The Changing Role of the International Monetary Fund

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I. Introduction

The past several years have seen fundamental changes in the nature of the international monetary system. As a result, there have been important modifications, both in the institutional charter of the International Monetary Fund and in its operational practices.

The early 1960's may be seen, in retrospect, as the period during which the Bretton Woods par value system was functioning at the peak of its effectiveness. Non-resident convertibility had been restored by most major currencies, there was a strong trend towards liberalization in trade and payments restrictions, world trade and output were growing rapidly, and the prices of internationally-traded products were reasonably stable in world markets. Such payments imbalances as did occur from time to time were normally rectified by the use of domestic stabilization policies, and where these were not sufficient, mainly in the case of smaller countries, exchange rate changes were generally successful in fulfilling their intended role in promoting adjustment.

By the later years of the 1960's, however, symptoms of strain were becoming evident in the system. The U.S. balance of payments deficit, which had begun already in the 1950's, was growing in size, and proved surprisingly resistant to the efforts of the U.S. authorities to reduce it. This deficit performed a useful function in providing liquidity to the rest of the world, but many observers doubted whether it constituted a sustainable method of liquidity creation. Also, the additions to world reserves from this source were not necessarily quantitatively consistent

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with the needs of the world economy for a growing stock of international liquidity. Furthermore, the increased mobility of international capital, partly the result of payments liberalization and partly due to the very rapid growth of Euro-markets, made the exchange rate system much more brittle in the face of disturbances affecting confidence in the existing pattern of exchange rates.

Coming on top of these growing weaknesses in the system, the accelerating inflation of the 1970's caused the rupture of the par value system in 1971. This was followed in 1973 by the abandonment of attempts to piece together a modified par value system. As a result, a comprehensive attempt to overhaul the institutional framework of the international monetary system was begun in 1972 and terminated, with only partial success, by the Jamaica accords of January 1976 (though the process of ratifying amended articles of agreement took a further two years).

In a sense, the process of reform may be seen as beginning as early as 1967, when agreement was reached on a mechanism of internationally-managed reserve creation through the Special Drawing Right scheme. Further evolution of the system will undoubtedly continue in the years ahead, since the amended Articles of Agreement are deliberately flexible and permit a more organic development than did the much more rigid structure of the Bretton Woods Agreement.

The Second Amendment to the Fund's Articles of Agreement is an important milestone in the development of the international monetary system and a convenient point of reference from which to analyze the changes in the Fund's role that have taken place in the last decade. The changing role of the Fund is particularly pronounced in two areas of vital importance to the international monetary system: exchange rate arrangements and international liquidity. In this paper we deal first with changes in the exchange rate system, and the shifting emphasis of the Fund's role in promoting effective balance of payments adjustment policies. Following this we discuss developments in the field of international liquidity, and trace the growth of the Fund's responsibilities in providing both conditional and unconditional liquidity.

II. Changing Exchange Arrangements and the Fund

Perhaps the most significant change in the international monetary system over the past ten years has been the move to greater exchange rate flexibility on the part of most major countries. The Bretton Woods

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system, which survived largely unchanged until 1971, was based on established par values, and the responsibilities of the Fund for the management of this exchange rate regime were clearly set down in the Articles of Agreement. As a result of the reform which culminated in the second amendment to the Articles of Agreement, members of the Fund are permitted substantial freedom in their choice of an exchange rate system. Indeed the only exchange rate practice which is specifically prohibited is a peg in terms of gold. The focus of the Fund's responsibilities therefore has become much broader, embracing surveillance over the whole range of members' policies affecting their exchange rates, instead of their adherence to an established par value.

Under the original *Bretton Woods* articles, members were required to establish an appropriate par value for their currency (in gold or, more usually, in terms of the U.S. dollar of 1944 which was itself equal to 1/35 ounce of gold) and then to take the necessary steps to maintain the exchange value of their currency within a narrow band of fluctuation (1 per cent) around its parity. Changes in par values were permitted in cases of "fundamental disequilibrium" with the initiative for such a change resting with the member and the Fund's responsibility being to "concur" (or not concur) in changes proposed by a member[1]. The balance of payments adjustment mechanism implied by the *Bretton Woods* articles therefore envisaged that minor disequilibria would be dealt with by appropriate adjustments in domestic policies; while fundamental disequilibria would need to be corrected by a change in the exchange rate — supported, of course, by suitable accompanying policies.

