Congress-I to power so that it can take policy decisions and run the economy within the frame work of its election manifesto and the declared national policies and goals. It has not been authorised to surrender this wholly or partially to any external agency. Including the loan deal with the IMF, the government has agreed to periodical reports and take into account the IMF's advice and suggestions. Moreover, if the IMF executive board feels that India is not abiding by the performance clauses, it can suspend further instalments of the loan. The IMF management accepted our programme derived from the strategy of our sixth Plan as appropriate measures to adjustment for our economy to overcome the problems of balance of payments and development. Domestic credit expansion in 1981-82 is proposed to be limited to about 19 per cent. This is higher than the credit in 1980-81 which was 18 per cent. The Congress-I document then goes on to add, "Out policy should, in fact, have been to keep the credit expansion well below this limit. The IMF loan will be available at an average rate of interest of 9 to 10 per cent whereas a commercial loan in Euro-dollar
market would have come to us at an interest rate of above 16 to 17 per cent.

EXTENSION OF CREDIT QUOTA, MEMBER COUNTRIES

46. SHAH (Hasmukh). IMF resources for western banks? Commerce. 146, 3735; 1983, Ja, 1; 8.

The IMF is scheduled to lend to industrial countries less than $14 billion. It was felt that if developing nations do not have access to enough new funds. The US offered a plan to increase the fund's resources by 40% from the present $67 billion to about $95 billion, but it is likely that the IMF will get an infusion of almost $30 billion in additional hard, "usable" currencies for loans to need countries. Some of the funds may be doled out earlier than planned. The IMF would consist of a 40 to 50 per cent increase in IMF quotas and a new or expanded special lending facility to which the major rich nations would make additional contributions. The new credits will be available to all IMF members and not as at present, only to members of the industrialised group.
EXTENSION OF CREDIT QUOTA, PANAMA


Panama employs the U.S. dollar as the circulating medium; it deliberately refrains from exercising the control over currency circulation that it would have if it were to print currency. By exposing itself in this way to the rigors of classic gold standard mechanism it gains substantial advantages. The foreign reserves available for such emergencies: in February 1965. Panama's quote in the IMF was raised from $0.5 million to $11.25 million, and for the first time a $7.5 million standby arrangement was granted by the IMF to Panama in July of the same year.

EXTENSION OF CREDIT QUOTA, SAUDI ARABIA

48. AGREEMENT WITH Saudi Arabia on quota increase and borrowing arrangement. Fin & Dev. 18,2; 1981, Je; 2.

The IMF be increased the Saudi Arabia's quota from its present level of SDR 1,040.1 million to SDR 2,100 million. This will increase Saudi Arabia's share in total quotas from 1.74% to approximately 3.5%. The Saudi Arabia's
quota was out of line at the present ime, taking into account the relative importance of Saudi Arabia in the world economy. The increase in Saudi Arabia's quota will result in a substantial increase in the fund's immediately usable resources, which can be used in support of the fund's expanded level of operations at this time. The fund of SDR 4 billion in the first year of the agreement and a further SDR 4 billion in the second year. The Saudi Arabian authorities have also indicated their intention to enter into a further commitment for the third year if their balance of payments and reserve position so permitted.

49. IMF BACKDOOR entry into private capital market?
Econ & Pol Wkly. 16, 20; 1981, My, 16; 878.

The IMF last year to make it possible for the fund to play a some what large role than before in helping its member countries to overcome the situation created by the drastic increases in oil prices on to contribute to the recycling process necessary for orderly transfer for funds from the surplus countries to the deficit ones. The IMF had been trying to negotiate loans from the oil exporting Arab countries, especially Saudi Arabia. The fund has agreed to raise the Saudi quota from its present level of SDR 1.04 billion to SDR 2.1 billion, raising thereby the Saudi share in total quotas from
1.74% to 3.5% and making its quota the sixth largest.

FINANCIAL ASSISTANCE

50. BHATT (VR). Dim prospects for world economic revival. 
   *Eastern Econ.* 78,21; 1982, My, 28; 1243-6.

The IMF assessment of the world economic situation and the fears expressed by the group of 24 developing countries finance ministers, representing 116 countries of Asia. The recession in the industrial countries has proved exceedingly stubborn, thus worsening the terms of trade and the export volume of the developing countries. And despite a slowing of inflation and a slackening world demand, real interest rates have remained very high by historical standards. Debt payment burdens, accordingly, have continued to grow sharply. In addition to these general features of the international economy, there is the prospect that the growth of private capital flows to the developing countries will be much in the days ahead. Private lending provided an increasingly important source of funds for investment in developing countries during the 1970's. But repayments have begun to absorb a rising proportion of new loans so that over the medium term net disbursement of private loans to developing
countries are likely to drop sharply in real terms. The slow
growth and high budget deficits in the OECD countries, and
the disappearing surpluses of the oil exporting countries, it
is likely that in the next few years.

51. BROOK (EB). IMF, the tried and trusted lender.
Eastern Econ. 69, 15; 1977, Oc, 7; 695-6.

The industrially developing countries should, despite
the irritation of the IMF requirement for borrowers, support
this tried independent source of international finance than go
to the Eurocurrency market which is awash with cash ready for
lending at dangerously inviting terms.

52. DAGLI (Nadilal). Annual confrontation between have and
have-nots. Commerce. 139, 3564; 1979, Oc, 6; 656-7.

The IMF will be remembered for the most pronounced
confrontation between the rich and the poor nations. The IMF
in the seventees, it therefore reflected the disappointment of
a decade which was supposed to reduced the gap between the rich
and poor societies of the world. A case for a retrospective
application of such softening of terms of assistance if
developing countries were not find the already heavy burden of
debt servicing increasingly difficult to bear. The reduction
of international liquidity surpluses could become a new cause for constraint in the already weakened economic relationship between developing countries and rich economics. The IMF should play the role only a catalyst in this process. Most of the problems of debt servicing of poor nations have arisen because they borrowed from private banks for a short duration and at exorbitant rates of interest. The IMF should play a more active part in recycling capital towards the deficit countries. The IMF should play a central role in financing balance of payments deficits of developing countries.

53. DAGLI (Vadilall). Gloom eightees for poor world. Commerce. 139, 3564; 1979, 0c, 6; 652-3.

The IMF have expressed concern about the relentlessly widening gulf between the rich and the poor. Whether it is inflation or recession in the western world; whether it is price rise in oil imposed by the OPEC on whether it is the question of lowering trade barriers or providing debt relief to the poor world. The serious situation in the world economy and the plight of the developing countries and called on industrial nations to help the developing countries, get out of stagnation which they face. The existing system of internal economic relations which we so relentlessly
detrimental to developing countries. The eightees should be the decade of the poorest countries of the developing world. The affluent nations should substantially increase their development assistance and liberalise their trade policies so that the poorest developing countries grew at nearly 5% a year. The manufactured exports from the developing countries to affluent nations should grow at about 11% a year during the next decade.

54. FORREST (G). IMF : Do its functions conflict? Econ Dig. 16; 1981; Ag; 6-7.

Borrowing by the developing countries, together with their general indebtedness, have become a key issue in international banking. The IMF assistance, in part the residual imbalance, fluctuated from net repayment of a $ 1 billion to $ 3½ billion contribution. The dramatic shift to borrowing from the international banking system raises many issues and in particular the role of the IMF. The IMF is seen increasingly as a vehicle for channelling large amounts of funds to developing countries on what is little more than an expediency basis. There is a fundamental conflict between the IMF's role as an "International financial policeman" and that of a major supplier of credit. The IMF is compounding the problems
relating to developing countries maturity patterns. The IMF is essential for a rescheduling agreement, the fund's power over smaller countries is substantial. If it is unacceptable to developing countries to be seen to have their borrowing guaranteed by another country, a new intermediary institution may be necessary.

55. GERAKIS (AS) and RONCESVALLES (O). Bahrain's offshore banking centre. *Fin & Dev.* 17, 2; 1980, Je; 29-32.

During the last five years, Bahrain traditionally an oil producing state, has built up an offshore banking centre which has become one of the largest in the developing world with the help of IMF. This centre's having impressive growth and its effects on the economy of Bahrain as well as on the money and exchange markets in the Gulf region.


The IMF's compensatory financing facility, established in 1963, has so far provided "assistance to countries experiencing temporary balance of payments difficulties arising out of export short falls largely attributable to circumstances beyond their control". Under a decision taken in 1979, the assistance, which is in addition to other forms
of fund assistance was available up to 100% of a member country's fund quota. The compensatory financing facility may be said to represent, going by the experience of financing of export shortfalls, it is extremely doubtful that the countries facing increased costs of cereal import can expect to receive more than nominal fund assistance to developing countries.


While the contribution that the fund's financial assistance has made to the strengthening of members' economics is generally recognised, its accomplishments in the field of technical assistance, which is no less useful to the developing countries are not as well known. The evolving role of the central banking department of the IMF in its efforts to meet the need of member countries for technical assistance in a growing number of areas.


The IMF and the World Bank have been playing an important role in not only transferring capital resources but also modern technology to the developing countries. The Pakistan'
achievements on the economic front and the pace of economic progress, would be further accelerated in the years ahead. The existence of the Aid to Pakistan Consortium has, undoubtedly, proved a great help for Pakistan's economic progress. The Pakistan Government's task in the formulation of appropriate policies with a view to removing deficiencies and achieving desired result in various sectors of development.


Policies related to the use of fund resources (its conditionality) have evolved as a result of the fund's experience with its membership and of changes in the international economic environment. In the difficult years from 1977 through 1979, the IMF had a particularly close relationship with Jamaica, providing it with a high level of financial assistance. This collaboration was especially important because the volume of support extended by the fund was unprecedented at the time in terms of the size of the Jamaican economy. The fund's direct contribution will be access to its resources over the three years period of the extended arrangement about US $625 million, or equivalent to 450% of Jamaica's quota. The maximum permissible under the new policy for enlarged access.
The longer-term transition of the under-developed countries to an energy regime much less dependent on oil and gas. Over the next two or three decades, will likely involve a 'quick' shift away from oil and gas to greater dependence on coal, tarsands, and oil shale, nuclear fission, geothermal energy and on renewable forms of energy such as hydro, solar, biomass, and wind; all of which could be made available in secondary energy forms which will call for modest, manageable changes in the infrastructure system. The sustainable energy supply would then have to be expanded to include breeder reactors, fusion, large scale solar and other renewable forms, all of which are now identified as proven or promising in terms of technical feasibility and economic viability. Among the many constraints on the evolving energy system in the under-developed countries, the financing of energy production is among the more significant ones.
economic situation and for an early start to global negotiations for a new world economic order as the UN assembly began its general debate. Brazilian President Joao Baotista Firueiredo, said that there was no crisis between the developing south and the industrialised North, but rather a profound crisis in the international economic system itself. The 157 member UN General Assembly, voiced their concerns over the international economic situation. Another common thread in their addresses were the events in Lebanon. Most of them condemned Israel. The essential condition for reactivating world trade was the recovery of a minimum stability in the international monetary system, which must not be subjected to unilateral changes in economic policies of a few great power. The total debt of the developing countries would be more than the "incredible amount" of $ 600 billion (Rs. 60,000 crores) this year. This would increasingly make countries insolvent. The magnitude of the financial difficulties many countries faced made it imperative for the IMF to have adequate funds.


The budget for the current year was framed was that the economy having revived in 1981-82 from a depressed condition
in the previous two years and inflationary pressure having moderated will enter in the year 1982-83 a period of steady and stable growth. With this, the strain on the budgetary balance would also ease. On the side of the external account, the IMF support would provided the needed cushion.

63. NOWZAD (Bahram). Debt in developing countries: Some issues for the 1980s. Fin and Dev. 19, 1; 1982, Mr; 13-6.

As an increasing number of developing countries encounter difficulties in debt service payments, the substantiability of the volume of their debt, its term, the mechanism of its transfers, and any rescheduling arrangement required, the questions arise about the above mention problems. So the IMF is closely interested in external debt issues and has over 20 years assisted to its members developing countries with their debt problems. The IMF's efforts are aimed at avoiding the emergency of debt problems and it seeks to promote better management of external borrowing and greater attention to debt issues. The IMF plays a significant role in assisting both creditor and debtors to achieve a successful rescheduling.


A model is developed to determine the fiscal impact
of three sets of factors in a less developed country setting: large-scale public sector outlay, foreign trade, and foreign aid. It was found that in Jordanian case, the first of these three factors adds more to current expenditure than to domestic revenue indicating a fiscal imbalance, while the two external factors have positive net fiscal effects. Based on these results important trade-offs between the growth of public sector investment and future external dependence are also derived.

65. RAI (Kartik). IMF loan and balance of payments. People's Demo. 6, 12; 1982, Nr, 21; 4.

The IMF loan could be utilised to finance the larger investment needed to develop petroleum production, it was really only a means to enable us to overcome our payments crisis and move towards self-sufficiency. The country getting into a debt-trap, if oil output increased rapidly enough, we might even do without the third and the largest instalment of the IMF loan. The Government of India, clearly showed that after 1983-84, the last year of IMF drawings we would balance our payments only through massive and growing commercial borrowings, 1.5 billion SDRs in 1984-85 and 3.27 billion in 1985-86, and that such borrowings had to increase not
withstanding the revised and ambitious oil production targets. The country has lost Rs. 1292 crores of reserves between April 1, 1981 and January 31, 1982, i.e. over a span of ten months. This loss, moreover, is despite the drawing of 600 million SDRs or Rs. 637 crore from the IMF. India had drawn Rs. 815 crore from the Trust fund and compensatory Financing Facility. Additionally, our reserves were depleted by Rs. 342 crore. So IMF loan is necessary because our payments position is so bad.


The recently adopted sixth plan for the period 1980-81 to 1984-85 provides for a total public sector outlay of Rs. 97,500 crores at 1979-80 prices. Of this sum, Rs. 84,000 crores constitute investment outlay and Rs. 13,500 crores current development outlay. This total public sector outlay together with the proposed outlay of Rs. 74,710 crores in the private sector makes up the total Sixth Plan outlay of Rs. 172,210 crores. Against this target of public sector outlay for the full five years. The Economic Survey makes the statement that "the current account deficit is likely to be over Rs. 2,000 crores" in 1980-81 and that external assistance will cover less than half of this amount". One can infer, therefore, that net
"foreign aid" inflows in 1980-81 would have been of the order of Rs. 1000 crores. This figure, however excludes the loan from the IMF which amounted to Rs. 815 crores.


Portugal's balance of payments shifted from a sizable deficit to surplus within two years, with assistance from and a stabilization program agreed with the IMF. The Portuguese economy had experienced high rate of growth, low unemployment, rising inflation, and substantial surpluses in its external accounts. The IMF and Portugal maintained close contracts. Portugal made several purchases of foreign exchange from the fund, including purchases under the 1975 oil facility early in 1976 and a purchase under the compensatory financing facility in the summer of 1976. Real output rose by over 3% in 1978 and by almost 5% in 1979.

**FOREIGN EXCHANGE, INDIA'S SUBSCRIPTIONS**

68. IMF FUND facility. *Econ Trnd.* 9, 13; 1980, Jl, 1; 17.

Government of India will be availing assistance of Rs. 540 crores from the IMF this year. This can be utilized to bolster its foreign exchange position.
India should try to reduce its gold subscription by 5% to 10%. If its permanent seat on the board of directors of the IMF is to be retained. The IMF has permitted some countries to pay their subscription in gold, when they were in difficulties. India will have to take resources to such device because of its tight exchange position.

India deplored in forthright terms the attitude of the affluent nations in "by passing" the developing countries and reaching crucial decision on the monetary system to meet the new currency crisis. Understanding had already produced "highly unfavourable effects" on developing economies, on the purchasing power of their reserves and on the problem of external debt servicing. The developing countries to raise their "collective voice" and assert their rights for full participation in decision-making processes in the evolution of a new monetary system.
FOREIGN RESERVE, DOLLAR

71. SEN (Sudhir). U.S. dilemma about the declining dollar. Eastern Econ. 71, 12; 1978, Se, 22; 578-82.

The dollar problem, long in the marking, has come to haunt the USA and the world. After months of studious passivity, the psychology in Washington has changed in respect of the declining dollar. As a big gain in the defence of the dollar for another thing that the dollar has already gone too far down that in purely economic terms it is already under-valued. This should stimulate exports and balance the currency account. The vast Eurodollar market consists of dollars and other currencies on deposit in banks outside their countries issue and uncontrolled by monetary authorities. The US also has reserves, totalling over $4 billion, with the IMF, which it could use for the same purpose.

