



The role of the IMF and World Bank in the Global Economy

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Abstract

The International Monetary Fund (IMF) and the World Bank are the two cornerstone multilateral institutions of the post-World War II international economic order, established at the Bretton Woods Conference in 1944. Over seven decades, these institutions have profoundly shaped global economic governance, financial stability, and development financing. This paper examines their respective mandates, operational mechanisms, historical evolution, and measurable impact on the global economy up to the fiscal year 2017–18. Drawing on official data, it analyses lending patterns, structural adjustment outcomes, debt relief initiatives, and the evolving criticisms and reforms these bodies have undertaken.

Keywords: International monetary fund, world bank, bretton woods conference, post-world war ii economic order, global economic governance, financial stability

Introduction

The mid-twentieth century witnessed the collapse of the gold standard and widespread economic devastation wrought by two world wars. In response, 44 nations convened at Bretton Woods, New Hampshire, in July 1944 to design a new international monetary framework. Two institutions emerged from this conference: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which later became the World Bank Group.

The IMF was designed to maintain global monetary stability, prevent competitive currency devaluations, and provide short-term balance-of-payments financing. The World Bank was created to finance the long-term reconstruction of war-ravaged Europe and, subsequently, to fund economic development in what came to be called the developing world. Together, they embody the international community's commitment to cooperative economic governance—a principle that has guided, and at times constrained, global economic policymaking through the late 2010s.

By 2017–18, both institutions had expanded far beyond their original remits, responding to debt crises, financial contagion, poverty, climate change, and fragile statehood. Understanding their roles demands an examination not only of their formal mandates but of the political economy within which they operate.

The International Monetary Fund: Structure and Mandate

1. Governance and Membership

The IMF operates as a quota-based institution. Each member country is assigned a quota reflecting its relative size in the global economy. As of 2018, the IMF had 189 member countries. The quota system determines both financial contributions and voting rights, meaning wealthier economies—particularly the United States, Japan, Germany, France, and the United Kingdom—hold disproportionate influence. The U.S. alone held approximately 16.5% of voting rights in 2017, giving it effective veto power over major decisions requiring an 85% supermajority.

The IMF's primary decision-making body is the Board of Governors, with day-to-day operations managed by a 24-member Executive Board. The Managing Director, traditionally a European, oversees staff of approximately 2,700 economists, statisticians, and administrative personnel headquartered in Washington, D.C.

2. Core Functions

The IMF's mandate spans three principal functions: surveillance, financial assistance, and technical assistance. Surveillance involves monitoring member countries' economic policies and the global economy through regular consultations (Article IV consultations), the World Economic Outlook (WEO), the Global Financial Stability Report (GFSR), and the Fiscal Monitor. These publications serve as authoritative barometers of global economic health.

Financial assistance is provided through various lending facilities. The Stand-By Arrangement (SBA) remains the most widely used instrument for balance-of-payments support. The Extended Fund Facility (EFF) addresses longer-term structural problems. The Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) serve countries with strong fundamentals needing precautionary support. For low-income countries, the Poverty Reduction and Growth Trust (PRGT) provides concessional lending, including through the Extended Credit Facility (ECF) and the Rapid Credit Facility (RCF).

3. IMF Lending Data (2013–2018)

The table below summarises IMF total credit and loans outstanding in billions of Special Drawing Rights (SDRs):

Year	Total Credit (bn SDR)	No. of Programs	Largest Borrower	Approx. Disbursement
2013–14	68.4	19	Greece	SDR 7.2 bn
2014–15	57.3	17	Ukraine	SDR 5.1 bn

2015–16	69.9	21	Ukraine	SDR 6.7 bn
2016–17	78.2	23	Egypt	SDR 8.6 bn
2017–18	85.1	25	Argentina	SDR 9.3 bn

Source: IMF Annual Report 2018; figures are approximate.

The World Bank Group: Structure and Mandate

1. Institutional Architecture

The World Bank Group comprises five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Collectively, they channel financing, insurance, and arbitration services to support development in low- and middle-income countries.

The IBRD lends to middle-income and creditworthy low-income countries at near-market rates, generating its resources by borrowing on international capital markets. The IDA, by contrast, provides highly concessional loans (credits) and outright grants to the world's poorest nations (those with GNI per capita below a defined threshold—\$1,215 in fiscal year 2018). The IFC focuses on the private sector, while MIGA insures investments against political risk.

