

IMF AND ITS ROLE IN THE ECONOMY OF AFGHANISTAN

Habib Ahmad Karimi

Department of Finance and Banking, Kabul University, Kabul, Afghanistan

Abstract

IMF¹ is one of the most important contributory institutions that conducts the global monetary and fiscal system. IMF was accepted as an important International Monetary System point after Bretton Woods conference (launched in July 1944). IMF was established in 1946 with 46 members, and the number of member countries reached to 188 countries. Afghanistan earned membership of IMF in 1955. Between 1979-2002 Afghanistan didn't gain any aid from this institution. In every three years, IMF draft financial and economic reforms for government of Afghanistan. If Afghanistan fulfill the criteria and terms of IMF, on that time IMF designs new schemes for economic growth and development of Afghanistan.

Keyword: International Monetary Fund, Special Drawing Right, Extend Credit Facility, Financial Reforms, Consultative Services, Balance of Payment

1. INTRODUCTION

IMF is an international institution that established for supervision of International Financial and Monetary System. Base to the first statute of IMF which was adjusted in 1944, the consequential purposes of IMF was: Promoting International Monetary Solidarity, growth and development of International Balance Trade, consistence of Exchange Rate, elimination of International Capital Flow restrictions and adjustment of unbalanced Balance of Payment. Till now, in most resources proceedings and policies of IMF on countries were studied, but in this article the author tried to assess IMF, IMF tasks and role of this institution in the economy of Afghanistan. This article summarizes that IMF in its 6

decade activities experienced several structural conversions, and this institution in times of crises again could achieve its importance and adjusted its goals base to the global economy conditions.

Afghanistan gained membership of IMF in 1955 and IMF clarified several terms for granting debt for Afghanistan. Fortunately, IMF accepted financial and economic reforms of government of Afghanistan in recent years, and this institution will provide debt in times of urgency for Afghanistan. Expending the IMF and other institutions' debts will have effective affects in standard of living of Afghans, and it will be effective in reconstruction and development process also. The main goal of this paper is appraisement the role of IMF in economy of Afghanistan (gaining debt from IMF, IMF and Afghanistan agreement for economic reforms and assessment of financial and economic reforms of government of Afghanistan by IMF.

2. BRETTON WOODS MONETARY SYSTEM

After second world war, global witnessed creation of the biggest financial and monetary institutions. Conqueror countries of the second world war decided to adopt some contraptions for preventing the conditions which was developed after first world war and caused to crash the global economy. They got together on Bretton Woods of USA in 27th of July 1945. After long discussion two drafts were accepted. The first one was the model of USA, and the second one was from England. These two casts established IMF and World Bank (Massoud, 2016).

Between 1946 to 1971, the primary goal of IMF was drafting the dominant value of Exchange Rate System. Every member government of IMF was supposed to clarify its currency value in front of gold or US dollar, and

¹ IMF stands for International Monetary Fund

the government of USA was supposed to support the fixed value of gold (one-ounce gold = 35 dollars). Also, the member countries were allowed to interfere in currency markets, but they were supposed to announce their exchange rate between 1% equilibrant value. These operations caused to significant problems, so Bretton Woods system combined the Fixed Exchange Rate with some characteristics of Floating Rate to persuade the economic policies to a better condition (A. Weiss, 2018).

3. IMF ACTIVITIES

In 1940 and 1950s, IMF only focused on industrial countries. When the vast number of during develop countries got the membership of IMF, IMF policies changed and covered during develop countries also (E. Sanford, 2004).

The main activities of IMF are including:

1. Supervision on monetary and economic terms of member countries and global economy
2. Financial cooperation for those member countries that face Balance of Payment problems
3. Offering technical and consultative services for member countries

4. FINANCIAL RESOURCES OF IMF

Some of the IMF resources were developed by stocks of member countries, that 25% of that was gold, and remaining was the national currency of member country. The preliminary capital of IMF was 8.8 milliard dollars. The other way for creating financial resources for IMF was debts. IMF can demand debt from its member countries. Also, in every 5 years once the financial resources of IMF analyze by specialists. During 1960s, IMF created a kind of money called SDR that member countries could gain it for solving their liquidity problems, and they were adding SDR to their gold and currency reserves (Federal Reserve Bank of Minneapolis, 1983).