The reasons why this system broke down are now well-known (although there remains considerable dispute as to the relative importance of the various factors). There is little doubt, however, that a system of fixed exchange rates could not endure in a world of high and variable inflation rates, increasingly large volumes of mobile international capital and rapidly changing patterns of world payments. Even before the acceleration of inflation and the enormous capital flows of the early 1970's, there were growing doubts about the long-term sustainability of the par-value system as it actually operated, and concern about the Fund's role as the central institution in that system, charged with its effective operation.

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[1] Members were permitted to make an initial 10 per cent change in par values without requesting the concurrence of the Fund.

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In the first place, it was clear that the reluctance of countries to make changes in par values (a reluctance that was probably much greater than envisaged by the framers of the Articles) imposed strains on other instruments of adjustment. The deflationary pressures imposed on deficit countries, and the inflationary pressures imposed on surplus countries gave rise to welfare costs that might have been avoided, or reduced, through more timely exchange rate adjustment. In short, the *Bretton Woods* system lacked a satisfactory adjustment mechanism.

A second problem, widely recognized in the literature, related to the technical difficulty of making discrete changes of significant size, in par values, in a world of substantial freedom of international payments. By changing exchange rates only in circumstances of "fundamental disequilibrium", national authorities offered speculators the now-well-recognized "one-way option" to move funds out of currencies thought to be devaluation-candidates and into currencies thought to be revaluation candidates. The reluctance of governments to reward speculators by actually changing the exchange rate in the expected direction contributed to the general "stickiness" of exchange rates during much of the *Bretton Woods* period.

A third difficulty related to the role, or lack of role, of the Fund in supervising exchange rate changes. The framers of the Articles probably envisaged that, in cases of fundamental disequilibrium, member countries would usually propose par value changes to the Fund and that the Executive Board of the Fund would then make a judgment of whether the proposed change was acceptable from an international point of view. However, many countries whose balance of payments was rather obviously in disequilibrium, chose not to propose a par value change, but instead relied on a variety of techniques to finance or supress the underlying disequilibrium.

The result was that in practice par value changes took place largely independent of Fund supervision. Because of the sentitive political nature of the exchange rate, and the proneness of exchange markets to speculative capital flows, such exchange rates changes as did occur were usually planned in secret and executed quickly. The Fund had relatively little time to consider proposed changes, and in practice its authority became mainly that of a rubber stamp.

Under the new Articles of Agreement, the Fund's responsibilities for the supervision of exchange rates are broader, and are to be exercised

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in a more continuous manner. The first step in this direction was taken in 1974, following the work of the Committee of 20, when the "Guidelines for the Management of Floating Rates" were formulated. The important achievement of the guidelines, whose formulation was in large measure due to the efforts of the late *Marcus Fleming*, was to secure general assent to the proposition that even when exchange rates floated, they were still matters of international concern, requiring international surveillance procedures.

The guidelines, however, had a double limitation that they dealt only with floating rates and were primarily addressed to countries' intervention policies, only incidentally referring to other policies affecting exchange rates and the balance of payments. During the two years which followed the introduction of the guidelines, there was growing recognition that broader power would have to be entrusted to the Fund to secure effective surveillance over all members' exchange rate policies.

This was achieved through the new Article IV of the Fund's Amended Articles of Agreement. The new Article IV provides, inter alia, that members shall "avoid manipulating exchange rates or the international monetary system to prevent effective adjustment or to gain an unfair competitive advantage over other members". This provision, in conjunction with a rather broader obligation for members to follow policies that promote high employment and price stability, is intended to generate a stable exchange rate system, whose smooth functioning will be ensured by the stability of individual countries' economic and financial policies, rather than imposed from without by par value obligations.