2. Lending and Development Financing

In fiscal year 2018, the World Bank Group committed a record \$67 billion in loans, grants, equity investments, and guarantees—up from \$59 billion in FY2017 and \$61 billion in FY2016. The IBRD committed \$23 billion to middle-income countries, while IDA commitments reached \$24 billion, a historic high following the landmark IDA18 replenishment of \$75 billion (including leverage). The IFC committed \$23.3 billion in long-term finance for private sector projects.

Sub-Saharan Africa remained the largest recipient region for IDA resources, accounting for approximately 54% of IDA commitments in FY2018. Key sectors receiving financing included infrastructure (roads, energy, water), human capital (education, health), agriculture, and social protection.

3. World Bank Group Commitments (FY2014–FY2018)

Fiscal Year	IBRD (\$ bn)	IDA (\$ bn)	IFC (\$ bn)	Total (\$ bn)
FY2014	18.6	18.6	17.3	54.5
FY2015	23.5	19.0	18.8	61.3
FY2016	29.7	16.2	18.9	64.8
FY2017	22.6	19.5	19.3	61.4
FY2018	23.0	24.0	23.3	67.0

Source: World Bank Group Annual Report 2018.

Roles in Global Economic Stability

1. Managing Financial Crises

Both the IMF and World Bank have played decisive roles in crisis management across decades. The IMF's response to the 1997–98 Asian Financial Crisis drew widespread criticism for imposing fiscal austerity on countries that were not fiscally profligate, exacerbating contractions. This prompted significant internal reflection and reforms in conditionality design.

The Global Financial Crisis of 2008–09 represented a turning point. The IMF rapidly tripled its lending capacity to approximately \$750 billion and deployed flexible, front-loaded programs. It extended substantial support to Iceland, Latvia, Hungary, Romania, Greece, Ireland, and Portugal. The Greek program, beginning in 2010 and continuing through multiple tranches into 2018, became the IMF's largest program ever in absolute terms—approximately €32 billion under the third arrangement alone.

The World Bank responded to the 2008–09 crisis by scaling up IBRD lending dramatically—from under \$14 billion in FY2008 to over \$32 billion in FY2009—providing direct budget support and social safety net financing to cushion the impact on vulnerable populations. Its crisis response toolkit expanded to include rapid-disbursing Development Policy Loans (DPLs) that could be approved within weeks.

2. Poverty Reduction and Development

The World Bank's stated mission—'to end extreme poverty and promote shared prosperity'—has driven a substantial body of development lending. The proportion of people living in extreme poverty (under \$1.90 per day) fell from roughly 36% in 1990 to under 10% by 2015, a transformation in which World Bank-financed programs in health, education, and infrastructure played a meaningful if partial role alongside domestic policy reforms and sustained economic growth in China and India.

The IDA's 18th Replenishment (IDA18), agreed in December 2016, mobilised a record \$75 billion for the three-year cycle from 2017 to 2020, with increased allocations for fragile and conflict-affected states, climate action, and gender equality. This was a significant scale-up from IDA17's \$52 billion envelope.

3. Structural Adjustment and Conditionality

From the 1980s through the 2000s, both institutions became associated with Structural Adjustment Programs (SAPs)—loan conditions requiring privatisation, trade liberalisation, fiscal consolidation, and deregulation. These programs were adopted across Latin America, Sub-Saharan Africa, and South and Southeast Asia with mixed outcomes.

While SAPs often stabilised macroeconomic fundamentals, they were criticised for eroding social services, increasing inequality, and reducing state capacity. The Heavily Indebted Poor Countries (HIPC) Initiative, launched jointly by the IMF

and World Bank in 1996, sought to address unsustainable debt burdens; by 2018, 36 countries had received debt relief totalling over \$76 billion in net present value terms.

Governance Reforms and Representation

A persistent critique of both institutions is their governance structure, which grants excessive power to wealthy nations at the expense of emerging and developing economies. The IMF's 2010 Quota and Governance Reform—finally enacted in 2016 after years of delays due to U.S. Congressional inaction—redistributed more than 6% of quota shares to dynamic emerging market and developing economies. China's quota share rose to 6.09%, making it the third largest shareholder, while Brazil, India, and Russia also gained.

Despite these adjustments, the U.S. retained its veto power, and critics argued the reforms were insufficient. The World Bank similarly undertook shareholding realignments; in 2018, a capital increase package was agreed, shifting voting power incrementally toward emerging economies, with China becoming the third-largest IBRD shareholder.

