



# WBCS PRE 2023



**ECONOMICS**

## INTERNATIONAL FINANCIAL INSTITUTIONS

নতুনদের এই ভিডিওটি দেখতে হবে

**PART-1**

**BY ARKO MAHENDRAS**

05:15 PM |  **LIVE**





# *Mahendra's*

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# WBCS-2023



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# WBCS PRE 2023



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### MONDAY

MATHS  
GS-ECO  
ENGLISH

### TUESDAY

GS-POL  
GS-GEO  
GS-HIS

### WEDNESDAY

MATHS  
CA  
INM

### THURSDAY

GS-POL  
REASONING  
GS-HIS

### FRIDAY

GS-GEO  
CA  
GS-SCI-PHY

### SATURDAY

STATIC GK  
REASONING  
GS-SCI-BIO



 **LIVE**

 **Join Mahendras YouTube Channel**

The background features a series of concentric circles in light gray, some solid and some dashed, creating a ripple effect. A large, solid red speech bubble is centered on the page, pointing downwards. The text is white and bold, centered within the red bubble.

**INTERNATIONAL  
MONETARY FUND**



# **GENERAL FACTS**

- **AUTONOMOUS ORGANISATION  
AFFILIATED TO UNO**
- **27 DEC 1945 WITH 30 MEMBERS**
- **INDIA IS A FOUNDING MEMBER OF IMF**
- **190 MEMBERS. ANDORRA**
- **WASHINGTON DC**





# **BOARD OF GOVERNORS**

- **ONE GOVERNOR AND ONE ALTERNATE GOVERNOR FROM EACH MEMBER COUNTRIES**
- **FINANCE MINISTER AND HEAD OF THE CENTRAL BANK ARE GENERALLY GOVERNOR AND ALTERNATE GOVERNOR**
- **QUOTA INCREASE OF MEMBER COUNTRIES,SDR,ADMITTING NEW MEMBER COUNTRIES, APPOINTING EXECUTIVE DIRECTORS ETC.**



# BOARD OF GOVERNORS

- **The BoG of IMF is advised by two Ministerial Committees: 1. International Monetary and Finance Committee (IMFC) - This body meets twice a year to discuss matters on common concerns affecting global economy and accordingly advises BoG. Many international institutions including World Bank participate as observers in the meetings of IMFC.**
- **2. Development Committee - It is a joint forum of IMF and World Bank Group which also meets twice a year. It gives advice on financial requirements for the economic development in developing countries**

# SPECIAL DRAWING RIGHTS

- IMF lends to member countries in its artificial currency unit known as Special Drawing Rights (SDRs).
- Created in 1969, SDRs are the foreign exchange reserve assets under IMF.
- SDR is not intrinsically a currency but is a unit of account maintained by IMF.
- SPECIAL DRAWING RIGHTS It is neither a proper currency nor a claim on IMF.
- Its value is based on the basket of the following five major currencies: 1. US Dollar - 41.73 per cent Euro - 30.93 per cent Chinese Renminbi - 10.92 per cent (added in 2016 in this basket) 4. Japanese Yen - 8.33 per cent 5. British Pound - 8.09 per cent





# SDR

- **This basket is reviewed a after every 5 years.**
- **Unlike other currencies, SDR is not traded in forex market.**
- **Criterion for inclusion of a currency in the SDR basket:**
- **Export Criterion**
- **Currency to be Freely Usable Issuer of the currency must be an IMF member/monetary union which has IMF members, and**
- **It should also be among the largest exporters of the world.**
- **International Economic Institutions**
- **The currency must be widely used in international transactions for making payment and should be widely traded in principal exchange markets.**



# SDR

- **Growing Importance of SDR as a Global Reserve Currency**
- **Critics argue that there is a growing need to replace dollar by a superior sovereign currency specifically SDR. Reasons are as follows:**
- **Use of US dollar may create global volatility as US economy itself is suffering from weaknesses (especially 2008 crisis onwards).**
- **SDR can diversify the risk from forex holdings**

