

ECONOMICS

INTERNATIONAL FINANCIAL INSTITUTIONS নতুনদের এই ডিডিওটি দেখতে হবে PART-1

BY ARKO MAHENDRAS

05:15 PM (((•))) •LIVE



TO CRACK THE WBCS EXAM JOIN MAHENDRA'S





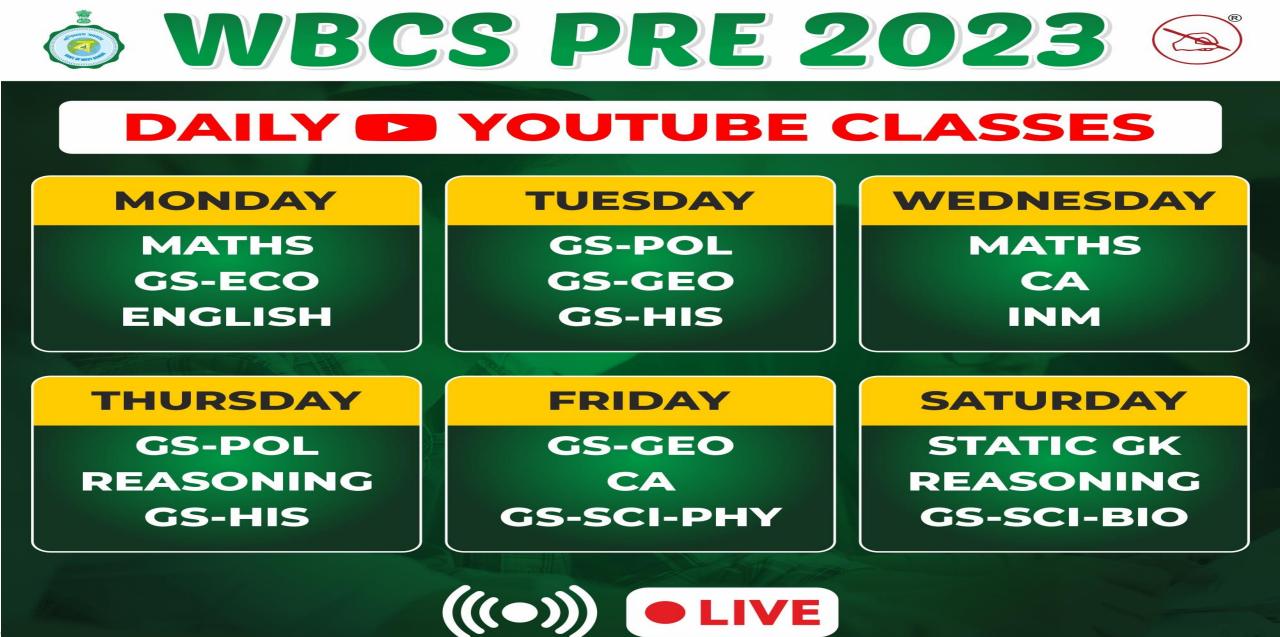


AVAIL SPECIAL DISCOUNT

INSTALLMENT FACILITY & BOOKING OF SEATS ARE AVAILBLE...