5. FUNDAMENTAL TASKS OF IMF

IMF is an institution that supervise the International Monetary Regulations and Currency Flows.

Following are the main tasks of IMF:

1. Supervision of financial and monetary aspects of member countries and global economy: Members of IMF agreed to cooperate with IMF and other members for gradation of Fixed Exchange Rate System. Clearly, the members agreed to follow financial and economic policies for economic improvement and commensurate prices consistency and preventing from problems accession in International Monetary System.
2. IMF offers financial aids for balance of payment problems of member countries: When IMF members experience balance of payment problems either through current account or capital account, IMF endows debts for solving their balance of payment problems.
3. IMF offers technical and consultative services for its members (E. Sanford and A. Weiss, 2004).

6. DEFECTS OF IMF

The main defects of IMF are including:

1. Unlimited stock amplification
2. Adoption of currency policies base to IMF goals that could harm a member country.
3. Full stewardship of IMF to performance of Currency Rate System.
4. If countries use from financial resources of IMF, it is probable that IMF might offend their economic and political independence.
5. IMF uses from single policies for different crises.

7. ROLE OF IMF IN THE ECONOMY OF AFGHANISTAN

Afghanistan achieved a victory and gained membership in IMF yearly schemes. Base to this scheme, IMF cooperates with Afghanistan (economic growth) and provides fair private investment opportunities. After membership of Afghanistan in yearly schemes of IMF, Ministry of Finance and Central Bank of Afghanistan requested that IMF should clarify the disposal way of cooperation. These aids should be divided to every part of Afghanistan and finance infrastructural projects.

7.1. AFGHANISTAN ECONOMY (IMF PERSPECTIVE)

Recently, IMF (through issue of new articles) announced that the economy of Afghanistan is positive and transparent. IMF mentioned that economy of

Afghanistan is growing, and exports are improving with a little pace. IMF persuaded the government of Afghanistan because of economic growth and promotion, financial reforms, struggling against money laundering and financial corruption.

IMF aids for Afghanistan are contingent to reforms. Afghanistan got the membership of IMF in 1955. After 2002 up to now, relation of Afghanistan with IMF enhanced. IMF played a vital role for benefaction of debts from lender institutions and countries. Base to the experiences of IMF (worked with back warded countries), this institution offers financial and technical aids related to the policies of Afghanistan. IMF also works for economic reconstruction of Afghanistan and offers consultative services.

Every year IMF clarifies a revenue ceiling for government of Afghanistan, and Afghanistan government must realize that. Fortunately base to the reports of Ministry of Finance, Afghanistan was able to collect its revenues effectively, and amount of accumulated tax revenues reached to more than one milliard dollars.

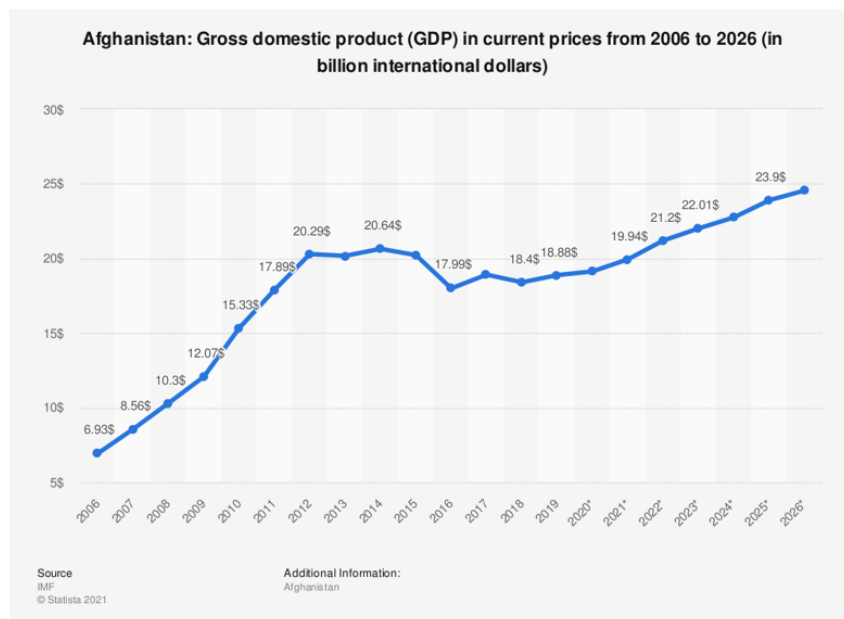
Ministry of Finance added: Gaining tax from those, who was forbearing to pay tax (tax escapement), transmission of income tax to central treasury, creation and alteration of reforms in country customs, setting up agricultural tariffs, setting up taxes on Tele-communication firms (customer's credit cards), accretion of transit for airplanes which cross from