When Article IV was negotiated, it was hoped that it could be given additional operational content through the adoption, by the Executive Board, of "specific principles for the guidance of members' exchange rate policies". However, largely because the suitability of particular exchange rate policies depends on the circumstances of individual cases, no such codification of members' obligations proved possible. Instead, the principles and procedures for Fund surveillance of exchange rate policies consists essentially of a reiteration of the exchange rate obligations of the Articles, plus a rather detailed set of operational procedures governing the means by which the Fund will exercise the required surveillance.

To aid the Fund in identifying cases where members' policies may not be consistent with the obligation to "avoid manipulating exchange

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rates", a set of indicators have been devised to illustrate the kinds of development regarded as requiring further investigation by the Fund. These indicators include abnormal exchange rate developments as well as protracted unidirectional large-scale intervention in the foreign exchange market, unsustainable levels of official capital transactions, changes in trade and payments restrictions, and the pursuit of abnormal domestic policies for balance of payments purposes.

It is recognized, of course, that circumstances may well arise where the kinds of policies covered under the indicators would be perfectly justifiable in the short-term to improve the functioning of the adjustment process. A "hands-off" policy with respect to the exchange rate may be sub-optimal where private market activity cannot be relied on to produce an appropriate rate; or when reliance on the exchange rate as an instrument of balance of payments adjustment complicates the task of using domestic economic instruments to restore domestic financial stability. For these reasons, the Fund's approach to its surveillance task will have to be based on case-by-case analysis, with standards of appropriate behavior being clarified gradually as experience in surveillance is accumulated.

The procedures by which the Fund will exercise its responsibilities in monitoring exchange rate policies are complex, reflecting the need for caution in internationalizing what has traditionally been a prerogative of national economic decision making. All members of the Fund will engage in regular (approximately annual) consultations with the Fund under Article IV, which will cover all aspects of macroeconomic policy, with more emphasis than previously on exchange rate policies. At the conclusion of these consultations, it will be open to the Fund to make recommendations concerning exchange rate policies, though given the sensitivity of this area of policy, it is to be expected that this right will be exercised circumspectly. In the intervals between regular consulttions, it is possible of course that exchange rate developments make be such as to cause concern to other members. For this reason, it is provided that the Managing Director, if he believes that one of the indicators mentioned above suggests the need for further investigation, may initiate informal discussions with the member concerned. If these preliminary discussions do not satisfy him that there is no cause for concern, or if they do not lead to a policy change, he may notify the member of his intention to conduct supplementary Article IV discussions. Such

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supplementary discussions are to be conducted confidentially (to avoid unnecessary disturbance to exchange markets) and must be completed within four months (to avoid the danger of unnecessarily prolonging an unsatisfactory situation). It is expected that supplementary discussions would normally lead to a resolution of the Managing Director's concerns, either through clarification of the underlying justification for the member's policies, or through a change in those policies. If so, no further action on the Fund's part would be required, though the Managing Director would report to the Executive Board at a later date on the action he had taken. On the (probably rare) occasions on which disagreement between the Fund staff and a member remained even following these further discussions, the matter would of course be brought up for review by the Executive Board.

It is clear from the foregoing that the Fund's responsibilities with respect to the adjustment process, and particularly the role of exchange rate policies, are more wide-ranging, though less specific, than under the Bretton Woods articles. Only time tell whether the Fund will have effective teeth to police the necessarily somewhat vague provisions of the new Articles. But certainly the institutional mechanisms are in place for a continuous international surveillance over a vitally important area of international economic policy.

III. The Fund and International Liquidity

Besides its role in exercising surveillance over exchange rate policies and practices, the other main responsibility of the Fund lies in the provision of conditional and unconditional liquidity. This function is complementary to the first one, in that both serve the objective of promoting timely and effective balance of payments adjustment, and avoiding recourse to unnecessarily harmful measures such as domestic deflation or payments restrictions.