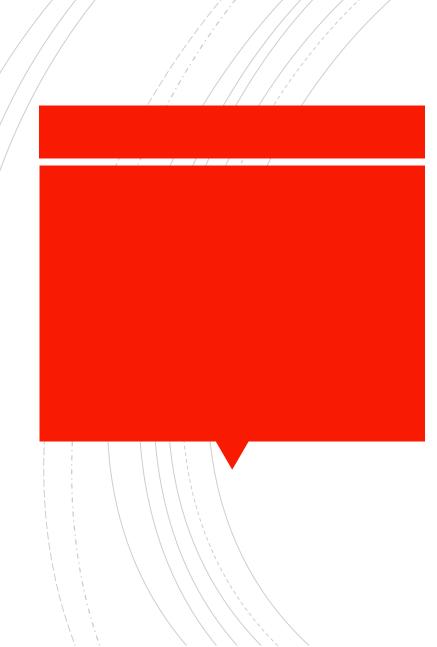
> HURRY UP TO AVAIL THE DISCOUNT

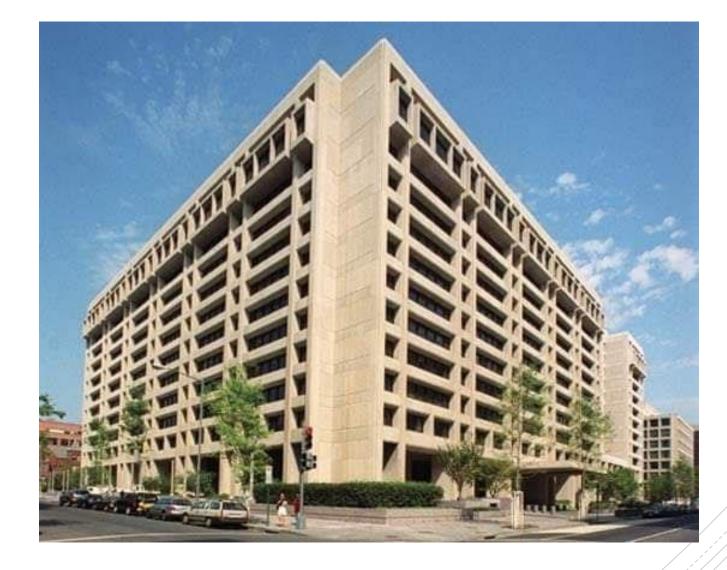
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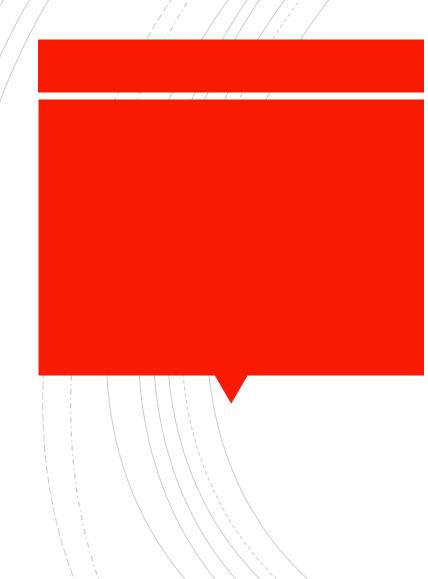
INTERNATIONAL MONETARY FUND





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 GOVERNO RS

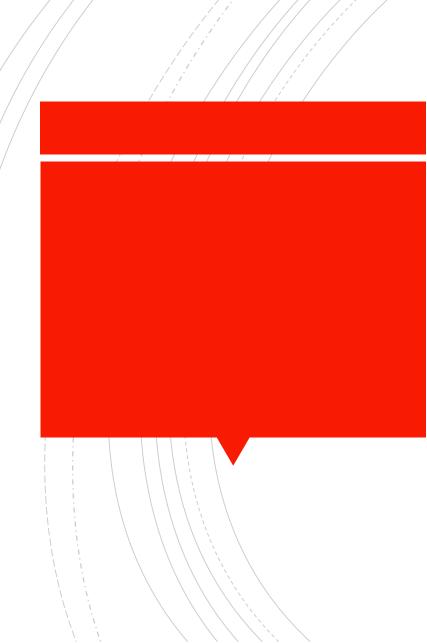
- ONE GOVERNOR AND ONE ALTERNATE GOVERNOR FROM EACH MEMBER COUNTRIES
- FINANCE MINISTER AND HEAD OF THE CENTRAL BANK ARE GENERALLY GOVERNOR AND ALTERNATE GOVERNOR
- QUOTA INCREASE OF MEMBER
 COUNTRIES,SDR,ADMITTING NEW
 MEMBER COUNTRIES, APPOINTING
 EXECUTIVE DIRECTORS ETC.