FOREIGN RESERVE, GOLD

72. HENNESSY (Jassleyn). What's wrong with gold? Eastern Econ. 50, 4; 1968, Ja, 26; 141-3.

The USA's situation is dangerous because its continuing payments deficit are piling up foreign claims on a dwindling amount of US gold. The gold which is not earmarked
as backing for the money in circulation, recently stood at approximately $2,000 million ($22,000 million minus $11,000 million) against a net amount of at least $22,000 million of short-term liabilities held by foreigners. The 25% backing requirements could, of course, be reduced or waived, but if the payments deficit did not disappear, the situation would go from bad to worse and ultimately end in an embargo on gold. This is a dangerous process, which, the precedent of 1931 showed, leads to recession. The share of the annual production of gold going to monetary reserves has steadily diminished from $840 million in 1963 to $250 million in 1965. For the first time, in 1966, there was a net loss of $40 to 90 million. To postpone the deflationary effects of this trend and to help to finance the US balance of payments deficits without much loss of gold, various expedients have been devised since 1961, e.g. the general agreement to borrow, swaps, Roosa bonds, and the increase in quotas in the IMF. The gold as an instrument of foreign exchange is bound to disappear because of its scarcity. How it would be possible to get enough gold to meet the increasing need of international media of payment.

73. WITTICH (Gunter). Gold in the fund today. Fin & Dev. 19, 13; 1982, Se; 36-8.

One of the changes introduced by the Second Amendment
was the almost complete elimination of gold from the IMF's articles, although it remains an important asset. The role of gold in the fund today is valued. The various obligations of member countries to use gold in transactions with the fund would be abolished. That part of the fund's gold holdings would be sold for the benefit of developing member countries. The gold would be sold to all fund members at the official price. Gold continues to form a substantial part of international reserve holdings of a number of central banks. The fund continues to its holdings at SDR 35 an ounce.

FOREIGN RESERVE, SPECIAL DRAWING RIGHTS

74. BALASUBRAMANIAN (V). US may soften stand on SDRs issue. HT. 60, 22; 1983, Ja, 22; 1(3-4).

The US stand on a new issue of SDRs, the paper money created and managed by the IMF. The SDRs are intended primarily to provide a measure of reserve liquidity to the international monetary system and hopefully to serve as an international monetary reserve asset of choice. The developing countries in the IMF have been since then demanding regularly that the process should not only continue but a much larger
issue authorised the next period. The US will now take the lead in pushing for a new issue of SDRs. Nevertheless, it does amount to a situation in which the US may feel a certain obligation to go along with other members of the IMF should there be a broad support in the organisation for an additional creation of SDRs. Meanwhile, the developing countries may hope to be campaigning for their objective from a position of improved strength. The Regan Administration has been openly concerned about the possibility, as it sees it, of developing countries using SDRs as a source of investment finance. A process of world economic recovery, the developing countries could reasonably welcome this awakening as the best thing that has happened to them internationally during the current recession.


A review, with special attention to the refinement of the basket method of valuation, increases in the interest rate, and measures to make the SDR a more usable reserve asset. The SDR was introduced in 1970 by the IMF. The Fund allocates SDRs to participants in proportion to their quotas. The Fund created SDR 9.5 billion over the three years 1970-72, allocating them to 112 member countries. And SDR 4 billion was allocated
in each of the years 1979, 1980 and 1981, bringing the total number of SDRs in existence to SDR 21 billion. The Fund pays interest on holdings of SDRs and levies charges at the same rate on allocation.

76. DAGLI (Vadilal). What to do with unwanted dollars? Commerce. 139, 356; 1979, Oc, 6; 654.

US dollar depreciated by 19% while the Yen and German mark appreciated by 40% and 30% respectively between September 1977 and December 1978. The Swiss Franc appreciated by 35% during this period. Exchange markets are today denominated by fast changing relationship between these four major currencies of the world. The instability in exchange rates would indicate the floating exchange rate system has not worked effectively. It has also led to a view that better management of exchange rates is required so that the IMF which was almost killed by the delinking of the dollar from gold in August 1971 may become again an important international monetary organisation. As a result the role of SDRs in the monetary system may become more effective. The SDR is more stable than the dollar. The IMF resumed the allocation of SDRs at a rate of SDR 4 billion per year for a period of three year beginning from 1979. The SDR is the principal reserve asset in the
international monetary system. Since no allocation of SDRs has taken place since 1972, the share of the SDR in international liquidity has been progressively declining.


The recent phase of rapidly increasing foreign reserves is different in many ways. The rate of increases has been very fast, the foreign exchange in the hands of the Reserve Bank raising from Rs. 611 crores at the end of 1974-75 to Rs. 2,363 crores at the end of 1976-77 and further to Rs. 3,566 crores in the middle of December 1977. To these figures have to be added the gold in the hands of the Reserve Bank and the SDR holdings with the IMF. The total gold holding of Bank stood at Rs. 187.80 crores since January 1977, when the IMF returned Rs. 5.28 crores worth of gold to India. The SDR holdings of India have slowly been falling, but the end of August 1977, they were quite high at 139 million SDR's, or the equivalent of approximately Rs. 143 crores.

78. GRAY (Jean M). *The IMF: An emerging central bank?* *Eco Stud.* 20, 1; 1979, J1; 63-8.

The IMF is emerging as a "Central bank for the national
central banks". The IMF as a specialized financial intermediary whose primary function is to assist in the achievement of a smoothly functioning international payments adjustment process. Although IMF objectives, to promote stability in international exchange markets by fostering balanced growth and reasonable price stability in national markets, parallel those of many central banks, its authority and the scope of its operation do not. The IMF meets the uniqueness criteria for a central bank in only one respect: It creates international reserve assets in the form of SDR's which remains as a long run objectives.


International monetary system is an arrangement which helps the smooth flow of goods, services and money between countries participating in it by maintaining a stable rate of exchange between their respective currencies. An international monetary system became a necessity when from the middle of the 19th century, international trade gained a momentum, and luckily the world came to hit upon a device for the purpose,
which came to be named 'gold standard' in which any imbalance in a country's import position started a "flow of specie that sooner or later stopped the flow". In fact, for a clear understanding of the post-war international monetary system, the growing world supply of dollar became more important than the whole of the year-to-year functioning of the IMF lumped together. The IMF created a "paper gold" in its reserve called SDR in January 1970. The IMF will continue to function with its SDR's so long as there is no major threat against it.


The Kingston Conference that was attended by 20 finance ministers representing developed and developing countries marked a watershed in the short history of IMF. The SDRs, so called paper gold, will be principal reserve asset in the IMF. Gold was used as a base of national monetary system and the free convertibility of bank notes into gold enabled central banks to effect international payments through informal co-operation without governmental intervention and thus assured the free flow of international trade. Within
certain limits and on certain conditions, a member state become entitled, against payment in its own currency, to draw on the fund in order to obtain such foreign currency as it presently needed for making payments in that currency. The mechanism adopted for this purpose was the assignment to the currency of each member of a par value expressed in terms of gold as a common denomination or in terms of US dollar. It was obligatory on the part of the fund members to maintain orderly exchange arrangements on the basis of par values. The principal demand of the developing countries for a link between the SDRs and development aid and secure fresh allocation of SDR's to meet liquidity needs were not met. An attempt was made at restructuring the international monetary system, but several important matters remained undecided.


We have to take an active part in North-North controversies at least in international forums and encourage institutions like the IMF to take their role of global surveillance-surveillance of the rich as well as of the poor
and irrespective of whether they are borrowers or creditors - a little more seriously than they have done for some time. Certainly, there would be much greater success towards mental and material equilibrium in the world if the international institutions turn off the heat a bit from the developing countries that need to borrow from them and turn it on instead on those rich nations who are sitting pretty on enormous powder kegs that threaten to blow up at any time. The IMF has stopped the creation of SDRs from this year, and there is reason to think that the richer countries, after ensuring improvement in the characteristics of the SDR at the cost of low income countries, are no longer interested in making SDRs the principal international reserve asset.

82. RAO (VKRY). IMF and development assistance. Commerce, 139, 3566; 1979, Oc, 20; 744.

The use of SDRs as a tool for developmental assistance. SDRs were created by the IMF as a type of international liquidity that would not involve a transfer of real resources but would be based on national guarantees of acceptance by participants for the adjustment of payments imbalances. The IMF has formulated proposals for the creation of new type of SDRs in exchange for the dollar held by member countries in
their reserves in what was called the substitution account. These new SDRs were intended mainly to bail out the developed and the oil-exporting countries who were worried by their mounting dollar balances and the instability attending their valuation and that it may also come in way of new issues of SDRs on the old basis which involved no transfer of real resources and had given some benefit to the developing countries. The system of allocation should not be based on IMF quotas but should give a larger proportion to the developing countries.

83. SDRs as main reserve asset. *Finan. Exp.* 13, 10; 1973, Mr, 28; 1(4-8).

The IMF has agreed on "stable but adjustable exchange rates and on making SDRs the principal reserve asset. The four principles for evolving the future international monetary system which would be responsive to the needs of both developed and developing countries and a reformed system should also provide for adequate transfer of real resources from developed to developing countries.

84. THORNHILL (Barbara). *Amity through trade accords.* *Eastern Econ.* 50, 3; 1968, Ja, 19; 105.

The third major economic move in 1967 was the
unanimous vote by 107 nations for a plan to increase the world's monetary reserves. The IMF approved the creation of new reserves called special Drawing Rights (SDRs) to help gold and dollars finance international trade. The plan is the first major change in world finance since the monetary fund itself was established 23 years ago. The new world money, which will amount to an IMF book-keeping measure is intended to provide individual countries, with enough reserves to ride out temporary deficit, while still pursuing liberal trade policies with other nations. Without reserves, countries would be forced, during deficit period, to reduce their purchases from other countries. The cutbacks might be excessive, in the light of long-term trade prospects. The fund was created the greatest forward step in world financial co-operation. Free trade will enhance the economic growth of the individual countries and in turn that the world and all its people.

85. TRUJILLO (Candelario). Special drawing rights: The computer approach to the new reserve asset. Fin & Dev. 7, 4; 1970, Dec; 54-60.

Special drawing rights (SDRs), the new reserve asset being held by 104 participating fund members, were established by electronically computing and transferring each
country's allocation on to a computer magnetic tape. Allo-
cations of SDR's made to participating members have the
effect of increasing the reserves of those members. The
transactions between the IMF in which a member requires its
own currency from the fund in exchange for gold or currencies
acceptable to the IMF.

86. WALLICH (Henry C). The world monetary system after
postponement of the substitution account. Inter Econ.
15, 4; 1980, Jl-Ag; 163-7.

Recently the interim committee of the IMF met in
Hamburg without making significant progress on the proposal
for a substitution account. One of the main initiatives
towards restructuring the international monetary system thus
was postponed if not indefinitely suspended. What problem
was the substitution account designed to solve? Can it be
solved without the substitution account? A decision to
activate the substitution account would move the process in the
direction of an SDR-based system, although the ultimate out-
come might still be a different one. Foreign exchange inter-
vention in SDR would constitute a significant improvement in
the international monetary system. It would limit the undesir-
able effects arising from use of national currencies.

There have been a number of immediate changes in the activities of the IMF as the result of the entry into force of the Second Amendment of its Articles of Agreement. They include changes in the rights and obligations of members, the functions and transactions of the IMF. There may be fewer ambiguities in the provisions dealing with gold in the second Amendment, but the future of gold is unclear, notwithstanding the agreed objective of the gradual reduction in its role in international monetary system. Freedom of members to choose their exchange arrangements does not means freedom from all regulations. The IMF and other members to ensure the existence of orderly exchange arrangements and to promote a stable system of exchange rate. The monolithic structure has been eroded in favor of a series of policies, with separate changes, and even separate financing for some policies.


The Second Amendment of the Article of Agreement
of the IMF which came into force on April 1, 1978 represents the most massive and complex revision of a major treaty that has ever been undertaken. The second Amendment could conveniently be grouped into the following categories: Exchange arrangements and surveillance by the fund; Role of gold in international monetary system; Changes in the characteristics and expansion of the SDR's; Simplification and expansion of the fund's financial operations and transactions.


The large scale borrowing from the IMF by certain developing countries has simply meant a surrender of their economic sovereignty and has stressed that this is not a path India should follow. To explain what are the implications and in what way our rights, our policies that are going to be effected by the policies of IMF from time to time. The changes were incorporated in the second amendment of the Articles of Agreement could only be regarded as traditional step. It indicates transitional step towards a more comprehensive agreement with IMF which would, among other things, hopefully establish a link between SDRs and development assistance and enable the developing countries to play a large role in
decision making. Today, the government is borrowing Rs. 5,000 crores. The cumulative effect of this will be such a disaster that our future government will not be able to discharge this debt. The foreign exchange reserves were of the order of Rs. 1,491 crores in 1975-76. When the Janta Government resigned in 1979-80 the reserves had risen to Rs. 5,219 crores.

19, 1; 1982, Mr; 9-12.

Responding to the view among its members that the fund should be active in exercising surveillance, it pursues this function at multilateral and bilateral level. The Fund's Economic Counsellor reviews the purposes and process of surveillance, within the flexible framework established by the Articles of Agreement. The IMF seeks to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic descriptions. It avoids manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment. The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations.
Problems concerning international monetary system and their implications for the developing countries have been frequently discussed on various national and international forums during the last decade. It is now widely recognised that because of close inter-dependence of trade and monetary flows, reforms in the system should form an integral part of the New International Economic Order. Second Amendment of the articles of agreement of the IMF which became effective only from April 1, 1978, represents a significant development. The IMF articles has legalised the fluctuating exchange regime but visualises that at a future date, a system based on stable adjustable par values should be possible, but would be done only if 85 per cent majority of the fund's total voting power agrees to it. It also provides for a system of surveillance by the IMF. The 11 member countries whose foreign exchange holdings increased by SDR 1 billion or more added 37 billion to their aggregate holdings, accounting for 90% of the rise in the holdings of all countries. Four oil exporting countries, Iran, Iraq, Saudi Arabia and Libya accounted for another SDR 7 billion or about 18%. It is distressing to note that outstanding debt obligations of 94 developing countries has
grown from $71.7 billion to $216.6 billion during the period of 1970-76, representing an annual rate of growth of 20.2%. The rate of increase of outstanding debt tended to accelerate overtime.

92. TALKS ON doubling IMF’s lending power. Econ Times. 9, 255; 1 (2-3).

A package of measures which will nearly double the lending power of IMF is to be under discussion among the United States and other major industrialised nations. To work out measures to strengthen the financial position of IMF through accelerated increase in quota subscriptions. A tentative agreement to increase IMF’s basic lending resources by about 50% as part of the package. The tentative agreement is to call for an increase of about $30 billion in basic quotas paid by member countries of IMF. An increase in IMF’s General Arrangement to Borrow (GAB) from current six and a request to Saudi Arabia to provide IMF with a new revolving credit of about 5 billion dollars for lending to countries in financial difficulties, are started to be remaining parts of the package. The agreement under which other IMF countries will also be allowed to borrow from this fund.
In recent years, the fundamental changes in international monetary arrangement taken place, and it is important that these changes be fully understood. The agreement was solidified in Jamaica by the interim committe of the IMF. The agreement involves general revision of international monetary arrangements established at the 1944 Bretton woods conference, while preserving the basic aims of promoting international monetary cooperation and facilitating the exchange of goods, services and capital. Important operational aspects of the system have been changed to promote a smoothly functioning monetary structure, without the shocks and disequilibria which arose with increasing frequency in the 1960's and early 1970's. Under the original IMF article's each nation undertook to maintain a "par value" for its currency, expressed in terms of gold, and agreed to convert foreign official holdings of its currency into gold at the request of the holder. This new provision recognizes that the relationship between currencies must reflect the evolution of domestic economics. But par value provisions cannot be achieved through action to fix or manage exchange rates in conflict with underlying conditions. If each country maintains sustainable
non-inflationary rates of economic growth, then exchange
relations will also be relatively stable.

94. YOUNG (John H). Surveillance over exchange rate policies.
    *Fin & Dev.* 14, 3; 1977, Se; 17-9.

The IMF recently announced the principles and
procedures for the guidance of member countries with respect
to exchange rate policies, and for the exercise of fund
surveillance over those policies, after the proposed second
amendment of the Article of Agreement becomes effective.
Surveillance is an important and complex function which
reflects member countries recognition of their interdependence.
The purpose of IMF Surveillance is to reduce the economic
costs and the international political frictions which result
from a country having the wrong exchange rate over a
significant period.