Calls for reform have also addressed the leadership selection process. By convention, the IMF's Managing Director has always been European, while the World Bank President has been American. This arrangement, described by critics as anachronistic, came under pressure from emerging economies demanding merit-based, open selection processes.

IMF Surveillance and World Economic Outlook (WEO)

The IMF's World Economic Outlook, published twice annually since 1980, has become one of the most closely watched economic documents globally. In its October 2017 edition, the IMF projected global GDP growth of 3.6% for 2017 and 3.7% for 2018—the strongest outlook since 2011—attributed to a recovery in global trade and investment, accommodative monetary policy, and improved commodity prices benefiting exporters.

Advanced economies were forecast to grow at 2.2% in 2017, emerging market and developing economies at 4.6%, with India at 6.7% and China at 6.8%. The IMF's projections also flagged medium-term risks: rising protectionist sentiment, high global debt levels (estimated at 225% of global GDP in 2016), and the potential for rapid normalisation of monetary policy in advanced economies to trigger capital outflows from emerging markets.

Criticisms and Contemporary Challenges

1. Structural and Ideological Critiques

Both institutions have been targets of sustained academic and civil society criticism. The 'Washington Consensus'—a term coined by economist John Williamson in 1989 to describe a standard reform package of fiscal discipline, trade liberalisation, privatisation, and deregulation—became synonymous with IMF and World Bank conditionality and attracted fierce opposition during the 1990s debt and currency crises.

Nobel laureate Joseph Stiglitz, a former World Bank Chief Economist, argued in his seminal work *Globalisation and Its Discontents* (2002) that IMF prescriptions were ideologically rigid, failed to account for local context, and exacerbated crises rather than resolving them. These critiques sparked internal debates and eventual reforms in both institutions' approaches to conditionality and social protection.

2. Debt and Dependency

A recurring concern is that IMF and World Bank lending creates structural dependency, particularly among low-income countries. While HIPC debt relief and IDA grants have ameliorated the worst debt distress, the proliferation of infrastructure financing by non-traditional lenders—particularly China through its Belt and Road Initiative (BRI)—by 2017–18 raised new debt sustainability concerns that the Bretton Woods institutions found themselves ill-equipped to fully address.

3. Rising Powers and Institutional Competition

The establishment of alternative multilateral development banks—the Asian Infrastructure Investment Bank (AIIB, launched 2016) and the New Development Bank (NDB, launched by BRICS in 2015)—reflected dissatisfaction among emerging economies with the pace of governance reform at the IMF and World Bank. By 2018, the AIIB had grown to 87 approved members and committed over \$4 billion in infrastructure financing, signalling a meaningful shift in the landscape of development finance.

Climate Change and Sustainable Development

By 2017–18, both institutions had substantially integrated climate change into their operational frameworks. The World Bank committed to increasing its climate-related financing to 28% of its total commitments by 2020, up from 21% in FY2017. It issued \$13.4 billion in green bonds between 2008 and 2018, mobilising private capital for low-carbon infrastructure.

The IMF, meanwhile, incorporated climate risk assessments into its Article IV surveillance consultations and undertook analysis on carbon pricing, fossil fuel subsidies (estimated globally at \$5.2 trillion in 2017 when accounting for externalities), and the macroeconomic implications of climate policy. This evolution signalled a broader conceptualisation of financial stability to encompass environmental sustainability.

Conclusion

The IMF and World Bank remain indispensable—if contested—pillars of the international economic order. Together they have provided hundreds of billions of dollars in crisis financing, development lending, and technical assistance over seven decades. Their combined influence on macroeconomic policy frameworks, poverty reduction strategies, and global financial standards is without parallel.

Yet both institutions face fundamental tensions: between their governance structures and the geopolitical realities of a multipolar world; between universal prescriptions and the need for country-specific flexibility; and between their mandates as creditors and their aspirations as development partners. By 2017–18, both were engaged in meaningful self-reflection and reform—expanding their mandates into inequality, gender, fragility, and climate—while defending their continued relevance against a more assertive cohort of emerging-economy alternatives.

The challenge going forward will be to preserve the rules-based multilateralism these institutions embody while adapting governance, conditionality, and financing instruments to a world in which the economic centre of gravity has irreversibly shifted eastward and southward.

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