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 advices 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 DRWING 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 IME.
- 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

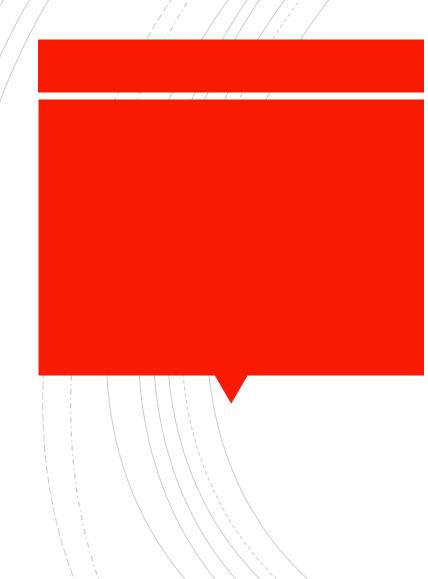
- Growing Importance of SDR as a Global Reserve Currency
- Critics argue that there is a growing need to replace dollar by a superior sovereign currency specifically SDR. Reasons are as follows:
- Use of US dollar may create global volatility as US economy itself is suffering from weaknesses (especially 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 rèserves, 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

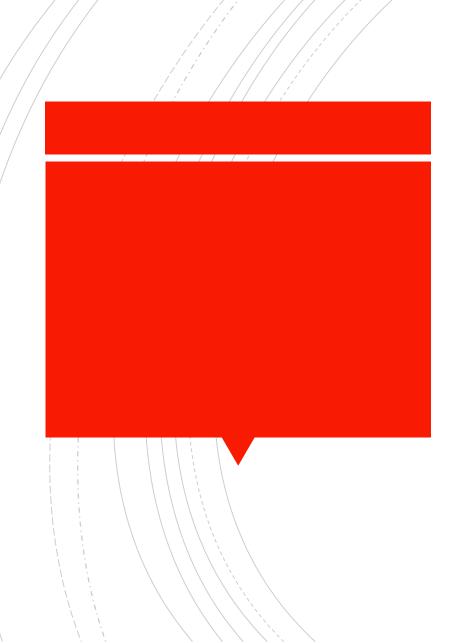
- There are a set of policies and conditions known as IMF Conditionalities which member countries taking financial assistance are required to follow.
- These Conditionalities by IMF are in addition to the collateral submitted by member countries for financial assistance.
- If the conditions are not met, 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 loantaking member countries are able to resolve their BOP crisis and are able to repay to IMF.

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

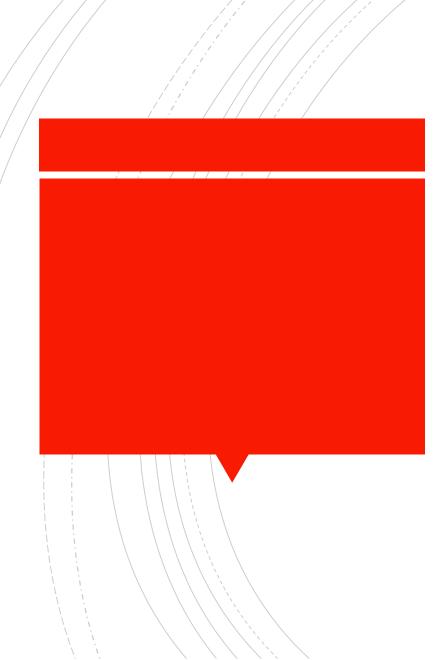
- India is the foundig member of IMF
- From 2003 onwards, the relationship between India and IMF has transformed:
- Earlier, India was a borrower. Now, it has emerged as a lender. [India's is the 13" largest IMF quota holding member country (2.76%) India's voting rights has increased fron 2.3 per cent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





WORLD BANK GROUP

- The tern World Bank' generally refers to IBRD and IDA as they have the sarne 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)



WORLD BANK GROUP Publications

INDIA AND WORLD BANK GROUP

- Among them, IBRID first came into existence.
- To be a member of World Bank, a countryneeds 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)

