

The IMF Articles of Agreement: Principles of Forex Policy of IMF Member Countries

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Disclaimer: Views presented do not necessarily represent those of the IMF

Outline of Talk

- **IMF Basics**
- Forex Policy in the Articles of Agreement
- Forex Policy in Member Countries
- Forex Policy in Tajikistan
- Conclusion
- Questions/Discussion

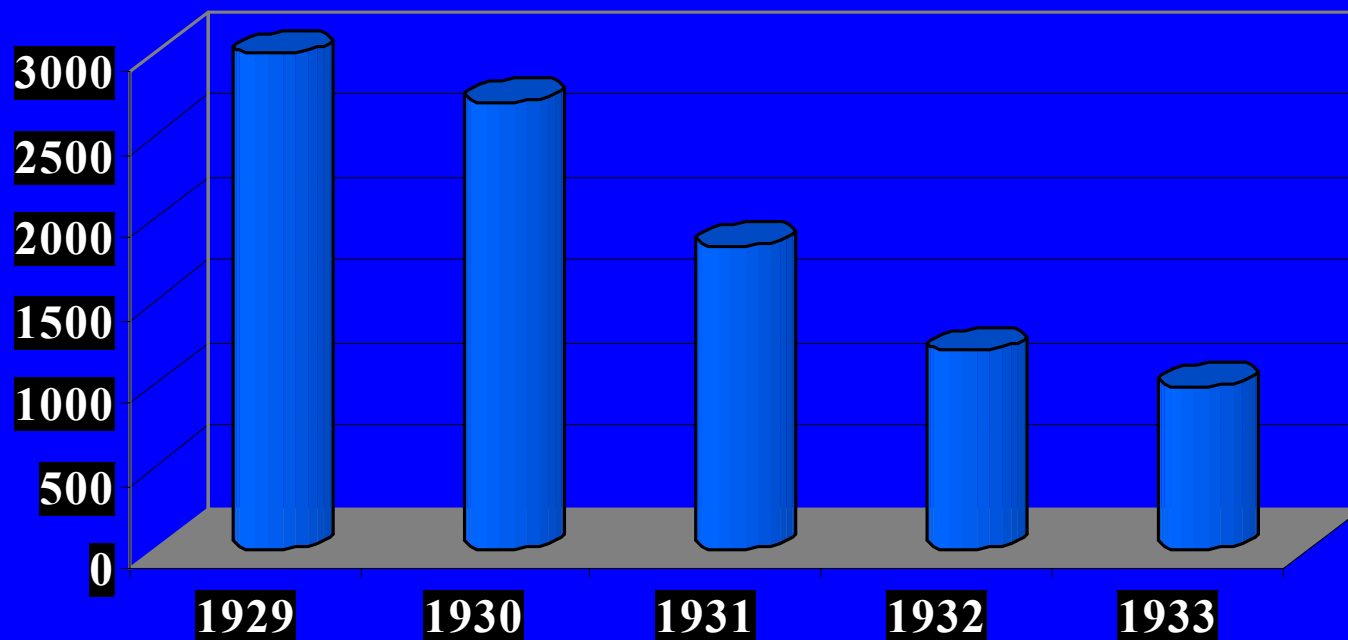
Why was the Bretton Woods System, comprising IMF and World Bank, created?

- Avoid past mistakes: disastrous economic policies that contributed to Great Depression of the 1930s
 - “Beggar-thy-neighbor-policies”
 - Protectionism and tariff wars
- Rebuild confidence in international cooperation and international financial system

The Breakdown of World Trade

World trade, 1929-1933

(in millions of U.S. dollars)



Kindleberger, C., "The World in Depression 1929-1939."

The Roles of IMF and World Bank

IMF (Article I)

- Promotes international monetary cooperation, expansion of international trade, and “orderly” exchange rates
- Financial assistance to its members experiencing balance of payments difficulties
- Macroeconomic

World Bank

- Reconstruction and economic development
- Project financing
- Microeconomic

Operationalization of the IMF

- Surveillance: Monitoring and policy advice
- Lending: To support reforms to adjust to BOP problems, and reduce external vulnerability
 - Financing provided as part of IMF “program”
 - Financing is collateralized by program “conditionality”
- Technical assistance: Building institutional capacity

In the areas of

- Macroeconomic policies
- Financial sector policies
- Advise on other reforms that have a macroeconomic impact

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Article IV

In particular

- General obligations of members:
International cooperation
- General forex arrangements: Fixed, floating
etc
- Surveillance over forex arrangements:
Assigned to IMF

Article VIII

In particular

- Avoidance of restrictions on current payments
- Avoidance of discriminatory currency practices
- Convertibility of foreign-held balances
- Furnishing of information

But transitional arrangements possible, though only with explicit IMF approval (Article XIV)

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Member countries generally accept these Articles, but in principle that still leaves room for a lot of different forex regimes...

Pegged systems

- “Hard” Pegs (currency boards, dollarization, currency unions)
- “Soft” Pegs (crawling, horizontal bands, crawling bands)

Flexible systems

- Managed float
- Pure float

Main Criteria for Choice of Forex Regime

- Capital mobility
- Trade linkages
- Vulnerability to external shocks
- Inflation reputation
- Flexibility and sustainability of fiscal policy
- Labor market flexibility
- Level of foreign reserves

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National Bank of Tajikistan Forex Policy over Time...