FUND'S CONDITIONALITY

95. BAGCHI (Amiya Kumar). Conditionality and its implications.
    *Eastern Econ.* 77, 23; 1981, De, 4; 1068.

The IMF often exacted conditions which aggravated
the instability of the borrowing country and seriously hampered
its efforts at industrialisation. In Argentina, Chile and many other countries, in the 1950's and 1960's. The IMF now recommends not just short run policies but it insists on a package of policies that should bring about 'Structural readjustment' in the direction it wants. Thus the long-run development objectives of the country might be completely overturned at the behest of the IMF. Since the Indian Government has now negotiated the largest single loan ever granted by IMF, it is inviting application of the maximum conditionality laid down by the IMF. The IMF in concert with the other controllers of international capitalism have not succeeded very well in checking inflation or promoting any other kind of stability.


The American opposition to the IMF loan to India always had an air of theatricality about it. But the fund's management had satisfied itself by that time that the Indian loan request fell within the scope of the policy the IMF had adopted for extending its conditional financial support to adjustment programmes instituted by member-countries in order to overcome medium-term payments imbalances. The IMF on the
suspicion that its assistance to Third World countries through its enlarged access policy may spill over from balance-of-payment support to disguised development financing. The needs of the IMF, the Americans are blocking further creation of SDR's and insisting on the fund completing its on-going studies in this area before the proposal taken up. They have also expressed their uneasiness over the success which the fund has been achieving in lining up resources for its enlarged access policy by tapping Saudi Arabia and other Gulf sources. The IMF shifting to a track of high conditionality in extending balance of payments support to developing countries. The IMF are scheduled to consider today the largest loan the agency has ever been asked to make—a credit of 5 billion SDRs (about $5.68 billion) to India.


Analyses the budget provisions of 1982-83, comparing it with last year's budget. The views expressed are those of the author only. We can very well understand the finance minister's anxiety to increase production to cut short the imports especially in the light of IMF loan. We are borrowing from IMF just to cover up the balance of payment deficits. We
simply cannot afford to continue with the perennial external payment problem. We are simply going to sink, if the balance of payment position does not improve, even with the assistance of the IMF funds. All financial experts hoped that the deficit may be much less at least this time, in view of the additional inflow of foreign capital through IMF borrowing, which adds to the circulation of money in the economy. If deficit financing is also huge with the IMF loan it may ultimately generate tremendous pressures, the experts opined. So, the IMF as conditions for its loan are essential.


IMF conditionality has meant interference in the internal economic and social policies of debtor nations and that debtor nations have been forced to swallow the bitter pill of 'structural adjustment' which in many cases has only worsened the balance of payments situation and has allowed the IMF and its principal member. Indian industrialists seem to be now clear that the new import policy is not in their interests and that it was imposed by the IMF. Jamaica stopped getting the loan from the IMF. Jamaica went through serious political and economic crisis as a result of implementing fund programmes and the IMF
tightened the screw on Manley, who was becoming less accommodative towards the IMF. But Jamaica is once again securing funds from the IMF.


The IMF 'conditionality' is not objectionable since no member country has expressed against it. The Government of India has probably gone in for the 5 billion SDR loan due to the "pressure on the balance of payments". India would adopt only such of the measures and policies and programmes as were consistent with its own policies. The 5 billion SDR loan can be repaid, the Indian economy revived and all problems sorted out provided in the next few years, in the period when the loan is being absorbed, there is no inflationary pressure built up in the economy.

100. BHADURI (Amit). Special calumns in India's loan. Eastern Econ. 77, 23; 1981, De, 4; 1072-3.

In the interest of international commercial banking, the IMF today is being asked to play a role where banks can avoid such "lending-traps" in developing countries. The basic
logic of the IMF "special clause" in India's case is to pre-empt India's right to approach international banks for commercial borrowing, so that India does not become another "lending-traps" for them. Our suggestion is that this paradox is now being attempted to be resolved through an international policies role by IMF (and the World Bank) in the interest, and on behalf of the international commercial banking system. IMF conditionality imposed by India's getting into a debt trap then allow the IMF to force India to accept multinational corporations foreign private investment, which provide a suitable vehicle for international commercial banking.


In a developing economy like India, bouts of recession and inflation are not the parts of recurrent cyclical variations in the level of aggregate economic activity-characteristic of an advanced capitalist system. India's present external indebtedness is put around Rs. 15,000 crores. In 1981-82, total debt was estimated at Rs. 837 crore which constituted about 25% of the country's foreign exchange reserves. The recent availing of massive 5.6 billion dollar loan from the IMF marked a radical departure from the policy
of avoiding conditional aid. While the loan was biggest in
the history of the IMF, the loan was the largest and unique
for India too, as no aid received earlier carried with it
such a wide range of conditional clauses. The loan which is
developmental "in character as it is intended to fill the
staggering balance of payments deficit of Rs. 5800 crore in
1982-83 and stabilise in future the external payments posi­
tion. The IMF conditionality which has been put in practice
and the present recessionary trends in parts of the country's
industrial sectors.

The principal cause of the balance of payments
deficits of the non-oil developing countries has altered
since 1973; exogenous factors now play a far more important
role than previously. The appropriateness of the conditions
conventionally attached to IMF drawings need to be re-examined
in this light. For instance a view amongst developing
countries that IMF conditionality is inappropriate to their
problems may deter them from turning to the fund; again, an
increase in their need for finance as reflected by a deterio­
ration in their balance of payments may force them to borrow
From the fund in the upper credit tranches or through the extended facility where stricter and more rigorous conditionality applies. This will be more so the case if the size of fund quotas, which in turn is the main factor determining the size of the fund's lending capacity, is not maintained in real terms.


Given the adverse outlook in the balance of payments in almost all non-oil poor countries, and the likelihood that many of them will have no other recourse for additional financing but the IMF, it is important to examine the nature of the problems that are worrying many developing countries regarding IMF policies.

104. BATT (Buddar). *Balance of payments, IMF loan and national policy. Janta.* 37, 3; 1982, Fe, 21; 5-6.

During the last few years, the balance of payments situation has been deteriorating. This is largely the result of the growing unfavourableness in the balance of trade. The balance of trade which was adverse to the tune of Rs.2,449 crores in 1979-80 more than doubled itself in the next year.
and was of the order of Rs. 5,626 crores in 1980-81. Even during 1981-82, it is expected to be of the order of more than Rs. 5,000 crores. This trade gap is partially met by a favourable balance of invisibles. This is healthy feature, but the government instead of reducing the trade gap has adopted the easier method of going in for a huge loan from the IMF of the order of $5 billion. The country have reacted sharply to the conditionalities attached to the IMF loan. The country is reversing many of the basic policies with respect to private enterprise, foreign collaborations and import subscription. Our economy suffered a sharp set back because of both domestic and external factors, real national income fell by 5% in 1979-80 and inflation, which re-emerged early in the year, was over 20%. Domestic savings fell to about 21% of GDP. The external situation in facing the economy also deteriorated sharply. The price of imported oil doubled from the end of 1978 to January 1980 and this was reflected in a shift into an overall deficit in the balance of payments in the second half of 1979-80.


The coincidence of the oil crisis with the world
recession since 1974 made it incumbent for non-oil least
developed countries (LDCs) heavily dependent on international
credit markets. The IMF has underwritten most of this massive
debt build up. The developing countries import normally more
goods and services than they do export and the current
account of deficits that are so incurred in the process are
normally covered up in the form of aids, loans and direct
investment. The IMF to intervene more actively in LDC's
policy making. A still different group recommends a slow down
of economic growth as a remedy for LDC's payment problems. The
IMF which can assert any conditionality clause to safe-guard
the financial interests behind loan making and repayment
thereof. The successful negotiation of an IMF loan therefore
acts as a strong balancing factor on the assessment side. In
recent years, a growing deficit in India's balance of trade to
the tune of Rs. 5,000 crore seems to be almost persisting.
India's export in 1984-85 should be around Rs. 13,000 crore as
against Rs. 6,423 crore in 1979-80.

106. DUTTA (Bhabatosh). Budget and the IMF conditions.

The conditions attached to the recent IMF drawing
would be substantially reflected in the central budget for
1982-83. The important revenue-raising schemes have been announced only a few weeks before the presentation of the budget. The fund conditions and of the fund line of thinking on the budget is the heavy reliance on import duties. Out of Rs. 533 crore of new taxation proposed, as much as Rs. 392 crore, or about 2/3 will come from customs. The Government to liberalize and not to impose any restrictions for balance of payments purposes. The fund and the continuance consultations in depth will probably ensure that the government's contribution to the inflationary pressures will be kept in some check. The fund condition related to payment agreements only with member countries. India does not have a multiple-exchange system and therefore, the condition prohibiting it is not relevant to all. The fund did not insist on the devaluation of the rupee but the need for 'realistic' exchange rates was emphasized.

107. GANGULY (AK). Probe into monetary system. HT. 60, 3; 1983, Ja, 3; 9(4-7).

The RBI to undertake an in-depth probe into the monetary system. It is, has not caused any big ripple on the country's monetary stream. It is also necessary to find out how the RBI can fulfill the credit ceiling laid down by
the IMF with a view to fulfilling the conditionality clauses. The net credit expansion to the Government till December 1982 should have been of the order of Rs. 4,160 crore. But by November 19, it exceeded the limit and reached Rs. 4,370 crore. The IMF conditionality clause, an overall credit expansion of Rs. 11,930 crore should have been achieved by December 31, 1982. Against this, the actual expansion has been Rs. 7,411 crore, which is much lower than the total ceiling, mainly because of the lower commercial credit. But there is every possibility that the IMF may object to the greater credit expansion to the Government and also the large Union budget deficit, which is stated to exceed Rs. 2,000 crore, compared with the estimated deficit of Rs. 1,365 crore.


As the 1980s unfolded, the international economy was entering a difficult stage: inflation in most countries was high and showed no signs of abating; growth rates were slowing down; and external imbalances had increased and shifted among group of countries. The recent steps taken at the fund
to support member's adjustment efforts to improve their economic performance.

*Fin & Dev.* 17, 4; 1980, De; 23-7.

During the 1950's and the 1960s, the IMF's resources were increasingly called upon its member countries. The conditionality attached to the use of these resources and the practices that were developed by the IMF for the implementation of conditionality during this period of relatively stable prices and growth rates. The issue at stake is not whether adjustment will be carried out but whether it will be carried out efficiently. Conditionality is a means to ensure the efficiency of international adjustment process. Uniformity of treatment, when properly requires that for any given degree of need the effort of economic adjustment sought in programs be broadly equivalent among members. In time, the practices of conditionality came to encompass all general aspect of economic policies. So that imbalances could be redressed without resort to restriction on trade and payments.

The Government of India's decision to take a massive IMF loan has touched off a nationwide controversy over the conditionality attached to the loan. The IMF, traces the evolution of the conditionality in the last decade, which has relevance to the currently negotiated loan. During their two-year duration they were used by 55 members and provided them with approximately 7 billion SDRs. The oil facilities, in effect, introduced a modification— in favour of financing, in the typical blend between adjustment and financing in the fund's standby arrangements. The IMF has made loans for some SDR 3 billion to low income developing countries.


The large scale borrowing from the IMF by some undeveloped countries has simply meant "a surrender of their economic sovereignty" and stress that "this is not a path like India to follow" it had not been an idle warning. The leakage of the exact terms and condition on which India is negotiating for a loan of 5 billion SDRs from the IMF. That borrowing from the IMF would give the IMF power to impose its
own style of "economic discipline" on the governments economic policies and the management of the economy. India's economic sovereignty and decision making powers in the coming three years during which period the IMF loan would be drawn in three annual instalments and subsequently for as long as the loan together with the interest on it is met fully rapid.

112. IMF LOAN to India: Dark horizon or silver lining.

*Banker,* 28, 10; 1981, De; 8-12.

The IMF recently approved the loan of 5 billion SDRs to India. Approximately 10% per annum, 6.25% per annum on half of the loan amount, the interest rate will be charged by the IMF. India has sought this loan to deal with the acute balance of payments crisis through which the country is passing at present. For many of the non-oil developing countries, the past two years have been a period of increasing economic difficulties. The record of the non-oil developing countries with respect to inflation to considerably worse than their growth performance." Because of the prevalence of accommodating financial policies as well as the higher cost of imported goods consumer prices in this group of countries have risen steeply". India would be able to achieve a break
through in oil production in the next three years and would not be obliged to draw last instalment of the IMF loan. The balance of payments problem and gives the IMF the power to impose its own style of "Economic Discipline." The huge IMF loan would finance the deficit in the budget, would enhance the level of the reserves. The decision of the IMF, including the pattern of "conditionality" in relation to large drawings on it by different countries. The IMF loan is going to prove a silver lining. However, the acquisition of IMF loan, through seemingly perched on a dark horizon, has bright silvery spots.


The Government of a country whose finances are in poor shape appeals to the fund help, and the fund demands drastic correctives as a condition of granting it. The IMF is not willingly involved in politics, but it cannot avoid accusations that for the sake of stability in the financial system as a whole, it is willing to support repressure regimes. Nor can it avoid criticisms, mostly from developing countries and that its method of financial rectitude are too sophisticated to be applied indiscriminately, and that method which could be
beneficial if they were applied over a period of years may cause excessive stress if they are forced into a period of a year or two. Egypt's negotiation of a three-year standby credit from the IMF is virtually a condition of continuing assistance from Saudi Arabia, Kuwait, Qatar, and the UAE as well as a suggested explanation of intensified political repression.

114. JOHNSON (Omotunde) and SALOP (Joanne). Stabilization programs and income distribution. *Fin & Dev.* 17, 4; 1980, Dec; 28-31.

The IMF makes its resources available to the countries, under certain conditions, in support of stabilization programs designed to counter payments imbalances inevitably affect the distribution of income within the population of the country concerned. The programs implemented with IMF support in Bolivia, Ghana, Indonesia, and the Philippines and review the short-term impact of the adjustment measures on the earnings of different income groups. Domestic political considerations largely determine who bears the burden of reducing and restructuring aggregate demand to achieve sustained external balance.
The Government of India has obtained a conditional commitment from the IMF for a massive balance of payments support loan. As in the practice, the IMF has applied its maximum conditionality clauses. The conditionality clauses are nothing but a means for making the borrowing country change socio-economic domestic policies and international economic and financial relationship. The IMF's policy prescriptions are also strongly tinged with supply side economics and the market orientation. The policy changed already initiated in India which were catalogued officially with the loan application indicate the strong market and private enterprise. Over the Sixth Five Year Plan period, the net capital inflow from abroad is projected at Rs. 9,063 crores at 1979-80 prices. In the first two years, net external resources to the tune of Rs. 1,792 crores and Rs. 1,379 crores have already been availed of. Then comes the Rs. 5,270 crores of balance of payments support extended exchange facility from the IMF. The IMF amounts to violating the Sixth Plan framework.

The IMF has approved a loan of $5 billion to India.
But the fund put forward certain conditions which are ceiling on deficit financing, tighter control of money supply; removal of liberalisation of price controls; removal of administrated prices in the public sector; revision of power tariffs; measures towards conserving energy; removal of the subsidiaries to the extent possible; more incentives for higher investment in the public sector; tax reforms and better tax administration; improvement in the performance of infrastructural facilities; and measures to step up imports.


India has moved a long way from the first concept of aid as a supplement to domestic resources for a development to its use as a maintenance resource and finally to reliance on foreign aid as a short-term balance of payments support. The question really is how far such a borrowing spree and injection of direct foreign investment which will be arranged side by side will build up the capacity of the economy to satisfy the domestic requirements of development, raise the living standards of people and promote exports for servicing foreign investment and credits on the scale being envisaged. India has been pushed into seeking balance-of-payments support
from the IMF under its Extended Fund Facility. The conditionalities attached to such a loan are really not negotiable. This kind of loan could be had on concessional terms. The IMF, however, is not concerned with the developmental assistance at all. Its role is strictly for which deals in short-term balance-of-payments problems which arise in world trade by giving short-term credit to those countries which run into trade and payments deficits.