Initially, the liquidity provided by the Fund was in the form of conditional borrowing rights only. Since 1969, however, the Fund has had the power to create, subject to approval by an 85 per cent majority of the voting power, unconditional liquidity through the allocation of SDR's. In recent years, the Fund has been extremely active in providing balance of payments assistance to member countries. But changes in the international monetary system, in particular the move to flexible ex-

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change rates and the spectacular growth of international credit markets, have raised questions about the need and desirability of further allocations of SDR's.

The principal change in the area of conditional liquidity that has occured in the last decade or so has been an expansion in the number of facilities under which the Fund makes assistance available to its member countries, and in the way in which they are financed. Prior to 1963, all such assistance was extended on the basis of a uniform set of criteria, and financed out of the pool of currencies subscribed by member countries. Under these policies, which still govern much of the Fund's lending, drawings take place in "tranches", equivalent to 25 per cent of member countries' quotas. The policy conditions attached to drawings become more severe in the upper credit tranches.

First credit tranche drawings are subject to light conditionality only. In the second, third and fourth credit tranches the normal procedure is for a country to negotiate a stand-by arrangement with the Fund, based on a comprehensive set of measures to restore financial stability and balance of payments equilibrium, and to undertake phased drawings under the stand-by if certain "performance criteria" are met. Drawings are to be repaid as the balance of payments improves, and in any event within a period of 3 - 5 years.

The expansion in the number of the Fund's lending facilities that has taken place since 1963 reflects both the inadequacy of the amounts that some countries are entitled to draw under their quotas, and the feeling that a single set of policy criteria cannot properly take into account the diverse reasons for which countries might find themselves in balance of payments difficulties.

An example of the latter is provided by the situation of primary-producing countries, which can experience reserve losses as a result of shortfalls in export receipts caused by factors beyond their direct control. So long as such shortfalls are essentially temporary, and likely to be reversed when demand conditions or prices improve, it can be argued that there is little need for a comprehensive domestic adjustment program to deal with the situation. To meet such cases, the compensatory financing facility was established in 1963, and subsequently revised in 1975. Under it, countries are able to draw amounts up to 75 per cent of their quota (50 per cent in any one year), in addition to their normal drawing rights, and with light conditionality.

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To meet other special circumstances a buffer stock facility was established in 1969 to enable countries to finance their contributions to certain approved buffer stock schemes. In 1974 an "extended facility" was introduced in response to criticism that the normal Fund facilities were insufficient both in amount and duration to enable countries to undertake substantial structural economic changes. Assistance under this facility is granted only when the Fund is convinced that the rectification of an underlying payments imbalance will take longer and require larger financial assistance than is available under normal credit tranche policies. The maximum amount that can be drawn is therefore larger than under the normal tranche policy; the period over which drawings can be phased is three years instead of the normal one year; and the repayment period is 4 to 8 years.

The payments imbalances which arose following the increase in oil prices at the end of 1973, prompted further innovations in the Fund's financial operations. An "oil facility" was established for the years 1974 and 1975, to assist countries in meeting their higher oil payments, while smoothing the adaptation process to a situation of higher energy prices. In the first year of the facility, little or no conditionality was attached to its use, but in the second year drawings were conditional on the borrowing country taking measures to reduce or offset some of the consequences of higher oil prices. Another important innovation associated with the oil facility was that it was financed by borrowing from surplus countries, rather than out of the pool of currencies paid in by members as subscriptions.

The Fund always has had the right to borrow to finance its operations, but until 1961 this right had not been used. At about that time, the possibility of a large U.S. drawing on the Fund seemed likely, and to avoid the strain on the Fund's liquidity that such a large drawing might impose, the "General Arrangements to Borrow" were negotiated among a group of large industrial countries (the Group of 10). The G. A. B. was never used for a U.S. drawing, but it was activated for drawings by some other major countries. It was not until the oil facility, however, that borrowing was used in a major way to finance the Fund's operations. Under the oil facility, although transactions pass through the Fund's General Account, the total amount drawn was obtained by borrowing from oil-exporting and surplus industrial countries.