# IMF Quota

- **Member countries are assigned a quota which determines their maximum contribution to the IMF's finance resources. Quotas are denominated in SDRs.**
- **Quota of a country is determined by its relative position in the global economy.**
- **The member country can pay up to 25 per cent of the quota in foreign currencies (i.e. US dollar, Euro, Yen, etc.). This is called Reserve Tranche.**
- **Quotas are reviewed at least after every 5 years.**
- **The quota system is also used to access a member's relative position and voting rights:**



# IMF QUOTA

- **Currently, the formula to derive quota of a member country is the weighted average of:**
- **Member country's GDP, with assigned weight of 50 per cent**
- **Here, the GDP is measured through a blend of: Market exchange rates, weighing around 60 per cent PPP exchange rates, weighing 40 per cent**
- **Its economic openness, weighing 30 per cent**
- **Its economic variability, weighing 15 per cent**
- **International reserves, weighing 5 per cent**



# IMF QUOTA

- **Role of quota - The quota determines the member country's level of:**
- **Subscriptions to IMF:** It indicates the maximum amount of financial resources a member is supposed to deposit with IMF
- **Voting Power:** It determines a member's voting rights in the decision made by IMF
- **A member's vote comprises basic votes + additional votes for each 1 lakh SDR quota.**
- **Access to IMF Financing:**
- **A member's access to finance in IMF is based on its quota.**



# WASHINGTON CONSENSUS

- **There are a set of policies and conditions known as IMF Conditionalties which member countries taking financial assistance are required to follow.**
- **These Conditionalties by IMF are in addition to the collateral submitted by member countries for financial assistance.**
- **If the conditions are not met, the funds may be withheld by IMF.**
- **Some of these conditions (also known as Washington Consensus) for structural adjustment are:1.Devaluation of currency. 2. Higher interest rates to stabilize the currency. 3. Balancing budget and not overspending. 4 Removal of price controls and state subsidies. 5. Enhancing the rights of foreign investors vis-à-vis national laws. 6. Trade liberalisation or lifting import and export restrictions.**
- **These conditions are imposed by IMF to ensure that the loan-taking member countries are able to resolve their BOP crisis and are able to repay to IMF.**

A red speech bubble graphic with a white outline, containing the text 'REPORTS PUBLISHED BY IMF'. The bubble has a tail pointing downwards and to the right.

# **REPORTS PUBLISHED BY IMF**

- **World Economic Outlook (WEO)**
- **Global Financial Stability Report (GFSR)**
- **Fiscal Monitor Report**
- **External Sector Report**
- **Regional Economic Report**
- **Global Housing Watch**
- **Financial Sector Assessment Program (FSAP)**

# INDIA AND IMF

- India is the founding member of IMF
- From 2003 onwards, the relationship between India and IMF has transformed:
- Earlier, India was a borrower. Now, it has emerged as a lender. [ India's is the 13<sup>th</sup> largest IMF quota holding member country (2.76%) India's voting rights has increased from 2.3 per cent to 2.64 per cent.
- India borrowed under the Extended Fund Facility (EFF) in 1981 India borrowed under two SBAs in 1991.



# WORLD BANK GROUP

- **The term 'World Bank' generally refers to IBRD and IDA as they have the same head and management, while the term 'World Bank Group' refers to a group of five institutions, namely**
- **International Bank for Reconstruction and Development (IBRD)**
- **International Development Association (IDA)**
- **International Finance Corporation (IPC)**
- **Multilateral Investment Guarantee Agency (MIGA)**
- **International Centre for Settlement of Investment Disputes (ICSID)**





# **INDIA AND WORLD BANK GROUP**

- **Among them, IBRID first came into existence.**
- **To be a member of World Bank, a country needs to be a member of IMF first.**
- **India is a member of four of them (except ICSID).**
- **Headquarters of World Bank is located at Washington DC (United States)**