Indian Finance Minister, Mr. R. Venkataraman should, therefore take parliament fully into confidence not only about the conditions specially attached to the 5.6 billion loan which the government is currently negotiating with the IMF, but also about the general IMF conditionalities. A large number of African countries since the 70s, when the world Bank-IMF policies began to operate in that continent, is a clear warning that any complacency towards IMF conditionalities is like playing with fire. The terms and conditions which the IMF puts forward during the negotiations for dispensing its largesses. But these are the consequences which have followed its conditions. The higher inflation rocked the Brazilian economy once advertised
as model of growth. IMF's insistence on export promotion.

In most of the developing countries which have leaned to heavily on IMF, civil liberties have been crushed, growth has become stunted. Social welfare programmes have been slashed, all measures to strengthen the independent foundation of economy have been undermined.


The flow of financial resources to the developing countries have increased sharply in recent years. Some general issues raised by the resort to external finance, but IMF's role in instances, where countries encounter debt servicing difficulties. The IMF is involved with the external debt problems of its members. The fund resources are made available in support of a stabilization programme, the stand-by arrangement often includes provisions regarding new borrowing during the period covered in the arrangement. The IMF plays an important role in case where its members face debt rescheduling situations. The IMF supported stabilization programs as part of a general review of the conditionality attached to the use of fund resources undertaken earlier.
The new year ushered in between the Government of India and the IMF for a large extended arrangement entailing a significant degree of conditionality in economic direction. The conditionality bringing fund monitoring and surveillance in its wake, will be related specially to monetary and fiscal policies, foreign-borrowing, and exchange rate management. From the standpoint of critics in the developing world, the conditionality principle enables the fund to twist arms. The IMF approved an arrangement for Pakistan making available resources to the tune of 1.268 billion SDR over the next three years. An amount equivalent to 44.5% of that country's old quota of SDR 285 million. SDR 800 million, also for the three years, for Bangladesh whose new fund quota is SDR 228 million. India's new quota in the IMF is SDR 1.7 billion. India's economy is seen as bung in a period of quite serious balance of payments difficulty that may approach a crisis at some not very distant point unless the trends are reserved.

The IMF always lays down conditions for using any
of its facilities. We therefore expected that there would be certain conditions imposed should we desire to use the IMF extended fund facility. Tanzania is not prepared to devalue its currency just because this is a traditional free market solution to everything and regardless of the merits of our position. Our price control machinery may not be the most effective in the world, but we will not abandon price control. We will only strive to make it more efficient. The importance of the Third World demand for changes in the management structure of the IMF. IMF prescriptions are designed by and for developed capitalist economies and are inappropriate for developing economies of any kind. The foreign-exchange situation which the IMF involvement itself is aimed at improving.


The apologists for 5 billion dollar IMF loan to India have not voiced any public opposition to the view that IMF "conditionality" is pernicious. This massive loan, the biggest ever in IMF's history, without attracting the harsh terms on which the IMF usually gives loans. The IMF package brought not only sharp reductions in the living standards of
the working people through unemployment, wage-cuts and the withdrawal of relief, but also no recovery in the economy, nor even any improvement in the balance of payments notwithstanding a tremendous increase in private profitability. The IMF makes any attempt to tighten the conditions, India always have the option to get out the IMF's clutches and go to commercial banks.

123. RAI (Kartik). Imperialism's usurious exploitation of the Third World. People's Demo. 6, 8; 1982, Fe, 21; 4.

"Capitalism which began its development with petty usury capital, ends its development with gigantic usury capital". Taking advantage precisely of the burdens imposed on the Third World countries by the capitalist crisis. The IMF's "conditionality" putting a ceiling on commercial borrowing by client, as was imposed for instance on India, may appear to contradict this point, namely, that imperialist agencies like the IMF and the World Bank are being used to facilitate the entry of multinational banks. The IMF moved in with a tight grip over the economy, they are particularly chary of lending to unknown. To get the Third World deeper into debt, to "open it up" for multinational banks, to extract a heavy "tribute" through interest charges, such is the strategy of imperialism.
The immediate factor underlying the current recession has been the policy package adopted by the Indian Government under the dictates of the IMF. Import liberalisation, credit squeeze and the snatching away of purchasing power from the people through massive hikes in administered price and indirect taxes, all these measures dictated by the IMF have contribute to the current industrial recession.
The IMF on its 5 billion SDR loan had included among other things a jacking up of prices all round in the economy and the imposition of a credit squeeze. Critics had pointed out at the time that these steps would amount to nothing short of promoting a deliberate "engineered" inflation as well as a deliberate "engineered" recession. The IMF conditionalities bear out amply the truth of the critics' contention. The whole package of measures adopted under IMF guidance that underlies the emerging recession and the spreading sickness. The IMF would not stand for that, resort to a further round of price-hikes over and above what was envisaged in the budget. This in turn, would worsen both inflation as well as recession. India's foreign exchange reserves by about Rs. 1,300 crore during the period April-January, had nevertheless taken comfort from the fact that export growth was running at about 14%, compared to a rate of import growth of about 6%. The trade deficit would be about Rs. 5500-5600 crore compared to Rs. 5756 crore for the previous year. The projected deficit was of course huge, but at least it appeared to mark an improvement over the previous year.
The Government's public posturing not withstanding, therefore the new licensing policy is meant to do away with all controls. Upon capacity expansion by the monopolists and the multinationals. This is precisely what the IMF has been wanting. Tentative moves in this direction initiated notably with the 1980 industrial policy statement were precisely what was hailed in the secret IMF memorandum as a major and welcome shift in policy. And now the government has gone a long way further along this path, no doubt to please the IMF. The govt. is reportedly planning to dismantle price and distribution controls, a measure the IMF wants, which would necessarily result in boosting private profit-margins. And it has, of course been attacking the working class.

The IMF would not only determine the general shape of economic policy, but would enforce, through the so called "performance clauses" specific arithmetic ceilings on how much the government can borrow from the banks, and so on. The IMF gives a loan, it arrogates to itself the right to determine
the economic policy of the borrowing country. The IMF has put a ceiling on the amount that India can borrow abroad commercially, 1.4 billion SDRs in the first year; this figure may change in the subsequent year but its implications are serious. While commercial loans carry much higher interest rates, the IMF ability to impose 'conditionality' on the borrowers. The IMF is ensuring for itself a monopoly position as a lender, ensuring that India has no where else to turn and remain a "tied client". The IMF programme demands, in other words, is a massive increase in the rate of surplus value. The IMF's prescription of import "liberalisation" for India is meant to help not the Indian economy but the imperialist countries. And the IMF would seek to rectify the resulting widening of our payments gap through an increasing squeeze on the people.


No nation in the Third world can achieve self-sufficiency without foreign assistance, that there are serious risks involved in it unless the issue is viewed in the proper perspective. This is particularly in the light of the fact that such aids as a rule are accompanied by intrusion of trans-
nationals in the industrial sphere of underdeveloped countries. This phenomenon, instead of fostering self-sufficiency only increases the dependence of Third World nations on the developed nations. This is more pertinent in the Indian case as the new trend of foreign aid through the IMF has an explicit or implicit conditionality of open door to private foreign investment.


The current account surplus of the oil exporting countries dropped from the peak of $60 billion touched in 1974 to $6 billion in 1978, but rose to $60 billion again in 1979, among other reasons, because of a decline in the growth rate of their imports from 15% in 1978 to 4% in 1979. The combined current account deficit of the developing countries increased from $6 billion in 1973 to $24 billion in 1974 and $38 billion in 1975. While it is estimated that the developing countries current account deficit will rise by about $20 to $25 billion to touch $70 to $75 billion in 1980. The market have vaguely expressed yearning to work in the shadow of the IMF (rather than the World Bank) largely because they consider the fund's conditionality restrictions a safeguard.

A review of 21 stand-by arrangements, which the IMF granted in support of stabilization in 18 member countries between 1973 and 1975. The main aspects of the design and implementation of the programs and evaluates their effectiveness against the background of the economic disturbances of the time.


From the point of view of economic as well as political independence external assistance should be reduced to the minimum; it is not wise for India to shut off foreign aid. If the country wants to go for large scale investment, particularly in areas like oil exploration and telecommunication, domestic savings will not be adequate. The IMF loan has to be viewed in this context. Because of the bitter experience of the conditionality imposed on India for getting loans from the IMF from the Fourth Plan. India had to depend upon foreign assistance to service the by then accumulated foreign debt.
and to finance maintenance imports to sustain development activities. With sagging exports, India was left with no alternative but to go in for the IMF loan.


The IMF and the Uganda Government has drawn up a recovery programme which clearly stipulates that the private sector, including co-operatives, will complete with the parastatals in an open and free market. Obote deems his moving away from the earlier Leftist path and his accepting IMF and World Bank help by writing that "the timing and volume of any assistance are crucial. Coupled with our resolve to take bold measures, assistance, which is too late and too little, could result in disincentives for the Ugandan producer to redouble their efforts to meet the challenge of recovery". Obote finds himself in a predicament in order to survive, he needs 800 million dollar of foreign exchange, delay of payment on previous loan and raising of quota. This is linked to his accepting IMF condition and IMF loan. Conditions included higher farm prices, lesser expenditure on administration, devaluation of the Shilling, rationalisation of tax structure, introduction of flexible interest rate, transfer of parastatal organisation to joint or private control.
FUND'S MEMBERSHIP

134. SCHRODER (Klaus). IMF and the countries of the council for mutual economic assistance. *Inter Econ.* 17, 2; 1982, Mr–Ap; 87–90.

In November 1981 Hungary and, one week later Poland applied for membership of the IMF and the IBRD (World Bank). These applications have highlighted a subject which had been neglected for quite some time. This analysis deals with the problems and consequences which arise from the membership of countries of the council for mutual economic assistance (Comecon) - the economies of which largely conform to principles of central economic planning - in IMF, an institution organised according to market principles.


China decision to become a member of the IMF represents a significant break from the ideological past, since China had been projecting the international monetary organisation as a club of the capitalist nations, exploiting the economically developing countries. To become a member of the IMF and the IBRD. It is claiming the status of a developing country and shedding the orthodox Maoist image, China now seeks
to make a better use of available international finance
to give a forceful thrust to its economic growth. The
IMF membership of china will have a definite impact on
other South-east Asian countries in general and on India
in particular. The subscription of Chiang's regime to the
IMF was $500 million, out of total subscription of $8
billion giving it a share of 6.35%. India's subscription
was $400 million. IMF subscription quotas are based on
national income, gold holdings and global standing in export
and imports, all of which continue to be in favour of indus­
trial nations. It will be worth watching the attitude of
China towards the rich nations' plan to institute a substitu­
tion fund by selling IMF gold in order to mop up the excess
dollar liquidity in international market.

GOLD SALE, PROFIT, DEVELOPING COUNTRIES


The IMF completed the sale of 50 million ounces of
gold, or a third of the total quantum of gold held by it, this
month. The official price of gold of dollar 35 an ounce had
to be abandoned by IMF to all members countries. According
to the IMF, out of the profits from the auction sales of 25
million ounces of gold, dollar $129 billion will have been transferred directly to 104 developing countries in proportion to their quotas as on 31, 1975. Iraq, Kuwait, Qatar, Saudi Arabia, the UAE and Venezuela, have irrevocably transferred their full share (and Yugoslavia a part of its share) in the gold profit to the trust fund. The balance of the profits, together with these transfers, are available for loans by the trust fund created for the purpose. The trust fund has loaned the equivalent of SDR 1.9 billion to 50 developing nations, out of 61 members listed as eligible for these loans. India is an eligible member, but has not borrowed so far. It has given notice that it proposes to borrow against its quota. An estimated amount of Rs. 550 crore has been mentioned as the borrowing proposed from the trust fund.


In August 1975, the IMF agreed that 25 million ounces of gold should be sold by the fund for the benefit of developing countries, and another 25 million ounces should be distributed to fund member countries. The highly volatile movement of gold prices over the last few years was due in part to abrupt variations in the speculative demand for gold and the fluctuation in supplies from committ countries. Moreover,
since the gold market is very sensitive to actual and expected changes in currency values and interest rates, the generally unstable economic condition of recent years have also contributed to the market's movements. The gold market then has been marked by wide price swings over the last five years.

GOLD SALE, PROFIT, INDIA


The IMF will distribute through the Trust Fund, profits from the sale of gold amounting to $362.6 million to 104 developing countries. Out of this India will receive the highest share of $42 millions.


The recent recovery in the price of gold in the international market has enabled the IMF to reap a rich harvest in its latest auction earlier this month in the shape of a substantially higher price and also a higher profit margin than at any of its earlier four auctions. It received a price
of $137 an ounce in the latest auction, compared with $126 and $109.40, the high and low points, respectively, in the previous auctions. The event must have been noticed with considerable satisfaction at least in the 61 developing nations designated by the IMF as qualified to receive loans from the Trust Fund, into which the profits of the gold sales are to go. As the 61 countries designated as beneficiaries of the Trust Fund are to receive assistance in proportion to their quotas, India as one of 61 and as the country having the largest proportionate share in total of quotas of the receiving countries, is eligible to get, on this basis, 25% of the total Trust Fund assistance. All the other countries in the group of 61 would benefit also, each according to the strength of its quota. Egypt has 5%, Pakistan 6.3%, Sri Lanka 2.6% of the total quotas of the group. The assistance from the Trust Fund would be available for either or both of the period July 1976 to June 1978 and July 1978 to June 1980.

INDIA, SIXTH FIVE YEAR PLAN


Self-reliance is defined in terms of resilience to
cope with disturbance in the international economy and the improvement in our capacity to weather international shocks. The way foreign aid has been used in the developmental endeavour through different Five-Year Plans. The use of foreign aid in meeting the budgetary gap, obviously snapping fingers at the $5.7 billion IMF loan. The IMF loan of Rs. 5,100 crore, which is fully receivable during the Sixth Plan period. The latest estimate submitted to Parliament of the total foreign aid to India is Rs. 24,759.2 crore comprising Rs. 18,872.5 crore in loans, Rs. 3112.8 crore in grants and Rs. 2773.9 crore as PL 480 aid. The IMF loan has brought into sharp focus, is the need to cover the growing trade deficit and balance-of-payments gap. The IMF loan are contrary to the Plan principle of self-reliance; that the concept of self-reliance conceived by the Plan is being eroded by consciously following a policy of export-oriented growth which makes the Indian economy "a hostage" to the vagaries of market economies.


It is a stab in the back of India's self-reliance in favour of IMF policies. There is a convergence between the
ideas of the IMF and Sixth Plan; and it would be a fatuous to suggest that the Sixth Plan policies have been laid down by the IMF to suggest that IMF policies have been laid down by the Sixth Plan. The Government is quite determined to get future instalments of the IMF loan. The IMF has in effect, given our economy a gentle nudge in the right direction.

42. AIYAR (Swaminathan S). Who's afraid of the loan? Eastern Econ. 77, 23; 1981, De, 4; 1070-2.

The USA pointed out that the loan to India was easily the biggest ever given by the IMF, and objected to such a massive loan being given to a country which already had five billion dollars in its foreign exchange reserves. But one aspect on which the IMF has been most specific is to prohibit commercial borrowing of more than 1.4 billion dollars. The IMF has given India the biggest-ever loan permitting adjustment over a three-year period, with repayments of the loan being staggered over seven to ten years. It set up special trust fund from the profit of its gold sales, and disbursed this money in the form of unabashed aid. The Sixth Plan stresses the need for curbing deficit financing, restraining monetary growth, encouraging exports, raising substantial resources by improving the efficiency of the public sector
and the price of its products, reducing subsidies and encouraging exports. All these policies are part and parcel of the standard IMF format. But let there be no mistake, this policy frame was formulated long before India applied for the IMF loan, and was not a result of IMF pressure. The IMF instalment this year is smallest, and gets bigger and bigger in the two years ahead. By the time the biggest instalment of 2,300 million SDR is due in 1983-84, India may have considerable difficulty in proving that it really needs so much money, as its payments gap at the time should be small or non-existent.