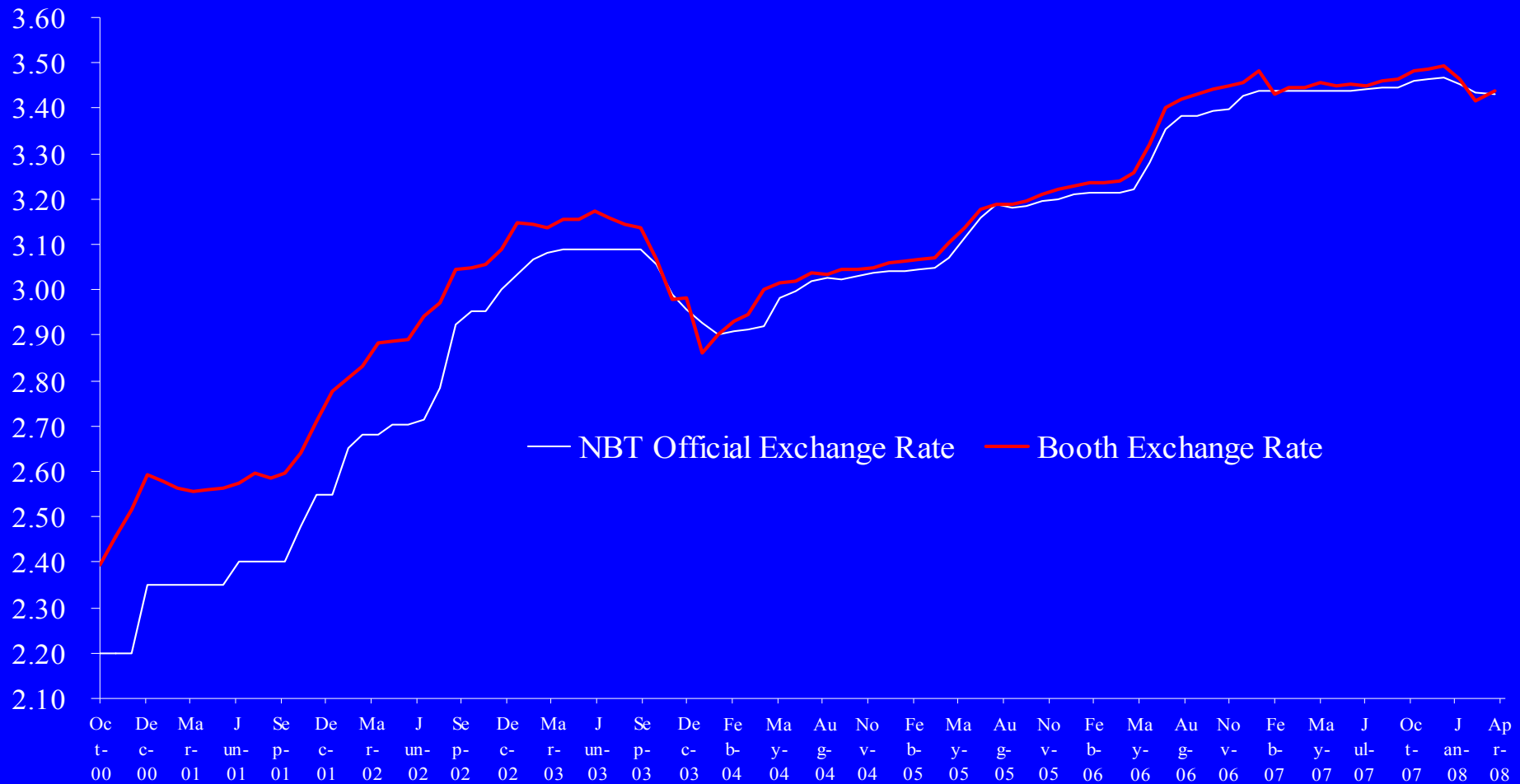
- Tajikistan joined the Fund in 1993, availing itself at that time of the transitional arrangements of Article XIV
- Introduction of Tajik Ruble in 1995, and Somoni in 2000
- With effect from December 9, 2004, Tajikistan accepted the obligations of Article VIII
- As a result, Tajikistan maintains an exchange system that is free of restrictions on current international transactions

Continued...

- Since August 2005, the NBT has increased the frequency of calculating and announcing the official exchange rate from a weekly to a daily basis
- The NBT currently maintains a managed floating forex regime with no preannounced path for the exchange rate

Forex Movements in Tajikistan

Exchange Rate: SM/US\$, Oct 2000 - Apr 2008 (monthly, eop)



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Conclusion

- IMF focus on international cooperation and “orderly” exchange rates based on bad historical experience
- IMF operational tasks (Surveillance, Technical Assistance, and Lending) and Articles of Agreement should all be seen in this light
- No single forex regime best for all countries in all circumstances; most important that underlying macroeconomic policies are consistent with choice of forex regime
- Tajikistan’s forex policy has been increasingly liberalized and, in the longer term, will continue to evolve with the development of the economy

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