Afghanistan space and equipment modernization in country customs were the ways that increased the revenues of government of Afghanistan.

In banking sector Afghanistan achieved several prosperities and could emerge from Gray List . Afghanistan also extruded from list of those countries that didn't do their best in money laundry. Through this ploy, now central bank and commercial banks can deal with global banks and institutions. In May 2017, IMF had done the first (ECF) scheme because of emprises of government of Afghanistan for reforms, enhancement of Macro-economic management and struggling against corruption.

7.2. LIMITATION OF IMF AIDS FOR AFGHANISTAN

If government of Afghanistan implement reforms, IMF will provide new debt bundle for Afghanistan. When Kabul Bank faced crisis because of vast corruption, IMF stopped its aids for government of Afghanistan. With collapse of Kabul Bank, Central Bank of Afghanistan (DAB) assessed Kabul Bank's operations and took the control of that. Kabul Bank endowed 500-million-dollar debt without documents. Government of Afghanistan was supposed to collect two-third of Kabul Bank debts. Because of Kabul Bank crisis IMF and World Bank stopped their aids for Afghanistan. Advocation of IMF from Afghanistan is vital because this support clarify that financial issues of Afghanistan are appraised by server countries.



Upper graph indicates that when Afghanistan implemented economic and financial programs of IMF, GDP of Afghanistan rose significantly, and reforms brought to some key sectors.

7.3. IMF FINANCIAL AND ECONOMIC REFORMS PROGRAM

In 2018, Central Bank of Afghanistan (DAB) and Ministry of Finance inaugurated a joint conference and appraised IMF financial and economic reforms program for Afghanistan. Khalil Sediq the prior chief of DAB said: In the current situation, economic consistency, keeping low rate inflation, proliferation in currency reserves and fortification of financial system are the big achievements of Afghanistan. Base to the reports of IMF, in October 2018 the value of region currencies decreased significantly, and Afghanistan was the only country that its money decreased only 9%.

If government of Afghanistan completely fulfill every benchmark of IMF, on that time with the end of every period, IMF will provide 6.2 million USD for Afghanistan. Fortunately, beside security problems Afghanistan could accomplish its commitments. In 2018 program of IMF, indexes of National Income Collection, reforms in National Budget, Economic Growth, Financial Consistency, low Rate Inflation, country currency reserves reforms, struggling against Corruption and fortification of Financial System were analyzed by IMF (Gitton and Barret, 2017).

8. BRIEF CONCLUDING REMARKS

IMF is one of the most important contributory institutions that conducts the global Monetary and Financial System. IMF was created for elimination of international trade barriers. Afghanistan is a during develop country that gained membership of IMF in 1955. Between 1979-2002 government of Afghanistan wasn't able to earn financial and technical aids from IMF. After 2002, IMF accomplishes financial and economic reforms programs and provides technical and consultative services for Afghanistan. Afghanistan needs to finance its infrastructural projects, and Afghanistan government should supervise any fund that international organizations such as IMF provide.