The thrust of certain IMF conditions is towards a great role for the private sector, the Sixth Plan itself places a heavy burden on the shoulders of the corporate sector in regard to resource generation. The IMF loan conditionality about keeping government borrowing from the banking sector within limit should hardly act as a damper to deficit-financing because the approach to fixation of this limit is rather liberal. As far as the first instalment of the loan is concerned, the prescription of limit on credit to the government.
It is not widely realised that from 1980-81 onwards a fairly serious balance of payments crisis on the current account has been building up. Finance Minister has referred to Rs. 1,100 crores decline in foreign exchange reserve in the first 7½ month of the current year (1981-82) that is, the second year of the Sixth Plan. A 25 per cent decline within less than three quarters of a year. The currently exchange reserves has been extent and are estimated from Rs. 1,200 crores (1980-81) to Rs. 3,400 crores, excluding Rs. 870 crores received from the IMF trust fund. The GNP at market prices in 1980-81 would be around Rs. 135,000 crores and in 1981-82 it may be around Rs. 157,000 crores. The trade gap for 1980-81 would be about 4.1 per cent and in 1981-82 it may be 4 to 4.2 per cent. The IMF loan will meet about 20-25 per cent of the gap. Since the ratio between real working capital and output is 1 to 3. The IMF loan will help the country get Rs. 5,000 crores of commercial borrowings. The monetary, credit and Fiscal policies suggested by IMF are very moderate. They are also part of Sixth Plan's thinking.
The IMF conditions are not very harsh. Many of these had already been incorporated in the Sixth Plan Strategy. The country is reversing many of the basic policies with respect to private enterprise, foreign collaborations, import substitution etc. The deteriorating balance of payments situation has been cited as the principal reason for compelling the Government to go in for this huge loan. The economy suffered a sharp set back because of both domestic and external factors. Real national income fell by 5% in 1979-80 and inflation, which re-emerged early in this year, was over 20%. The IMF loan would have been rendered unnecessary. Instead of emphasising the path of effective management and control, the government has chosen the path of least resistance, which through it may solve the problem of balance of payments for the short period, may land us in a much graver debt burden in years to come. This loan is a permanent curve in an illusion; it is more of a temporary relief. The IMF policies lay the debt trap for India. This debt trap could be avoided by suitably adjusting domestic policies in such a manner that the rate of depletion of foreign reserves could be slowed down.
The IMF approved the second year's lending programme to India, 1,800 million SDRs—as part of the five billion dollar loan sanctioned over a three-year period. This is an appropriate time to take another look at the loan and its implications for India. This is a supply-side loan aimed at boosting production, unlike upper-tranche IMF loans which seek deflation and a cut in government spending. The initial impact of the loan has been encouraging, though it is too early to come to a final judgement. The lack of conditionality, or even a means of monitoring India's supply-side programme is highlighted. The only limits placed by the IMF are on money supply and commercial borrowing, which may be adequate criteria for demand management but not for a programme designed to boost investment, production and exports. The IMF is basically trusting India to implement its own Sixth Plan.

The IMF and India regarding the terms and conditions of a 4.2 billion dollar loan. The IMF is going tough with India and wants to export as high a price as it can. Obviously
this price will be in terms of changes in policies of the government. India is compelled to borrow from the IMF under the "extended facility arrangement" for the first time because it has to finance the Sixth Plan and meet the balance of payments deficits. The total resources of the IMF as contributed by members are 60 billion SDRs (one SDR = roughly $1.27), in which India's share is 171.50 million SDRs. On the basis of this quota India can borrow roughly $8 billion which will come to 4.5 times its quota over a period of three years. Out of this India can borrow 100% of its quota under compensatory financing, 50% under buffer stock facility and 25% under "the reserve tranche".


The Rs. 5,000 crores IMF loan to India is incidentally the largest ever extended by the IMF to any member nation. Its size, conditions and purposes has generated tremendous and varied response from all over. About 48% of the loan is to be provided from the ordinary resources of the IMF and the remaining 52% is to come from borrowed resources. The average interest rate will be around 10%. The very need of the IMF loan. With India's credit worthiness, it could have borrowed from the
commercial market without any conditions, as countries like Brazil and Mexico have done. The conditions of the IMF are similar to the policy framework of the Sixth Five Year Plan. The Sixth Plan enumerates the steps to be taken for curbing deficit financing, restraining monetary growth, encouraging exports, raising substantial resources by improving the efficiency of the public sector and the price of the products. The similarity of the Sixth Plan and the IMF loan should not be exaggerated. The plan was formulated much before India applied for a loan. The first instalment of Rs. 900 crores and enforce a medium of monetary discipline to contain the high rate of inflation. The govt. should take some time-bound step to increase the rate of economic growth.


There is enough internal evidence in the 1982-83 budget to indicate that apart from the price increases already decreed, further increases are contemplated and in fact, the budget figures are worked out on that basis. However, despite all these price increases, the Plan outlay in 1982-83 will be far from impressive. Not only is the overall Plan outlay impressive, but the outlay on non-energy sector is particularly
so obviously not much of the Sixth Plan remains intact. The series of price hikes that have taken place affecting the working people and the middle income groups would have almost certainly produced a relative contraction of aggregate demand. When in addition are considered the tight credit squeeze as well as the fact that additional government investment has been going largely to a few sectors like energy with multiplier effects vastly different from those of the income taxed away, even an absolute contraction of demand in several sectors of the economy should come as no surprise. Indeed, recent economic measures, which in keeping with the IMF's predilections have aimed at tight credit and a control of the budget deficit through price and indirect tax hikes, amount to a policy of "inflationary contraction."


India is performing in fulfilling the binding criteria stipulated by the IMF and to "advise" on the amount to be earmarked for the next year's annual plan. The "policy initiative to be taken in the planning process in view of the IMF loan". Its real aim was a preliminary working out of the shape of the 1982-83 annual plan to the IMF's satisfaction.
The growth of money supply, according to which this rate of growth for 1981-82 was to be 15.7% against the corresponding rate of 18.5% for 1980-81. To satisfy the IMF, the government is considering a reduction in Plan Outlay for 1982-83. The Government already promised to the IMF, as a condition for the loan. The IMF would press the Government to hold wages down while prices get adjusted upward. The IMF loan would not carry any significant implication for our professed social objectives.


The IMF and the conditions attached to the grant of the loan, which were interpreted as 'black-mail' of the government of India and 'pressure' on it to which it had succumbed. The IMF condition and prescription because they conformed fully to the government's own policies. The implementation of these policies would now be reinforced by the balance of payments support which the IMF loan would provided. The government has claimed that the IMF loan has been secured to underpin the Sixth Plan. India thus had a right to SDRs, a unit created for increasing liquidity in the world economy under the IMF, and any allocation of SDRs to India must be welcomed.
INFLATION, DEVELOPING COUNTRIES

152. BALASUBRAMANIAN (V). IMF chief happy at consensus achieved. HT. 59, 249; 1982, Se, 11; 16 (3-4).

The IMF rated as the most significant achievement of "the remarkable consensus" that it must stick to anti-inflationary policies. The IMF had done earlier that fiscal discipline was as important as monetary restraints. More important still from the point of view of developing countries insistence on industrial countries improving aid flows as well as on their throwing open their markets to developing countries so that the latter could implement their structural adjustment programmes with less pain and more efficiency. The IMF readily conceded that a great deal of the payments problems of developing countries stem from a hostile external environment.


The industrial countries have a better grip on basic inflationary pressures in their economies now as compared with a year ago, but it would still not be safe to relax policies of restraint, warned a high official of the IMF, while briefing the media here on its annual report for 1982. The trends in
current account balances, again, seem to be of no particular help to the developing countries. The current account surplus of the oil-exporting countries declined steeply from $116 billion in 1980 to $69 billion in 1981 and this was wholly to the advantage of the balance of payments of the industrial countries which were able to reduce their collective current account deficits from $40 billion to about $25 billion, after allowing for official transfers of $21 billion. The current account deficits of the non-oil developing countries, which had increased steeply during 1978-80, rose further in 1981 to about $100 billion compared with $39 billion in 1978 and it is not expected to decline very much in 1982. The demand of developing countries that, in the allocation of quotas, a proper balance should be maintained among the different groups of countries.

154. INFLATION RATES drop in industrial nations. *Econ Times* 9, 253; 1982, De, 6; 7 (1-4).

According to IMF report, inflation rates continued to ease in most of the industrial nations in the third quarter of this year. For this group of countries, consumer prices showed an average increase of 7.1% over the same period a year earlier. This compared with a 7.9% year to year increase in
consumer prices during the second quarter of 1982 and a 10.1% increase during the 12 month period ending September 30, 1981. The rate of price rise has continued to accelerate in the non-oil developing countries as a group, where prices in the second quarter of 1982 averaged 32.6% higher than a year earlier. The oil-exporting developing countries had year to year inflation rates averaging 8.9% in the second quarter of this year, down from 77.7% in the first three months of 1982.


During recent years, the average rate of economic growth in the non-oil developing countries have been relatively well sustained, despite the international recession. The annual increase in real output dipped only to about 4% in 1975; and it approached 5% both in 1976 and in 1977. A similar pace is expected to be maintained, on average, in 1978. The domestic price record of the non-oil developing countries, however, has been notably less satisfactory in recent years than their growth record. There was a widespread acceleration of price increase in this group of countries in 1977, at a time when
inflation was generally subsiding elsewhere. The overall inflation rate for the non-oil developing countries was 22% in 1977, compared with 16% in 1976 and 17% in 1975. Price developments varied widely among the developing countries because of differences in export earnings, in terms of trade, and in fiscal, monetary and wage policies. With the help of the IMF, the growth rates and price increases in the non-oil developing countries.


Many developing countries have attempted to contain raising prices and excess demand by controlling imports and prices of certain key products, while maintaining an overvalued exchange rate. This article discusses how much such controls can lead to an erosion of the tax base in an inflationary environment in the developing countries, using Ghana as an illustration.

157. MURSI (Fuad). Exploration of inflation from the Capitalist states to the developing countries. Dev & Socio-Econ Prog. 3, 6; Ja-Mr; 5-15.

One of the subject that touches the developing countries' economy and their efforts to develop and liberate
it from the grip of the world capitalist economy is the exportation of inflation to them. Naturally enough the exporters are advanced capitalist states.


Countries in this region have been able to maintain good growth rates over recent years; however the outlook for inflation has worsened and the area's dependence on foreign borrowings has grown markedly. The ability of these countries to adjust in the future will depend critically on good economic management.

159. SHARMA (KS) and SHARMA (SB). Inflation in the developing and developed countries. *Eco Stud.* 20, 3-4; 1979, Se-0c; 159-66.

Inflation is still a serious problem in many countries. The overall rate of price increase in the industrial countries amounted to 7% in 1977, only about half as high as in second half of 1974 but well above historical standards. Rates of inflation in the non-industrial countries are still as high as in 1974, and far above the rates experienced before the world wide inflationary upsurge of a few years ago. The IMF member
countries with the three largest economies—all moved promptly to reduce their domestic rates of inflation after achieving excessive levels during the international upsurge of price and costs. This was a welcome factor, largely prompting the restoration of financial stability in the world economy.


The nature and causes of the accelerating inflation from which the world has recently been suffering, and in particular about any inter-relationship that may exist between inflation and recent developments in the exchange rate system. Developing countries have always, on the average, had higher rates of inflation than industrial countries, but the same trend is visible among them: their consumer price indices, which had risen at an average rate of 13 per cent during the 1965-72 period, accelerated to 24 per cent in 1973 and 35 per cent in the early months of this year. The role of inflation in the abandonment of the par value system. The higher the degree of inflation, the larger are likely to be the divergences in inflation rates. Moreover, there is no reason why such
divergences should occur in the direction required by structural changes affecting the balance of payments. Of course, exchange rate adjustment could take place under the par value system. The influence of inflation on the exchange rate regime has been more considerable than the influences operating in the opposite direction.

INFLATION, INDIA


Inflationary pressures in India are strong, but fortunately they have not yet created such a critical situation as to require drastic monetary reform. Even if drastic action is taken to change the monetary structure, which is to be clearly distinguish from monetary policy, the importance of all the measures necessary in the field of production, distribution, foreign trade and Government finances will still remain supreme.


The rate of inflation in the India's economy has
come down. "The annual rate of inflation which was 23% in 1979-80 had been brought down to 16% in 1980-81. In the current year, on an annual basis, the rate of inflation has further declined to less than 7%. The Government has already started taking vigorous steps to arrest the price-fall of the commodities. This check is soon going to become inoperative, as the government has promised to its IMF master that it would pursue a "flexible" price policy. So to claim that inflation has been contained under these circumstances simply absurd.

INFLATION, OIL EXPORTING COUNTRIES


Since 1972 the major oil exporting countries have absorbed an unprecedented volume of resources. Initially, high government expenditure occurred, accompanied by accelerating expansion of domestic liquidity and inflation. Condition eased after 1975, as domestic spending slowed and supply bottlenecks lessened. The role and effectiveness of fiscal policy, particularly in the successful efforts to stabilize the domestic economy. The conditions for effective
fiscal policy in oil exporting countries are not directly
affected by the revenue effects of the latest round of oil
price rises.

INTEREST RATES

16. HIGH INTEREST rates. Econ Times. 9, 251; 1982, De, 4;
5 (1-2).

The non-oil developing countries are large
borrowers in the international market. Much of developing
countries borrowings goes into investment. In low income
developing countries during the seventies than did either
private consumption (3.7%) or public consumption (4.5%). It
is this investment which has been rendered vulnerable by the
regime of high interest rates. It is estimated by IMF that
an increase in interest rate by 1% on world capital market
increases interest payments by the non-oil developing countries
by $ 3 billion a year, and only a third of this is off set by
higher interest earnings on their official reserves. India
which have so far been restrained in tapping capital from the
world markets suffer less, but they have to pay more for non-
market borrowings. The average cost of their borrowings from
all sources has risen steeply. The level of interest rates on
the world capital markets needs to be brought down has analysed by the IMF. The interest rates would have declined in monetary restraint had led to a change in expectation about the rate of inflation. The regime of high interest rates has brought about recessionary conditions in the industrialised countries even as it has adversely affected growth in the developing countries. The IMF's relationship with developing countries that have borrowed from it.

165. IMF AND IBRD hike interest rates. Econ Trnd. 10, 14; 1981; J1, 16; 17.

The IMF has announced increases in its interest rates for the next three months, countries holding move of the IMF's SDR's than were originally allocated to them will receive annual interest at 14.03% instead of 12.28% on the excess. These SDRs, now in circulation are worth about $24,540 million.

166. IMF CUTS interest rate. Econ Trnd. 9, 14; 1980, J1, 16; 15.

The IMF has reduced interest rate for the SDRs to 8.25% from 10.25% with effect from July 1. The rate applies to transactions involving SDR's between member countries of
the 140-nation agency and between such countries and the IMF itself. It has also trimmed the interest rates from 9.22% to 7.425% payable to creditor nations holding SDRs in excess of their original allocations.


The IMF has announced cuts in two of its interest rates. For the first three months of 1983, the annual rates on its "special drawing rights" will be 8.47% instead of 8.9% - creditor countries in the fund's "general department" will get 7.2% instead of 7.57%.

LOAN, BALANCE OF PAYMENTS


The GATT, the World Bank and the IMF represent free associations of independent countries who accept both the freedom and the discipline of a competitive economic system. From 1950 to 1980, GNP per capita in 60 middle-income countries increased twice as fast as in the industrial countries when real purchasing power is taken into account.
The IMF have increased dramatically, as has the participation of developing country members. Third World arguments that conceptual and structural changes may be needed in the economic relations between the industrial and the developing countries so that the latter may receive an adequate transfer of resources through various mechanisms, such as trade, investment flows and development assistance. The IMF's various credit facilities are to be tapped for loan to India. The size of the loan has not been finally decided as yet, but India has a total entitlement of 7,000 million SDRs. While the loan is expected to be much less than the entitlement, it will be 'substantial enabling' the country to overcome its current balance of payments problems. Last year, India raised about one billion dollars from the IMF.

169. BALASUBRAMANIAN (V). Bank blames export woes on India's policies. HT. 60, 2; 1983, Ja, 2; 16 (3-4).

The World Bank blames the country's foreign trade woes mainly on domestic policy constraints. This is a bad new year, if analysis is accepted by the IMF, IBRD complex, those institutions are bound to become more wary and demanding in their relations with the Government of India. Given the increasing pressures on India's balance of payments trends
and the external adjustment obligations imposed on the Indian economy by the conditionality terms of the US dollars 5 million plus IMF loan, the government will have to render a better account of itself in the coming months if it is to retain credibility for its attempts to improve export performance. Claiming that a comparison of Indian trade efforts with those of other developing countries as well as a direct analysis of affected products prove his point.


