



Iowa High Model United Nations

ECOSOC

Restructuring International Monetary Fund Loans

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Background:

The International Monetary Fund (IMF) is an international lending institution whose sole purpose is to endow assisted financing to nations that need additional funding in order to maintain international payments and to keep a safe national reserve (International Monetary Fund). The IMF is not a development institution (unlike the World Bank); its function is to deliver loans when a nation is in a crisis, to prevent international ripple effects, to help bring other investments and business into a nation.

It provides to any members state that has the capital to pay back the loan. The loan is by no means free; it comes with stipulations and goals agreed upon by the government and the IMF. The IMF as several different lending agents it uses assessing and distributing loans: Stand-By Arrangement (SBA) is basically a one to two year line of credit a stable nation with a good track record and solid reserve can borrow against when it need fast cash. The Flexible Credit Line (FCL) is a renewable, three to five year, line of credit for countries with similar qualifications as stated above. The flexibility of this loan is designed to encourage members to borrow money before it becomes a crisis. The Extended Fund Facility is a medium-term loan that is designed to help fix underlying structural problems in a nation's finances. The Trade Integration Mechanism is a way for the IMF to provide loans to poor nations and open up trade by ending tariffs on exports.

What has been done/ past actions taken:

The Bretton Woods Conference established the IMF in 1944 in the wake of The Great Depression of the 1930s. According to the organization's website, over its history the IMF has worked to "foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world." International monetary loans success rates have the scholarly world divided. Jordan is seen as modern day example of an IMF success story. IMF interaction with the country began in 1989 to combat the sharp economic downturn that the country was experiencing at this time. The country needed external financial relations that it simply did not have. Economic reforms were agreed upon (customary in dealing with the IMF) and the agreements focused on cutting external public debt, credit policy, and monetary policy aimed at controlling inflation. Some argue that this "cookie-cutter" policy is not for every country. With a growing population the unstable political region is still a long ways off from being a true success story. In 2004 the country "exited" from relying on IMF loans.

Possible solutions:

The problem of the “cookie-cutter” solution to most IMF loans needs to be addressed. Each country’s economy is vastly different from the next. In some occurrences the differences are so great economies have a hard time being comparable to one another. It seems understandable to conclude that a one-solution-fits-all mentality is oversimplifying the problems that countries face. Proponents of trade liberalization cite the efficiency of liberalization and the increased global interaction within ones economy. Opponents believe that the economic safeguards a country is forced to concede upon agreeing to take IMF money are necessary for certain developing economies.

Questions to consider:

What economic system does your country follow?

How much money does your country contribute to IMF?

Is your country part of the historically economically developed North or developing South?

Has your country been involved in IMF transactions in the past?

Are IMF terms on their loans acceptable?

Should Balancing budgets (mandatory for most loans) be a part of the terms required?

Do IMF loans undermine competitive currency markets?

How strong is your country’s currency? What are the economic effects of this?

Consulted/ recommended:

<http://www.imf.org/external/pubs/ft/wp/2011/wp11297.pdf>

http://www.un.org/esa/desa/papers/2011/wp104_2011.pdf

www.imf.org

<http://www.worldpress.org/Mideast/3610.cfm#down>