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The oil-facility was discontinued at the end of 1975, not so much because the need for continued heavy balance of payments assistance had disappeared, but because it was felt that the specific problem of oil-related deficits had merged into more general problems of financing and adjustment. One possible response to the increased need for Fund assistance could have been a quota increase. Quota increases of about one-third on aggregate were in fact agreed, but their implementation had to await amendment of the Fund's Articles, since under the old Articles 25 per cent of the increase in members' quotas had to be subscribed in gold. As an interim measure, therefore, it was decided to increase the size of each credit tranche from 25 per cent to 36 1/4 per cent of quota, and therefore to increase the total available to members under the credit tranches by 45 per cent.

Even when the pending quota increase comes into effect, the amounts which the Fund will be able to lend to members under normal tranche policies will probably be inadequate to the financing needs of many countries and considerably smaller in relation to potential payments imbalances than a decade ago. For this reason, the Fund has proposed a "Supplementary Facility", financed by borrowing, under which substantial additional resources can be made available to member countries with particularly serious payments problems. This facility will substantially increase the Fund's flexibility in providing balance of payments assistance commensurate with countries' needs, although at the time of writing, lending countries have not yet formally agreed to their contributions.

From the foregoing, it can be seen that there has been a considerable increase in the diversity of the financial assistance offered by the Fund. The main facilities are listed in tabular form in Table 1.

Nevertheless, the resources available through the Fund have not grown as rapidly as payments imbalances. Although this has diminished the Fund's power to influence the policies of deficit countries in a constructive way, the diminution is not as great as might have been expected. This is because other providers of credit generally attach considerable importance to borrowers having a financial relationship with the Fund. If a country is able to demonstrate that its policies meet the criteria established by the Fund for drawings in the upper credit tranches, it generally finds it easier to secure credit bilaterally or through international credit markets. For that reason, many deficit countries value

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Table 1

Credit Facilities of the Fund und Possible Cumulative Purchases
(Per Cent Quota)

Tranche Policies	Per Cent of Quota Available	Cumulative Per Cent of Quota Available
First credit tranche	25	25
Program representing reasonable efforts to overcome balance of payments difficulties; performance criteria and installments not used.		
Higher credit tranches	75	100
Program giving substantial justification of member's efforts to overcome balance of payments difficulties; resources normally provided in the form of stand-by arrangements which include performance criteria and drawings in installments.		
Extended facility	165*	165
Medium-term program for up to three years to overcome structural balance of payments maladjustments; detailed statement of policies and measures for first and subsequent 12-month periods; resources provided in the form of extended arrangements which include performance criteria and drawings in installments.		
Supplementary financing facility	(a) 100 (b) 140	305
Used in support of programs (a) under stand-by arrangements reaching into the upper credit tranche or beyond, or (b) under extended arrangements, subject to relevant policies on conditionality, phasing, and performance criteria.		
Compensatory financing facility	75	380
Existence of temporary export shortfall for reasons beyond the member's control; member cooperates with Fund in an effort to find appropriate solutions for any balance of payments difficulties.		
Buffer stock financing facility	50	430
Existence of an international buffer stock accepted as suitable by Fund; member expected to cooperate with Fund as in the case of compensatory financing.		
Oil facility 1974	to 75	**
Oil facility 1975	to 125	**

* The combined use of the extended facility and the regular credit tranches may not exceed 165 per cent of quota.

** No longer available.

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the opportunity to negotiate a stand-by arrangement with the Fund, even though the amounts of foreign exchange that are directly available as a result are relatively limited.

Beyond its role in providing conditional balance of payments assistance to members in deficit, the Fund has a responsibility for monitoring developments in international liquidity more generally, and for issuing unconditional liquidity in the form of Special Drawing Rights (SDRs). The Fund's functions in the area of unconditional liquidity have gone through a number of changes in recent years, and there continues to be considerable disagreement about the need for international reserve creation and control, as well as the means by which it should be accomplished. To understand the present state of the debate it is necessary to consider the evolution of thought about the question.