REFERENCES

- [1] Afghanistan development update. (2017). May.
- [2] Ahead, R. (2018). Special Issue: Is there a need for Reforms in IMF? Reforms in International Monetary Fund (IMF): Challenges and the Road Ahead. 4, 19–29.
- [3] Allen, W. (2009). Stress Testing at the International Monetary Fund: Methods and Models. 1–10.
- [4] Aondoakaa, P. (2014). The International Monetary Fund (IMF) And World Bank: An Assessment Of The Role Of Africa ' s Integration Into Global Economic System. 19(11), 9–17.
- [5] Babb, S., & Kentikelenis, A. (2018). as Agents of Neoliberalism. July 1944.
- [6] Bertay, A. (2017). International Banking.
- [7] Blanco, B. S., & Carrasco, E. (1944). The Functions of the IMF & the World Bank.
- [8] Editors, K. K. G. (n.d.). New Challenges in Banking and.
- [9] Eichengreen, B., Eichengreen, B., & Pardee, H. N. (2012). Asian Development Bank Institute. 394.
- [10] Engagement, E. F. (2018). REVIEW OF 1997 GUIDANCE NOTE ON GOVERNANCE — A PROPOSED FRAMEWORK FOR. April.
- [11] Free, L., Macarthur, J. R., Becker, G., & Laureate, N. (n.d.). What ' s Wrong with the IMF?
- [12] Fund, I. M. (2002). INTERNATIONAL MONETARY FUND AND WORLD BANK CHAPTER 352 INTERNATIONAL MONETARY FUND AND WORLD BANK.
- [13] Governors, C. B. (2017). The G-20 Compact with Africa A Joint AfDB , IMF and WBG Report G-20 Finance Ministers and Central Bank Governors Meeting.
- [14] Gregorio, J. De, & Eichengreen, B. (n.d.). IMF Reform: The Unfinished Agenda.
- [15] Imf, T. (n.d.). G ood G overnance.
- [16] Institutions, I. F., Imf, T., Bank, W., Origins, T., International, T., Fund, M., Does, H., Achieve, I. M. F., Goals, I., Is, W., Controversial, I. M. F., Bank, T. W., & Ibrd, T. (n.d.). International Monetary Fund and World Bank. 1–23.
- [17] International, T., Fund, M., Bank, I., Bank, W., Woods, B., & Hampshire, N. (2013). International Monetary Fund (IMF).

- [18] Issues, S. (2017). ISLAMIC REPUBLIC OF AFGHANISTAN. 17.
- [19] Kirby, K. (2005). International Monetary Fund. 33–44.
- [20] Kose, M. A., Prasad, E., Rogoff, K., & Wei, S. (n.d.). Financial Globalization: A Reappraisal.
- [21] Oatley, T., & Yackee, J. (2004). American Interests and IMF Lending. 415–429. <https://doi.org/10.1057/palgrave.ip.8800085>
- [22] Perspectives, F. (n.d.). Emerging Trends in Banking and.
- [23] P, E. G. C., P-, A. M. S., Boyd, J. H., & Dahl, D. S. (n.d.). Federal Reserve Bank of Minneapolis.
- [24] Ranis, G., Vreeland, R., & Kosack, S. (n.d.). Globalization and the Nation State.
- [25] Reform, R., After, Y., Global, T. H. E., Crisis, F., Back, L., & Forward, L. (2018). REGULATORY REFORM 10 YEARS AFTER THE GLOBAL. October.
- [26] Review, S., The, U., Fund, E., Modification, R. F. O. R., Releases, P., Report, S., By, S., Executive, T. H. E., & Georgia, F. O. R. (2018). ARRANGEMENT , AND REQUEST FOR MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION —. 18.
- [27] Sanford, J. E., & Weiss, M. A. (2004). CRS Report for Congress International Monetary Fund:
- [28] Scholte, J. A. (2002). Civil Society Voices and the International Monetary Fund (Issue May).
- [29] Special Issue: Is there a need for Reforms in IMF? A Critical Evaluation of IMF History and Policies. (2018). 4, 60–66.
- [30] The, D., Really, I. M. F., & Developing, H. (1993). Briefing Paper. April, 1–4.
- [31] Woods, B. (1944). Articles of Agreement INTERNATIONAL MONETARY FUND AND INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT United Nations Monetary and Financial Conference.
- [32] World, T., & Group, B. (n.d.). Public Sector Debt Statistics: Guide for Compilers and Users.