India has been able to overcome the saving barrier and now has to remove the investment barrier. The latter can be done only by generating domestic demand through an appropriate strategy. The foreign exchange component will be far less and the country will be in a position to finance her required import bill. A loan of Rs. 5,000 crore has been taken from the IMF to finance her immediate balance of payments requirements. The total external debt burden excluding the IMF loan is around Rs. 14, 374 crore as in 1981. The massive IMF loan also creates problems. For instance, according to one estimate, nearly 66% of the IMF borrowings will have to be repaid as interest. Actually, from 1985-86, India will have to pay more. Thus the net outflow will be heavier.
The sanction by the IMF of 5.6 billion dollars, or more than Rs. 5200 crores, said to be the highest ever loan approved by that body, has been widely assailed by economists in India. The IMF and the government will consult the fund on the adoption of further measures "consistent with the national policies accepted by our parliament." The statement released by the IMF makes this clear when it states that the arrangement is to strengthen the balance of payments position by "careful demand management policies". These policies are unsuitable for a developing country like India. The increased expenditure on imports will lead to increased imbalance of trade until, if ever, this is cured by greater export earning as a result of such liberalisation. So India will only have got over the balance of payment crisis, but also started earning a surplus large enough to make payment of interest and capital instalment easy. The demand for a new international economic order involving transfer of resources from developed to developing countries, better terms of trade for primary products.
As non-oil developing countries make increasing use of the resources available from the IMF to help finance continuing balance of payments deficits, the accuracy of the IMF finance in relation to expected demands and the appropriateness of the conditions normally attached to such loans have been raised. While access under the IMF's various facilities has recently been liberalized making resources available in large amounts and over longer periods than in the past. The funds provided by the IMF are still small in relation both to total net flows of the resources to the non-oil developing countries and their financial requirements, but they have grown rapidly over the past two years. In 1980, gross drawings by the non-oil developing countries accelerated to $4.9 billion from $1.5 billion in 1978, while net borrowing by these countries reached $2.5 billion in 1980 against net repayments of almost $1.0 billion in 1978. The IMF has liberalised access to its various facilities and increased resources at its disposal for lending to developing countries. Under revised guidelines, annual access to IMF resources has been increased to 150% of respective quotas, extending over a three-year period to 450%. 

172. GORMAN (D). A new role for the IMF? Econ Dig. 16; 1981, Ag; 8-12.
Cumulative borrowing, net of repayments, is now equivalent to a multiple of six times respective quotas.


Describing the borrowing arrangement as agreed by IMF, has just that the Saudi Arabian authorities can ask for the issue by the fund of its bearer notes against the sums lent to it by that country. It is the purpose of this paper to examine what this commitment by the fund to issue bearer notes portends. The borrowing arrangement to give the necessary background to the above mentioned commitment. The various options are open to analyse to Saudi Arabia in addition to the option to ask for bearer notes. The likelihood is examined, in our judgement, of resort to the bearer note option. The wider implications of resource to this type of borrowing by the fund. This matter is important in view of the possible expectations that the frequent talk by the Fund Management of a major recycling role by the Fund might have created amongst many of its member countries, especially the non-oil exporting developing countries which currently face an enormous spurt in their payments deficits.
The IMF has sanctioned another important instalment of $336 million against the $5.6 billion multi-year loan approved by it in late 1981 to India. Uptil now, India has drawn about $672 million against the above. The IMF is reportedly to review in May-June this year, India's balance of payments situation and economic policy sanctions, before authorising disbursements of an additional $2 billion of the loan funds in the 12 months ending July 1, 1983.

India has sought a loan $4 billion from the IMF to tide over its balance of payments difficulties. The project loan would be largely on commercial terms, repayable in 10 years with an interest of 7% to 8%.

On December 2, 1981, the IMF approved a second year programme under the three years extended arrangement with Pakistan for SDR 1,268 million agreed in November, 1980. This
programme aims at continuing the progress already made towards strengthening Pakistan’s balance of payments through structural reforms to improve productivity. Along with many countries, Pakistan experienced economic difficulties in the mid-1970’s due to the unfavourable international economic environment. Pakistan to obtain IMF Trust Fund loans totalling some SDR 132 million. A rate of real economic growth of about 6%, to contain the underlying rate of price increase to 10%, and gradually to improve the balance of payments.


The IMF loan of SDR 5 billion ($ 5.8 billion) was one of the most important decisions made by India since its independence. This step cannot be considered as a solution to meet the balance of payments of the country while create disastrous consequences in the economy.


Finance Minister Venkataraman’s defence of the IMF loan in parliament was skilful but dishonest. From the beginning to the end his speech was a series of bluffs, untruths and half-
truths. He claimed that increased dil production was likely to make the third instalment of the loan unnecessary. This claim was meant to refute the charge that the IMF loan would push India into a "debt-trap". The payments problems is so transient that it becomes manageable in two years' time, then why did the government have to go in for an extended facility loan at all? The distribution of the 5 billion SDR loan across the three years is the followings: 900 million in the first year, 1.8 billion in the second year and 23 billion in the third year. The third instalment may be unnecessary is to imply that the country's credit requirement amount only to 2.7 billion SDRs, or Rs. 2700 crores. India's quota with the IMF stand at 1.7 billion SDRs at the movement. Up to 75% of this can be drawn with virtually no "conditionality", whatever. Even drawings up to 120% of the quota involve little conditionality. In our trade, the dollar plays the most important part. The IMF loan would have made more vulnerable to a cessation of it.


People's Demo. 5, 35; 1981, Ag, 30; 4.

Regan Administration has called upon it openly to stop lending to public sector dil development project, to
encourage host countries "to remove impediments and adopt policies that facilitate private investment in energy development" to structure its lending "to maximise its multiplier effects on private investment". The hike in petroleum prices was partly a reflection of this growing independence of oil producers. The severe payments crisis and even approaching the notorious IMF for a massive loan.

180. RAI (Kartik). Trapping the country in debt bondage.

People's Demo. 5, 49; 1981, De, 6; 4.

The apologists for the IMF loan, that the policy-package dictated by the IMF for structural readjustment "of the economy would mean a drastic squeeze on the common people and a strengthening and enriching of the monopolists and the multinationals. The IMF package is not only anti-people, but also counter-productive from the point of view of curing the payment deficit. The balance of payments look like in 1987-88 when the repayment of the bulk of the IMF loan has to begin. The IMF imposed "import liberalisation", the actual rate will be certainly higher and with the proposed "Mirage" deal, it will be higher still. The bulk of the IMF loan begins to be repaid from 1987-88 onward, some payments to the IMF loan have to start even earlier which can be met only through further
borrowings so that the pressure in 1987-88 will be still higher on account of this extra factor. The IMF loan is a more gap filler for curing our balance of payments deficit. India also took many of the measures it knew the fund would require before applying for a loan, thereby dampening the political impact of the IMF's conditions.

LOAN, BALANCE OF PAYMENTS, OIL PRICE HIKE


The latest oil price increases have led some government experts to the gloomy conclusion that our foreign exchange reserves will be exhausted in the foreseeable future. This ignores the fact that, ever since oil prices started rising in 1973, our reserves have done so too. Our balance of payments has been much healthier than in the preceding era of cheap oil. India can surmount the current foreign exchange problem just as it did in 1974. But this requires economic discipline and a proper mix of policies.
The gradual weakening of the dollar as a reserve currency led to the collapse of the Bretton Woods arrangement followed by the change-over from fixed to floating exchange rates and the creation of the new reserve asset, SDR. While these changes have helped in preventing the collapse of the world monetary system, they have not been adequate to cope with the massive shift in the payments surpluses and deficits of the member-countries of IMF caused by the oil price increase. In this paper, the author traces the recent developments on the world monetary scene and analyses some of the alternative proposals that are being currently discussed for imparting greater flexibility to the exchange mechanism.

The current balance of payments deficit of India is as much the result of oil price hikes as of protectionism abroad and choice of in appropriate technology. It is not possible for India to control oil prices or protectionism abroad but as an alternative to the IMF package it is certainly possible
to start changing its choice of technology from the existing one, dependent on imports, to one which makes fuller use of abundant internal resources and manpower.


The government's own case for resorting to the IMF for a five billion SDRs financing. Our balance of payments position had become rather serious very largely due to the massive deterioration in our terms of trade arising in particular from doubling of oil prices in the last two years. The oil import bill alone jumped up from Rs. 1,700 crore in 1978-79 to over Rs. 5,000 crore in 1980-81. The total deficit on our trade account in 1980-81 came to about Rs. 5,500 crore.

185. GUPTA (KK). Oil crisis developing countries and India. For Tr Bulletin. 10, 5; 1979, Nov; 3-4.

The steadily increasing oil prices will aggravate the growth and balance of payments problems of developing countries. According to IMF, the combined current account deficit of non-oil developing countries will rise from $31 billion in 1978 to $43 billion in 1979. India, which import oil from various sources, face a number of problems, namely (a) conserving energy and developing additional sources of
supply; (b) limiting indirect inflationary effects; (c) formu-
lating ways of tackling the deflationary impact; and (d) pre-
venting deterioration in the current account balances caused
by higher oil prices. In the case of non-oil exporting
countries, the net outstanding debt has been estimated to
increase in 1979-80 by $82 billion, bringing the total to
$358 billion by the end of 1980. The poorest countries have
been experiencing growth rates not corresponding to their
development needs. They have to import heavily in order to
keep pace with their development programmes. Countries like
India have been able to tackle the higher oil prices to some
extent because of substantial remittances from Indian workers
abroad. Many developing oil-importing countries have "high"
or "very high" resources of oil. Due to financial and technical
handicaps, these resources are not being exploited fully. India
using over 146 million barrels in a year. Philippines and
Turkey over 44 million barrels, Pakistan over 26 million barrels
and Vietnam over 22 million barrels.

IMF DEPLORES protective trade measures. Eastern Econ. 71, 9;
1978, 5e, 1; 417-27.

Against the background of severe global payments
imbalances as an aftermath of oil crisis, there was concern
that many countries facing balance of payments difficulties
would turn to trade and payments restrictions. While, on the exhortation of the IMF, a few countries withdrew trade restrictions, some of which were imposed recently, there are many that have not found it possible to remove restrictive trade practices.


A rapid increase in IMF assistance has occurred due to the increase in oil prices in the late 1973 and the establishment of the IMF's oil facility to assist members in meeting their payments problems. During the same period there was also a substantial increase in the amount of fund assistance to these countries under the compensatory financial facility, which was set up to finance temporary shortfalls in export receipts when they occur for reasons beyond the members' control. In 1976 for the benefit of developing countries from the profits realized from the sale of part of the IMF's gold. In the beginning of 1979, there has been a substantial increase in fund support to African countries under stand-by arrangements and extended arrangements, in support of comprehensive adjustment programme.
The main link between the political economy of development aid and the political economy of poverty of LDCs is present in the claim of MDCs and LDCs alike to the effect that aid would help abolish poverty. In case of international agencies such as the World Bank and IMF, interference in the economic policies and practices of recipient countries is often sought in the name of offers of value-free technical advice. The IMF in fact gives loan on the basis of the recipient country agreeing to carry out a package of measures worked out by the former as a condition of eligibility for a loan. The Indian political dynamic underlying the recent agreement (1981). On IMF SDR to the limit of 5.6 billion dollars which the Government of India has successfully concluded. At the time of India's entering into these fateful negotiations with IMF, it could count on exchange reserves of well over 2 billion. The IMF loan was necessitated by the sharp increase in the escalating cost of petroleum imports necessary for the economy.
India has come through its first year of borrowing from the IMF with flying colours, and the lending programmes for the second year has been approved amidst deserved praises. But it is worth-recalling that last year "The logic of the IMF package, therefore, is such that its net result must be an engineered inflation, an engineered recession and unemployment, a squeeze on money wages and salaries and a cut in public expenditure on welfare relief and subsidies on essential consumption items. Each of these measures adversely affects the low and middle-income groups; together their impact can be disastrous". India did not go to the IMF as lender of last resort. It went to the IMF as lender of first resort, to provide massive finance on cheaper terms than the commercial market. It did not go as a bankrupt nation. It had more than five billion dollar in its foreign exchange reserves at the time. The IMF did not impose growth and investment targets. It limited itself to ceilings on monetary growth and commercial borrowing. India's recent economic success to the conditions of the IMF loan. The improvement in coal output, power generation and rail movement had nothing to do with the IMF loan. This loan condition amount to no more than a gentle nudge.
The IMF approval for the $5.8 billion dollars loan to India against apposition by the USA, the most influential member of the fund. The problem of India and other developing countries which if left to foster would react adversely on the developed world. It may also be due to his extreme right wing political attitudes that such large loan to India would "subside socialism" or strengthen a supposedly pro-soviet country. The importance of the IMF decision about India can have wider implications.

The grant of a foreign exchange loan of more than Rs. 5,000 crores by the IMF is claimed by the government as an index of great achievement and excellent performance. The loan would help integrate India into the world economic system. The decisions taken at the IMF are only those which promote and protect the wider interests of the dominant shareholders. The government have agreed to consult the IMF and world Bank before finalising its future monetary, fiscal and other
economic policies. The IMF and the IBRD would have the right to assess and monitor the economic policies. The phasing of loan instalments is related to the implementation of the government's assurances with regard to relaxation of control on foreign capital and other commitments for making India an economy. The long-term implications of the IMF and the new thrust sought to be introduced in national policies.


In the wake of the massive IMF loan of $5.8 billion granted to India, which is a record in its entire history, foreign banks are apparently putting their best foot forward in India's expanding economy on which is blowing a fresh breeze of pragmatism under the IMF's revamped economic policies. There is a feeling in banking circles that foreign banks, many of which entered into co-financing arrangements with the IMF. As the government of India gives a new thrust on expanding exports while imports are being liberalised under the IMF conditionality clauses.


India's economy was also in a deep crisis and to
extricate itself from the crisis the congress (I) Government of Indira Gandhi was surrendering the economic independence of the country by taking the IMF loan and by shifting the burden of the crisis on the working class and the common peoples.


The record-breaking IMF loan to India amounting to $5.8 billion approved in November 1981. The issues involved in the loan, the economic sovereignty and political stability of the country, our economic policies in general and planning strategies in particular objectives, are, however, of far-reaching consequences. The ostensible object of the loan of about Rs. 5,000 crores, the largest ever granted by the IMF and the largest single borrowing made by India, is to overcome the current balance of payments difficulties. The loan has been granted under the Extended Fund Facility which is designed to help the developing countries overcome their medium-term balance of payments difficulties without affecting development efforts. India will get the loan in instalments over a period of three years. The first two instalment of Rs. 300 crores each have already been withdrawn by the Government in November 1981 and January 1982. The third instalment of the
even amount will be drawn in March this year. The IMF would impose for disbursement of the second and third year’s borrowing are not yet clear.

195. IMF APPROVES SDR loans to India. Econ Trnd. 10, 22; 1981, Nv, 16; 17.

The IMF has approved a 5 billion SDR’s loan for India. The money will be given to India over a 3 year period and will have a 4 year gap to start repaying it. The last payment will be due in 1984. Upto 600 million SDRS big drawn in the period ending March 24, 1982 of which 300 million SDR will be made available after January 15, 1982, based on India having fulfilled specified objectives at the end of November, 1981. The remaining 4,400 million SDRs will be available in phased amounts from time to time upon satisfactory completion.

196. IMF LOAN for India. Econ. Trnd. 9, 18; 1980, Se, 16; 15.

India has received a loan of $ 683 million from the IMF. The payment period is 10 years, including a five year grace period with interest at 0.5% a year.

197. INTERNAL POLICIES in gear. Econ & Pol Wkly. 17, 1-2; 1982, Ja, 2-9; 2.

The United States pressures regarding the $ 500 billion
accommodation from the IMF, the aid, borrowings, and accommodation market is sailing fairly predicably for India. The major source of sustenance will the SDR 5 billion IMF loan, to be progressively released in annual batches of $900 million, $1,800 million, $2,300 million over the next three years, subject to internal policy scrutiny.

198. ISHWARI PRASAD. "IMF loan controversy." Janta. 36, 36; 1981, Nv, 8; 3-4.

The issue of a loan of $5.6 billion that India has applied for from the IMF. The problem of loan has risen because of the difficult balance of payments position India is facing in the current year, and the foreign exchange reserves have dropped to a precariously low level. The export might just touch Rs. 7,100 crores, imports would be around Rs. 12,600 crores, making a trade deficit of Rs. 5,500 crores. This imbalance has cropped up because while exports during the last year grew at the rate of 4%, the import bill was higher by 40%. This deterioration is continuing in the current year. The IMF loan to India became so controversial. Within and without the country. By emphasising that developing countries should rely more on the private sector and follow policies based on free enterprise, it has put aid receiving countries in a tight position. The thrust of this argument is
that developing countries should depend on commercial borrowing rather than depending upon a funding agency like the IMF and the IDA.