At the time the original *Bretton Woods* articles were drawn up, gold was the major source of liquidity in the international monetary system, although some countries had fairly substantial holdings of sterling balances. From the early 1950's onwards, however, dollars began to enter countries' reserve holdings in substantial quantities. In part this reflected a demand for reserve assets that was greater than the supply of gold that was newly becoming available to monetary authorities; in part, it reflected an increased supply of dollars to the rest of the world through U.S. deficits. It was also the case that many countries saw advantage in holding their reserves in interest bearing form rather than in gold. Concern began to be expressed by the late 1950's that to base international reserve growth on deficits of the United States was sub-optimal. The balance of payments deficit of the United States was not necessarily equal to the quantum of reserves needed by the world economy to finance non-inflationary growth in world trade and payments, and the increase in U.S. official liabilities abroad could undermine confidence in the gold-convertibility of the dollar on which the system was based.

By the mid-1960's, it was assumed that measures would, and should, be undertaken to eliminate the U.S. deficit, and that this would leave the international community without a satisfactory means of providing for reserve growth. It was decided to fill this gap by providing for an internationally created asset, linked in value to gold, whose amounts could be augmented (or reduced) by collective international decision: the Special Drawing Right (SDR). Initially, the value of the SDR was set equal to the official gold value of the dollar, and the rate of interest charged on

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net use of SDRs (and paid to creditors) was set at 1 1/2 per cent. After the dollar was allowed to float in 1973, however, this basis of valuation was considered less appropriate, and the SDR was redefined (in June 1974) as being equal in value to a basket of 16 currencies, and made to bear a rate of interest linked to the weighted average of short-term interest rates on the five major currencies.

Some 9 1/2 billion of SDRs were allocated in the period 1970 - 72. Simultaneously, however, there was an enormous increase in reserves held in national currencies, far in excess of the amounts anticipated when the SDR allocation was decided upon.

By now, it has become clear that the growth of international credit markets has made it possible for international liquidity to be created in an essentially demand-determined fashion and therefore without international control. This has meant that there is no longer an apparent need for the creation of additional international reserve assets to ensure that world economic expansion is not hampered by an insufficiency of unconditional liquidity. Nevertheless, there remains concern that the continued growth of national currency holdings in reserves runs counter to the objective, expressed in the amended Articles of Agreement, of making the SDR the "principal reserve asset" in the international monetary system. Apart from the asymmetries created by using the currencies of individual countries (i. e., principally the U.S. dollar) as the principal instrument of international liquidity, the present arrangements offer no effective means of securing restraint over the pace at which reserve holdings grow.

This issue seems likely to bulk fairly large in the concerns of the Fund in the years ahead. As the Fund strives to improve the working of the adjustment mechanism, it is of importance that the availability of liquidity is such that adjustment action is encouraged to take place in a timely way, neither too rapidly because of an inadequacy of liquidity to finance paments disequilibria, nor too slowly because liquidity is freely available.

IV. A Closing Thought

In the absence of effective control over international liquidity, the effective functioning of the balance of payments adjustment mechanism becomes of paramount importance. It is here that surveillance over exchange rates will have to play an increasingly important role.

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By this the two main areas of activity of the Fund — the promotion of effective external adjustment and the provision and control of international liquidity are joined. While the last decade has seen important changes in the role of the Fund in both areas of activity, it is clear that the improvements put into place represent only a stage in the continuing evolution of the international monetary system and its adaptation to the needs of a dynamic world economy.

Zusammenfassung

Die wechselnde Rolle des Internationalen Währungsfonds

Das internationale Währungssystem hat sich in den letzten Jahren fundamental verändert. Folglich hat die Rolle des Internationalen Währungsfonds eine substantielle Veränderung erfahren. Dieser Beitrag zeigt die Änderungen, die die Aufgaben des Währungsfonds, soweit sie sich auf das Wechselkurssystem und die internationale Kapitalbeschaffung beziehen, erfahren haben.

Nach dem 2. Zusatzantrag des Übereinkommens verfügen Mitgliedsländer des Währungsfonds über das Recht zur Aufnahme des Zahlungsverkehrs mit dem Ausland nach ihrer eigenen Wahl, während gleichzeitig die Aufsichtsfunktion des Währungsfonds über die Wechselkurse erweitert wurde. Der Beitrag zeigt die Entwicklung des Währungsfonds unter dem Fixkurs-System Bretton Woods', über die Richtlinien zum Floaten bis zum neuen Artikel IV und die vereinbarten Richtlinien und Verfahrensweisen der Überwachung der Wechselkurspraktiken.

