

INTERNATIONAL ECONOMIC INSTITUTIONS

Whats the need / Objective – The after war (WW 1 & 2) consequential event in the economic history of the world was the Great Depression. It was a cascading phenomenon of demand of War-time good & peace-time good in alternating years; Inflationary tendency in Countries that had lost the war (1925-26), leading to Hyper-inflation , then recession and finally deflation +Inflation led major world economies of that time into GREAT ECONOMIC DEPRESSION.

It was a global event, but unlike 2008 (Sub-prime Crisis) one of the reasons for its enlarge magnitude of loss was the LACK OF INTERNATIONAL COORDINATION amongst the economies of the world.

To address this problem, the INTERNATIONAL MONETARY SYSTEM was created, which brought together the scattered Customs (in practise), Rules (treaties, legal interactions) , prevailing Organizations (Institutions which follow customs & abides to the rules) and Instruments (tools that these organizations used for implementations).

In 1945, 44 countries (India was there) met at Bretton Woods, New Hampshire USA to establish two Institutions, also called “BRETTON WOODS TWINS” :

	1. INTERNATIONAL MONETARY FUNDS	2. International Bank for Reconstruction and Development (IBRD)
OBJECTIVE	Monetary stability attainment for all members	Development of a robust banking system

I. IMF

- HQ is Washington DC
- *Objectives-* 1. Attain monetary stability for all the members (29 members, India was one)
 2. Achieve exchange rate stability
 3. Regulate the flow of foreign exchange, to rescue a member during a BoP crisis.
- To formalize an easy mechanism for implementation of the third objective, by supplementing a member’s foreign reserves, the system of SPECIAL DRAWING RIGHTS (SDR) was developed, in 1969-71. Under this, a member shall have a quota of money (which is included in the member country’s Foreign reserves in domestic balance sheet) from the IMF. Above that quota, it will be considered a loan. Technically speaking, each member has right of withdrawal proportional to the assigned quota from a basket of currencies.

How is the quota calculated, On the basis of the size of the economy and their contribution to the IMF

What is basket of currencies/ SDR Valuation Basket? On the basis of the size of an economy and the influence it has on the global market, five currencies have been considered to be of the dominating stature-

Member	Currency	%
USA	Dollars	42
EU	Euro	31
China	Rumbini	11
Japan	Yen	8
Britian	Sterling/Pound	8

- Rumbini was added under the 2015-16 reforms of IMF. Acknowledging Chinese economy has a major player. Earlier, 44%- Dollar, 34%- Euro, 11% Yen, 11% Pound
- Yuan- Onshore currency & RMB- Off shore currency
Two Exchange Rate in china.

- Organizational Structure – Managing Director (MD) – *Chritian Lagarde (2011 (2016 reappointed) – present)*
Executive Director (24) – Nominated by the member country
Governor (Mostly, the Finance Minister) & Alternate Governor (Mostly, Central Bank Head)

II. IBRD , Now WORLD BANK GROUP : There are five associate organization under the parent organization World Bank.

- i) IBRD , first associate to be established in 1945, along with IMF.
 - HQ is Washington DC
 - *Objectives-* 1.To provide long term capital for reconstruction & development
 - 2. Reduce poverty in middle income & poor economies by providing funds for poverty alleviations.
 - 3. Provide expertise on development & financial projects.

- ii) International Finance Corporation (IFC), 1956 as the private-sector arm of the World Bank Group.
 - HQ is Washington DC
 - *Objectives-* Offers investment, advisory, and asset-management services to encourage private-sector development in developing countries.
 - It is a corporation whose shareholders are member governments that provide paid-in capital and have the right to vote on its matters.
Originally, it was more financially integrated with the World Bank Group, but later, the IFC was established separately and eventually became authorized to operate as a financially-autonomous entity and make independent investment decisions,

- iii) Intl. Development Association (IDA),1960
 - HQ is Washington DC
 - *Objectives-* Offers concessional loans and grants to the world's poorest developing countries.
 - It has 173 members and has 81 lending countries.

- iv) International Centre for Settlement of Investment Disputes (ICSID), 1965 is an international arbitration institution.
 - HQ is Washington DC
 - *Objectives-* legal dispute resolution and conciliation between international investors
 - It is an autonomous, multilateral specialized institution to encourage international flow of investment and mitigate non-commercial risks by a treaty drafted by the International Bank for Reconstruction and Development's executive directors and signed by member countries (153)

- v) Multilateral Investment Guarantee Agency (MIGA), 1988 as an investment insurance facility to encourage confident investment in developing countries.
 - HQ is Washington DC
 - *Objectives-* offers political risk insurance and credit enhancement guarantees.