It is important that the money borrowed from the IMF is utilised for improving the lot of those people who still live below the poverty line. He believes that it is not necessary to presume that the IMF will impose draconian conditions of the bargaining power of the government is strong and India has a comfortable foreign exchange reserves position.


India's decision to go in for the loan has certainly set back the group of 77 in its fight to usher in a less unjust international monetary order. Having accepted each of the criteria set up by the fund's 'conditionality' it would now be altogether incongruous for India to claim to provide leadership to the developing countries in their battle to have these criteria relaxed. The group of 77 has been of the view that the
specifies of the fund's 'conditionality' militate against the right of the member countries to pursue domestic social and economic policies, according to their own lights and must be reviewed. Many have also felt that a number of the terms underlying the 'conditionality' are politically impracticable to carry out. Till 1981, barely half-a-dozen members ventured to seek additional accommodation from the fund through its newly established extended facility its underlying terms virtually amounted to a wholesale surrender of national sovereignty. To them, it was offensive in the extreme that the fund will get away by imposing these terms on the poor nations.

201. PLEASING THE IMF. *Econ & Pol Wkly.* 16, 31; 1981, Ag, 1; 1254.

India has knocked at the doors of the IMF for a large stand-by arrangement, reportedly in excess of $1.5 billion. As with import of wheat and sugar, the decision to seek such a large loan from the IMF has been presented as an act of great foresight and sound economic management by government. The large IMF loan will reduce the need to borrow in the international capital market where currently interest rates are so much higher. By approaching the IMF early it would be spared the full blast of the conditions that the IMF imposes upon its borrowers have proved to be baseless.
The SDR 5 billion IMF loan to India. The IMF is titled 'statement of Economic Policies, and that it is approaching the IMF loan to support these policies and programmes. These policies is promotion of exports at all cost. The IMF and Government of India, deal, is the opening up of the economy to foreign capital and the transnational co-operation through the elevation of export growth as the foremost national goal, the liberalisation of imports and the free import of technology.

India has approached the IMF for a massive 4 billion dollar loan this year and the new measures like raising the price of petro-products and banning strikes conform to the dictates of the IMF. The IMF an important turning point in the history of the Indian economy. While India has from time to time borrowed from the IMF in the past, the amounts involved were comparatively small and easily repayable. The IMF cannot enforce a "stabilisation programme" when the amount borrowed is very small, as was the case with India in the past.
Last year, for the first time, India went in for a sizeable IMF loan, nearly 1 billion dollars. This year its request to the IMF is for 4 billion dollars. This figure is not only for higher than the so-called "development assistance" is not only nearly two-and-a-half times the loans sanctioned. India's exports were increasing at the same time, the payment position would not be so bad.

204. RAI (Kartik). "Fare hike in railway freight rates.  

To meet an annual deficit of Rs. 75 crores, why is he proposing freight -hikes which would yield an annual revenue of Rs. 320 crores? The real explanation for the freight-hike is linked to the IMF loan. The IMF is going to "review" the economy at the end of March and all budget deficits have to be closed to its satisfaction by them. The Indira regime is hell-bent on pleasing its master, what does it care if in the process the people of the country are squeezed dry? It would go round even faster now to satisfy the IMF, which does not like direct taxation, which wants "inducements" to the monopolists and the multinationals, an which considers price-increases and indirect tax-increases as only permissible means of raising revenue.
The Indira regime and press servile to it have launched a new offensive against the West Bengal Government. They charge it with "financial irresponsibility" leading to massive overdrafts and argue for a cut in its plan allocations. Under the IMF-dictated programme, the central government has made a massive effort to snatch resources out of the people's hands through a series of hikes in administered prices. This "engineered inflation" has caught the State Governments in a pincer squeeze. The financial crisis facing the states, which is manifested in the increased overdrafts, is a direct outcome of adopting the IMF-dictated policies. The Government's attitude to this financial crisis is also shaped by its IMF masters.

India today condemned the International Monetary
Fund decision to grant South Africa a loan of $1.1 billion saying that it would strengthen the apartheid regime's policies of repression. Kamal Nath, an Indian delegate, told the UN General Assembly that the loan approved was in defiance of an assembly resolution, opposing, it would roughly equal to the increase South Africa military expenditure from 1980 to 1982. The voting in the IMF board however is linked to the contribution made by its members and the US and its allies were therefore able to push the loan decision through. India joined 120 other countries in voting for the resolution, while the United States, Britain and West Germany were the only countries to vote against the fund not being granted to Pretoria loan.

NEW INTERNATIONAL ECONOMIC ORDER


The decades following the second world war were marked by the rise of the liberation movement in the three continents, the main goals of which, in Asia and in Africa, were the reconquest of national independence and its defence by
refusing the military alliances through which the United States sought to dominate the policy of the Third World States. But in general, the goals and methods of economic development pursued did not challenge the main feature of the international division of labour shaped during the last century. Hence, an externally-oriented and dependent development model was usually accepted. The objective failure of this model and the increasingly difficult problems gradually induced the Third World countries to embark upon a new strategy with the aim of consolidating their reconquered political independence by strengthening their economic independence.


The present world economic system is controlled and operated through agencies like the IMF, IBRD and GATT. This system was established at a time when most of the developing countries did not even exist as independent states. It is now being increasingly felt that its functioning is not fully attained to the specific problems and need of developing countries. Developing countries impelled by these constraints have been seeking a more balanced economic relationship. The
need for full and equal participation of developing countries in the formulation and application of all decisions concerning the international community was discussed at the 6th special session of the United Nations General Assembly in 1974. The call for the New International Economic Order (NIEO) seeking to establish a more just and equitable system of international cooperation between the developed and developing countries on the basis of sovereign equality and the removal of the disequilibrium existing between them was given at this session. The 7th Special session of the UN General Assembly in 1975 adopted a further resolution calling for accelerated development of developing countries through international economic cooperation.


Accounting, as an information system, is not as yet a cohesive and unified discipline. The need for more uniform treatment of information in all areas of accounting is well recognised, the benefits are sounder economic and fiscal policies, and better planning and control. Such advantages are of particular importance to developing countries. The scope and methods of standardization in social, government and
enterprise accountancy, and within the overall accounting framework; and how improved international accounting standards and conventions might be attained.


A familiar problem in developing countries relates to the absence of coordination between planning and budgeting. The fiscal policies, if any, recommended in the plan may not be implemented by the budget, and the budget may operate according to policies not reflected in the plan of the IMF.

**NEW SUBSIDISING SCHEME**

211. BALASUBRAMANIAN (V). IMF a pawn in US hands, say experts. *HT.* 59, 238; 1982, Ag, 30; 1 (4-5).

The IMF is preparing to come to town with the World Bank for their joint annual session, two university of Toronto political scientist Cranford Pratt and economist Mel Watkins have accused it of generating fears among developing countries that it has become an increasingly direct agent of Reagan administration. The IMF for attaching to its loans to developing countries conditions such as reductions in wages
and food subsidies that "transfer the main burden and cost on to poorer sections of these countries". This approach violated the charter of the fund which was to help countries correct their balance of payments imbalances without resorting to measures "that are destructive of national prosperity". The IMF as "an ideological grouping that represented the bankers in the world". Given such dismal predictions about economic recovery, there is likely to be much demand at the annual meeting that anti-inflationary strategies should not ignore the rehabilitation of economic activity in industrial countries or improvement for the developing countries.

212. DUTTA (Satyabrata). IMF and economic sovereignty. Social Persp. 9, 4; 1982, Mr; 275-83.

In November, 1981, India was able to secure a massive loan of Rs. 5200 crores from IMF under its scheme of Extended Financing Facility. The loan is said to be the largest advanced by the fund to any country during the thirty-six years of its existence. The IMF and to rebuild international monetary system which had been ravaged by war and depression, it was clear enough that they had no other option but to concede the dominant role of the United States in the international monetary order. The IMF's ideology insists on devaluation of the
currencies of the borrower members. During the first thirty years, more than 100 members have been subjected to devaluation and revaluation of their currencies. The voting power in the fund is derived from the quotas or a country's share in the fund's capital. The five major 'share holders' of the fund, i.e. the USA, the UK, Federal Republic of Germany, Japan and France. The severe suffering imposed on a developing society through the IMF conditionality is endured without any real prospect of a favourable economic outcome. It has an ideology of economic and social development which it is trying to impose on poor countries irrespective of their own clearly started policies.

213. INDIA BENEFIT from IMF's new scheme. Econ Trnd. 10, 3; 1981, Fe, 1; 17.

To meet India's balance of payments problems. IMF's new scheme will be much helpful. The fund has established a one billion SDR account to subsidise drawings and India will be eligible for subsidy up to 3% a year.

214. IMF TOO little for too many. Econ & Pol Wkly. 16, 8; 1981, Fe, 21; 255.

The IMF has announced its decision to set up a separate fund of SDR 1 billion to be used for subsidising
interest rates on funds lent to its poorer member countries. The subsidy will be available on borrowings by the poorer member countries under the IMF's Supplementary Financing Facility (SFF). The SFF was set up in February 1979 to help member countries, which are facing very large balance of payments deficits in relation to their quotas. The normal lending rate of the IMF for SFF loans is 12%. The amount actually borrowed by the IMF for SFF was only SDR 502 million up to end April 1980. The large Trust Fund built up with the profits from its gold sales.

SPECIAL DRAWING RIGHTS


Now people everywhere are beginning to complain about the utilization of energy sources and the fear is being voiced that in foreseeable future the world will stripped of this valuable asset. The quadrupling of oil prices by the OPEC cartel during the first oil crisis of 1973 created a huge transfer problem between buyer and supplier nations. The populous oil nations, such as Algeria, Nigeria, Venezuela and
Ecuador and the genuine surplus nations within OPEC, notably Saudi Arabia, Kuwait, Qatar and the UAE. The currency mix of OPEC's international reserves is being more strongly diversified. Alongside the US dollar, there is growing interest in IMF Positions and SDRs, and also hard national currencies such as the German mark, the French Franc and sterling. The amount placed in IMF positions and SDRs through greatly expanded in absolute terms now represents a smaller proportion of the whole than it did in 1975.

The IMF and world bank made a programme for the co-ordination of economic policies of the principal industrial nations. Senior officials of the five countries, the U.S., Japan, West Germany, France and the U.K., whose currencies from the SDR basket, will be meeting the managing director of the IMF shortly to chart a course for monitoring whether their economic policies are converging on a track of low inflation rates and steady economic growth. The US dollar moved up against other major currencies as well. Taking these movements as signals of disorderly trading in the American currency the Reagan administration intervened to discourage
further appreciation it for other major currencies the US, particularly by the French to give up its stand that government should not attempt to stabilise exchange rates. Nevertheless market analysis here suggest that the pledge extracted from the US government that it would keep an open-mind on intervention in currency trading was not without a bearing on the decision taken by the US authorities to step the further appreciation of the US dollar.

217. BIG ISSUES before the IMF. Capital. 177, 4433; 1976, Oc, 7; 474-5.

The SDRs linked to the flow of real resources to the developing countries; more adequate balance of payments support, and that on more reasonable terms, from the IMF. The balance of payments support of the fund to its member countries depends principally upon its system of quotas, which the developing countries find heavily weighted against them. The fund's supply of conditional liquidity to its members depends a good deal upon the adequacy of its quotas. The share of the IMF quotas, the share of the developing countries in direct-distribution of the SDRs, which is intended to replace gold in the monetary system. The use of SDRs in the settlement of international payments.
218. BOECK (Klaus). Supply of international liquidity to developing countries. *Inter Econ.* 12, 5-6; 1977, My-Je; 129-39.

The developing countries have been facing the problem of the supply of international liquidity is that since 1970. They have been at a great disadvantage as far as the distribution of the newly created international liquidity is concerned. The IMF in early October 1976, put forth a demand for a fresh allocation of SDRs. In this connection whether the developing countries are justified in their concerning the supply of liquidity and whether another SDRs allocation is needed in order to solve their liquidity problems, if any exist.


The policy options for achieving world currency reform would be to use a freely floating exchange rate regime so that the maintenance of external balance is left to the market forces. The IMF tried to combine aspects of gold standard and flexible exchange rate. Maintenance of fixed parities and avoidance of restrictive trade and exchange rate policies were laid down as the rules of membership. In order
for a fixed exchange rate system to operate efficiently external imbalances of countries have to settle through domestic deflation or inflation. The IMF permitted substantial changes in the exchange rates of countries with "fundamental disequilibrium" in their external balances. Each member had an allocation of SDR in proportion to its IMF quota. The SDRs could be used for the purchase of the currency of any other member country through the IMF.

220. CUTLER (David S). The Operations and transactions of the special drawing account. *Fin & Dev.* 8, 1; 1971, Ja; 18-23.

On August 15, 1971, the United States announced that it would no longer freely buy and sell gold against U.S. dollars for the settlement of international transactions. An announcement that had important repercussions throughout the entire monetary system. Among other effects of created fresh interest in a possible expanded role for special drawing rights (SDRs). How this internationally created asset has operated in its first 21 months of existence is described?


The "substitution account" which secured the over-
whelming of support of the richer nations of the world, at the Belgrade meeting of IMF, is expected to figure in the discussions at the fund's annual meeting this year. In this paper, the author analyses the pros and cons of the "substitution account" whose main purpose is to underpin the dollar and the other reserve currencies. He is of the view that it does not in any way help the developing countries and adds that it would be much better to expand the role of the SDRS proper.

222. DEVELOPED COUNTRIES want to help, but ... Eastern Econ. 50, 8; 1968, Fe, 23; 325-9.

An effort to be made by each developing country to maintain political, economic, social and also demographic equilibrium which each developed country was bound to make an effort not only of material character but of moral solidarity. The system of SDRs worked out in Rio last year and open to all members of the IMF would be particularly important if countries with leading currencies tried to cut their balance of payments deficits by drastic measures. The developing countries not to press for ways to link the creation of liquidity under the scheme of SDRs, with development aid. Although this objective was desirable, the idea remained a controversial one and pressing
it would delay the prospect of final agreement.

223. FEUERLEIN (WJ). *The Dollar and special drawing right.*
   *Inter Econ.* 14, 3; 1979, My-Je; 111-5.

The SDRs issued in 1969-71 were defined in terms of gold, thus indirectly in dollars, but due to the problems with the US dollar in 1974, this was changed and the value of the SDRs from then fixed in terms of a basket of 16 of the world’s major currencies. Since the SDRs were expected to play a role somewhat similar to the limited role of gold they were also popularly called 'paper gold'. The SDR system also reflects the idea that gold should not resume an international monetary function. The key fundamental conditions of the expanded SDR system and the potential creation of the substitution account should be the restructuring of the international monetary system and recreation of international monetary stability. The revised SDR system might be used as an excusing for not putting pressure on deficit countries to equilibrate their balance of payments.

224. GULATI (IS). *World monetary crisis and under-developed countries.* *Econ & Pol Wkly.* 6, 40; 1971, Oc, 21; 2098-2101.

The value of the dollar in relation to a few currencies which are now under-valued must be adjusted downwards; and the
Bretton Woods system of international co-operation based on the key currency role of the US dollar must undergo a radical change. If the new system which replaces it is to avoid recurrence of situation similar to the one now being faced, it must never again give the key currency role to any national currency or even a group of national currencies. Instead it must be based on an international reserve which is created and can be expanded to meet expanding world requirements under genuinely international auspices. Unless the under-developed countries are alert to the present goings on among the developed countries, certain basic decisions might be taken with regard to the new world monetary system without their interests and requirements being sufficiently taken into account. The under-developed countries must aim at is to secure an agreement that any secular expansion in international reserves would be allocated exclusively to them. They should never again settle for allocation in the manner of SDRs was retrograde, regressive and inequitable.

225. GURU (DD). International monetary system, second amendment, and developing countries. Eco Affairs. 24, 8-9; 1979, Ag-Se; 231-40.

Analysis the implications of some of these changes vis-a-vis the role of the important currencies in the inter-
national monetary system. The second amendment of the articles of agreement of the IMF having bearings on the important key currencies and their consequences in case of the developing countries. The introduction of new and flexible provisions dealing with exchange rates arrangements. Reduction in the role of gold in the international monetary system including the disposition of part of the fund's own holdings of gold. Changes in the characteristics and expansion of the possible use of the SDR. Simplification and expansion of the types of the funds financial operations and transactions, particularly those conducted through the general department. Certain improvements in the organisational and administrative aspect of the funds.