In bezug auf die internationale Liquidität lag die Bedeutung des Währungsfonds anfänglich einzig darin, bedingte Kreditrechte zu bestimmen. Seitdem wurden verschiedene Abmachungen getroffen, durch die der Währungsfonds im Bereich der internationalen Liquidität beträchtlich an Bedeutung gewann. Der Fonds schuf eine breite Palette an Sonderkreditfazilitäten, die dazu diente, den verschiedenen Bedürfnissen der Mitgliedstaaten zu entsprechen. Die Schaffung der Sonderziehungsrechte zeigt einen bedeutenden Fortschritt in der Beschaffung von uneingeschränktem Kapital an die Mitgliedsländer.

Schließlich wird argumentiert, daß die Herstellung eines effektiven Zahlungsbilanzausgleichs und die Bereitstellung und Regulierung des internationalen Kapitals bekanntermaßen miteinander verknüpft sind. Es wird hier offensichtlich, daß die erweiterten Aufsichtsrechte des Fonds eine ständig wachsende Bedeutung für die Zukunft erfahren werden.

Summary

The Changing Role of the International Monetary Fund

Recent years have seen fundamental changes in the international monetary system. Consequently, there has been a substantial evolution in the role of

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International Monetary Fund. This paper reviews these changes in the Fund's mission as they relate to the exchange rate system and the provision of international liquidity.

Under the second Amendment to the Articles of Agreement, Fund member countries have the right to adopt exchange arrangements of their own choice, while at the same time the Fund's responsibilities of supervision over exchange rates are broadened. The paper traces the development of the Fund's role under the Bretton Woods par value system via the guidelines to floating to the new Article IV and the agreed upon principles and procedures of surveillance over exchange rate practices.

With respect to international liquidity, the Fund's role was initially restricted to the provision of conditional borrowing rights. Since then several arrangements were adopted that considerably broadened the Fund's role in the area of international liquidity. The Fund has created a whole range of special credit facilities designed to meet the diverse needs of member countries and the creation of the SDR marked a major advance as it resulted in the provision of unconditional liquidity to the system.

Finally, it is argued that the issues of effective balance of payments adjustment and the provision and control of international liquidity are intimately linked. It is here that the Fund's expanded powers of surveillance will play an increasingly important role in the future.

Résumé

La mutation du role du Fonds Monétaire International

Le système monétaire international a subi au cours des dernières années une mutation fondamentale. Par voie de conséquence, le rôle du Fonds Monétaire International (FMI) s'est substantiellement transformé. Le présent article décrit les modifications de la mission du FMI en ce qui concerne le système des changes et l'approvisionnement international en capitaux.

En application du deuxième amendement à la Convention, les pays membres du FMI disposent du droit de libre choix pour leurs opérations de paiements avec l'étranger, tandis que parallèlement fut élargie la fonction de tutelle du FMI sur les taux de change. L'article explicite le développement du FMI sous le régime des parités fixes dites de Bretton Woods, les directives régissant le flottement des monnaies, le nouvel Article IV ainsi que les directives et procédures convenues afin de surveiller les pratiques des changes.

A propos de la liquidité internationale, le rôle du FMI consistait à l'origine uniquement à définir certaines lignes de crédit. Divers accords ont entretemps largement accru les fonctions du FMI pour la liquidité internationale. Le Fonds institua un large éventail de facilités de crédit spéciaux à l'effet de satisfaire les besoins divers des Etats membres. La création des droits de tirage spéciaux réalise un net progrès dans la fourniture aux pays membres de capitaux illimités.

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Il est enfin démontré que le rétablissement d'un équilibre effectif des balances de paiements et l'attribution comme la régulation du capital international sont notoirement interdépendants. L'on constate ici à l'évidence que les droits élargis de contrôle du FMI joueront à l'avenir un rôle sans cesse croissant.

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