SPECIAL DRAWING RIGHTS CREDIT QUOTA, DEVELOPING COUNTRIES

226. BALASUBRAMANIAN (V). Call to double IMF quotas. HT. 59, 247; 1982, Se, 9; 12 (3-5).

The economic difficulties of the developing countries were largely due to the macro-economic domestic policies and international trade and finance practices of industrial countries. The developed countries extend meaningful assistance
to the developing countries in overcoming their payments problems. A revival of the world economy is a precondition for the success of the massive efforts of developing countries to restructure their economics. The serious down turn in the economies of the developing countries is mainly due to a serious of exogenous factors. While the developing countries needed to adopt adjustments measures to overcome their economic difficulties, the developed countries also bound to give them economic assistance. The positive initiatives now being processed for improving commitment of funds for the current fiscal year 1983, setting up a briding arrangement. The IMF increase was quite clear that the developing countries their demand that the total of quotas should at least be doubled. The multilateral financing is being called upon to assume in assisting the structural adjustment process and the plans for economic growth in developing countries. Supporting for a SDR 100 = 125 billion range, the "substantial" increase which the developing countries are seeking in IMF quotas.

227. BALASUBRAMANIAN (V). SDR impasse likely to persist in IMF. HT. 59, 229; 1982, Ag, 21: 5 (2-3).

Special Drawing Rights (SDRs) allocated by the fund to member countries are assets that can be used by a holder to
finance a balance of payments deficit without having to adhere to policy conditions as are attached to credit extended through various fund facilities. They are, therefore greatly valued by developing countries as a source of unconditional liquidity. They have also been resisting the developing countries' demand for continuing creation of SDRs on the ground that there is, as of now, sufficient liquidity in the international monetary system to take care of the borrowing requirements of developing countries they add that liquidity through more SDRs would be inflationary in effect. The developing countries argue that, since SDRs constitute only a small fraction of the international monetary reserves and additions to them cannot conceivably have any inflationary significance of their own.

228. HORSEFIELD (J Keith). Fund quota's. Fin & Dev. 7, 3; 1970, Se; 7-12.

"Each member shall be assigned a quota. The subscription of each member shall be equal to its quota". These provision, in the Articles of Agreement of the IMF, are the basis for the participation of the IMF's members in many of its activities, the Executive Directors to the use of its resources. The relative share of the developing countries
in the IMF has increased since 1945, not only because a large number of developing countries have joined the IMF since that time but also because at certain period the developing countries had larger than general quota increases as a result of the small quota policy or of increase under the compensatory financing decision.

In the near future an international monetary and financial system that can serve the needs of all nations for accelerated world economic recovery, for continuous economic growth and for increasing expansion in world trade. An energy investment bank can be set up by a few countries, even without the US, to finance energy exploration and development in oil-importing developing countries. The changing composition of international capital flows, and the high level of interest rates, have placed a number of developing countries in a liquidity squeeze today US can exercise a virtual veto over the doubling of quotas of IMF. The IMF has lost considerable power and influence after the fixed exchange rates gave way to the floating rates, after the gold link was served with the US dollar, after the surplus countries refused to accept any policy conditionality.
or burden of adjustment prescribed by the IMF, and after the powers of the IMF to create SDRs were severely curtailed. The IMF presides today over a monetary chaos that it has no way of policing. The best it can do is to knock a few weak and poor countries on the head rather rudely from time to time to prove its own manhood.

SPECIAL DRAWING RIGHTS CREDIT QUOTA, INDIA


The government may not draw the third installment of the IMF loan. As is well known, the IMF loan is in three instalments: SDR 900 million in the first year up to June 30, 1982, SDR 1.8 billion in the second year up to June 30, 1983, and the remaining SDR 2.3 billion in the third year up to June 30, 1984. India was not facing a serious enough balance of payments problem to warrant the SDR 5 billion loan. More important, if the government expects that it would not have to use almost one-half of the loan under its extended fund facility. The major economic policy changes by making it appear that these changes had to be effected as part of IMF conditionality attached to the IMF loan. A balance of payments crisis which may in the end compel us to draw the IMF loan in full.
The IMF approved on November 10, a loan of 5 billion SDRs for India. India will get the loan, which will bear an average rate of interest working out to less than 12% over a period of three years and then will be allowed four years to start repaying it. The loan can be divided into two parts. The first part of up to 600 million SDRs can be drawn in the period ending March 24, 1982, of which 300 million SDRs will made available after January 15, 1982, based on India having fulfilled specified objective criteria at the end of November 1981. The second part consists the remaining 4,400 million SDRs which will be available in phased amounts upon satisfactory compilations of reviews approved by the fund. This year's current account deficit was projected at about 3 billion SDRs. This was 2% of the gross domestic product.

India has made available foreign exchange resources of 259.6 million SDR's, equivalent to about Rs. 271 crores, through the IMF for the use of other fund members since September 1976.
World monetary reserves have been boosted by $3,414 million with the first allocation of SDRs to 104 countries. The IMF has approved $126 million to India for the development purposes. The quota is based on a nation's size and economic strength.

India has received 119 million SDRs as the second instalment of the allocation made by the IMF and added to its foreign exchange reserves. In 1978 decided to allocate about 4 billion SDR in each of the three years 1979 to 1980 and 1981.

The main business before the IMF was to activate a new scheme for special drawing rights (SDRs). It was first put forward about two years ago. A total allocation of $3.5
million on 1st Jan, 1970 and a further allocation of $ 3 million on 1st Jan, 1972. The amount of SDRs any one country will get will be in proportion to its quota of the fund. In 1970, if all members of the fund joined in the scheme, it would give about $ 850 million of new reserves assets to the USA and about $ 400 million to the UK. This is tantamount to adding something like 4% a year to the $ 7.5 billion of monetary reserves in the form of gold, foreign exchange etc. The SDRs carry an absolute gold guarantee and are in effect interest-bearing gold certificates.

236. WILLIAMS (David). Increasing the resources of the fund borrowing. *Fin & Dev.* 13, 3; 1976, Se; 19-23.

The IMF has increased its resources through two major borrowing episodes, the General Arrangements to Borrow (GAB) and the oil facility. The General Account to a member for its currency, or by borrowing the currency. Such replenishment operations increase the fund's holdings of usable currency which it needs to finance transactions by other members. Upto May 1976 the fund solve over SDR 3.9 billion of gold, of which the equivalent almost SDR 1.5 million was sold to the United States in replenishment of its holdings of U.S. dollars.
SPECIAL LOAN, BALANCE OF PAYMENTS, BANGLADESH

237. BANGLADESH SIX new banks in private sector. Commerce. 14, 3692; 1982, Mr, 13; 460-1.

Witholding by the IMF of instalments under its Extended Fund Facility (EFF) had further aggravated external liquidity problem. While IMF is yet to resume its SDR credit under EFF as per agreement signed in the last financial year it has recently allocated a sum of sixty million SDR under its compensatory fund facility to help Bangladesh meet its shortfall in export earnings.

SPECIAL LOAN, BALANCE OF PAYMENTS, INDIA

238. BALANCE OF payments. Margin. 14, 4; 1982, J1; 25.

The balance of payments' position continues to be under severe strain, due to the sizeable deficit on foreign trade account. The decline of Rs. 1467.6 crores from Rs. 4,822.1 crores at end March 1981 to Rs. 3,354.5 crores at end March 1982, in foreign exchange reserves during the year 1981-82 does not reflect the severity of the situation because of the support
provided by the loans acquired from the IMF under its Extended Fund Facility. The fresh instalment of the IMF loan due in November 1982 will, however, improve the reserves position even through temporary.


The Government of India's commitment to the IMF in connection with the SDR 5 billion extended facility. The IMF sees a sharp rise in petroleum production as the only way for India to keep down its balance of payments deficits, while maintaining a regime of liberal import as required by the fund. The economic arrangements which have become increasingly prominent in recent years and which will now be further developed and consolidated in the wake of the IMF loan. The IMF that no further scope exists for raising resources through direct taxation. Larger inflow of external resources, such as through the IMF loan.


How can one find fault with a budget that proposes a 21% increase in Plan outlay even when defence spending has
to be raised substantially, reduces deficit financing from the level it had obtained in the year immediately preceding by almost 20%, keeps direct taxes more or less undisturbed and at the same time is able to offer additional relief and/or concessions to savings, exports, inwards remittances from abroad and increased industrial productivity? Even if all this has been achieved under the direct or indirect guidance from the IMF, how can one object to the budget on objective consideration? The drawings from the IMF's Extended Fund Facility are likely to be of the SDR 1.65 billion during the course of the next financial year. The first time that drawings from the IMF have not been shown as budgetary receipts. This has been the standard practice because of payments support and not its government with budgetary support.

India expects to draw more than Rs. 800 crores from the IMF to buttress its foreign exchange reserves which dropped sharply by nearly Rs. 550 crores between April and July. Government of India has concluded discussion with IMF for drawing assistance under the trust fund of Rs. 540 crores and another Rs. 30 crores under the compensatory financing facility.
The IMF has provided the credit of $100 million to India. The stand-by arrangement is an extension of the one entered into between the fund and the government of India in July 1962. That arrangement has authorised the government of India drawing up to $100 million. This credit will help the authorities to meet any difficulties in balance of payments. Should no such difficulties arise the credit would not be used at all.

243. SEN (Sunanda). Financial reclassification of India's balance of payments. Econ & Pol Wkly. 8, 45; 1973, Nov, 10; 2009-16.

To be useful, the balance of payments statement of a country reveal information which is relevant for policy making. The accounting concept of balance of payments, it is now accepted, is both out-dated and unsatisfactory as a tool for analysis of country's international financial position. A new approach to classification of balance of payments was adopted by the IMF. This approach may provide a better indication of a developing country's credit worthiness as also of its vulnerability in its payments relations.
Pakistan has been facing serious balance of payments problems since mid-seventies as a result of international inflation and insignificant aid relationship. A flexible and gradual approach towards balance of payments adjustment has been adopted. Pakistan has also been able to secure financing of the adjustment efforts from the international agencies. The Government was able to negotiate in September, 1980 an extended fund facility programme and obtain a medium term credit of about $1.5 billion on the strength of performance and actions taken in the economic and financial fields. The extended fund arrangement with the IMF also facilitated the rescheduling of official debt by the consortium for a period of 18 months commencing from January, 1981. Oil import developing countries like Pakistan have problems of growing balance of payments deficit as a result of imported inflation, inadequate aid inflows, rising debt servicing burden and adverse terms of trade.

Pakistan is to get 1.5 billion dollars of "Extended..."
Fund Facility" from the IMF. The facility is intended to support Pakistan's balance of payments position and the stabilisation programme over a three year period. Sources in touch with the negotiations point out that the IMF's willingness to advance such a big amount reflects the increasing confidence in the rapid recovery of Pakistan economy and recognition of the effectiveness of the measures.

SPECIAL LOAN, DEVELOPING COUNTRIES

The IMF has played an important role. When developing countries already have a low growth rate and are compelled to make structural adjustment in order to overcome balance of payments problems, they need flexible responses from the IMF. The usual short term stabilization programmes will not suffice in this new situation.


The IMF has decided to extend financial assistance to members that face a balance of payments difficulty due to hefty rise in their cereal imports. The new facility would
help members to prevent cereal consumption level from falling in the face of surges in import costs caused by factors such as temporary decline in domestic production or a sharp rise in import prices. The scheme is designed solely to benefit low income countries, susceptible to balance of payments disruption from crop shortfalls or steep increases in import prices.


The IMF has recently suspended disbursement of more than 25% of the loans made available by it to 15 countries for one to three years under the extended facility arrangement. India does not figure announcing these. In fact, it has drawn the third and final instalment of SDRs 300 million for the first year, reflecting the commendable job done in the face of many hurdles and tough global trading conditions. The countries affected are Romania, Zaire, Morocco, Bangladesh, Zambia, Grenada, Costa Rica, Tanzania, Guyana, Madagascar, Senegal, Togo, Uganda, Honduras and the Solomon Islands. The problems of the developing nations; most of the countries to which IMF assistance has been cut off belong to the third world. The assistance by the IMF for overcoming the balance
of trade difficulties too has to be made available for larger durations so that adjustment programme can be well thought of and reasonably phased.

249. IN SHEER self-interest. Amrit Baz Pat. 114; 1982, De, 14; 6(1-2).

The Third World countries as their own self-interest which weighted with the five leading industrialised countries to decide to set up the lending capacity of the IMF by 40% through an accelerated increase of quota subscription. Instead of approaching the IMF, the developing countries should try to raise commercial loans from the international money market to finance their developmental imports and meet their balance of payments difficulties. The IMF makes more funds available to them through rescheduling their debts. India does not, however, belong to the category of country of countries the five richer nations had in mind. The IMF's $5.7 billion loan has further raised India's credit.


The IMF has decided to set up special oil facilities which are expected to satisfy under-developed countries. The
granting of loans by IMF at a low rate of interest to finance the purchase of oil by developing countries. This fund to enable needier nations to tide over their balance of payments difficulties is a big help, particularly, to those obliged to import crude oil, food grains and fertilisers. The IMF scheme bears a faint resemblance to what 166 developing countries including the oil producing states, agreed in last January.

India is to receive a 5 billion dollar IMF loan over the next three years. And it is well that the furore has arisen. For this IMF loan is not like any in the past. If it is successful it could set off a new approach to balance-of-payments finance. For with this loan the IMF is fully implementing a number of changes in its operating methods. The IMF loan was granted to countries which had a trade deficit, which made efforts to control imports by deflating their domestic economy to levels consonant with their reserves and export capacity. In a developing country, reduced consumption meant not only reduced employment, but totally reduced consumption of food, clothing, and housing. It meant belt tightening in countries where people did not have belt. 27% of the IMF loan
will be used to develop energy-coal and oil. That means two billion dollar will be used to develop a new oil field in the Arabian Sea - A new field over and above the current called Bombay High. The oil field has been developed by India's governmental agency for petroleum and natural gas. The new oil field will produce significant quantities of natural gas whose use in nitrogenous fertilisers can make India independent of world markets for Agricultural inputs.

**SUBSIDIES, OIL**


The IMF had given aid to 23 poor countries to help them to pay for oil over the past six years. Among the poor countries eligibles for the subsidies, India is one of them. Over the years subsidies received by India from the IMF is $318 million.

253. IMF PLAN. *Econ Trnd.* 10, 1; 1981, Ja, 1; 16.

The IMF has announced the details of $1.25 billion subsidy plan to cut interest cost on loans available to 83 low income countries, facing an economic crisis due to the high oil prices. Additionally, another $2687 billion would be
available in 1984-85 for much easier loans, at half a percent interest or some other favourable rate. Interest on loan is at present running at 11.5%.

TRUST FUND, CREDIT, BALANCE OF PAYMENTS


The considerable difficulties that emerged in the international monetary system in 1974, and, in particular, the balance of payments difficulties of developing countries that arose as a result of a substantial adverse shift in their terms of trade. To keep in the view this problem, the IMF has established the Trust Fund in May 1976. The Trust Fund was set up to disburse balance of payments assistance to eligible members of the trust mainly from the profits derived from the sale of gold of IMF. Its first two years of operations were completed on June 30, 1978.

255. GUPTA (OP) and MAHESHWARI (GC). How effective is IMF Trust Fund? *Finan Exp.* 7, 208; 1980, Se, 22; 5 (7-8).

The Trust Fund (TF) which was set up by the international Monetary Fund (IMF) in May 1976 with a view to providing
balance of payments assistance at concessional rates to eligible developing member countries, completed four years of its operations on June 30, 1980. The working of the Trust Fund during the first four years of its operations.

In 1974, the IMF created an oil facility to meet the increased cost of petroleum imports of the developing countries. In 1975 special subsidy account was also set up to provide interest relief on drawings from oil facility to MSA countries.

India's balance of payments weakened markedly during the 12 months, April 1979 - March 1980 as surplus in the overall balance of payments which had averaged substantially in excess of SDR 1 billion in preceding three years shank to SDR 340 billion. In the sixth disbursement of loans held on June 30, 1980. India has received loan amounting to SDRs 526,460 million.

256. INDIA TO borrow from IMF trust fund. Econ. Trnd. 9, 10; 1980, My, 16; 31.

India will be borrowed Rs. 550 crores from the IMF's Trust Fund. The country has been compelled to this step because of serious balance of payments position created by the steep rise in the price of imported crude.
PART THREE

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