



Economics

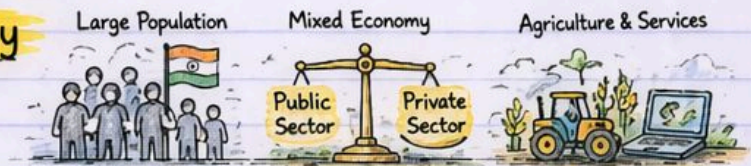
Module-6 Notes

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Contents Covered:

● Features of Indian Economy



● Fiscal Policy



● Monetary Policy



● LPG Policies



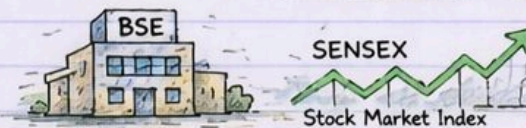
● Inflation



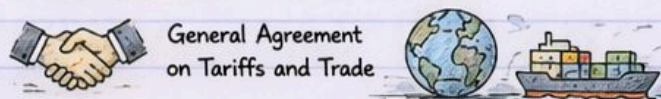
● Reasons of Inflation



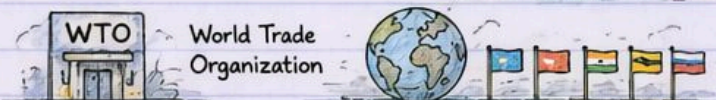
● SENSEX



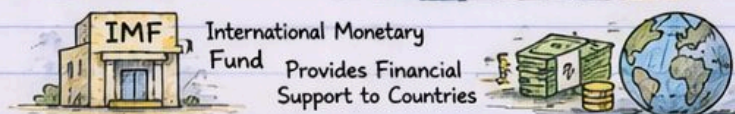
● GATT



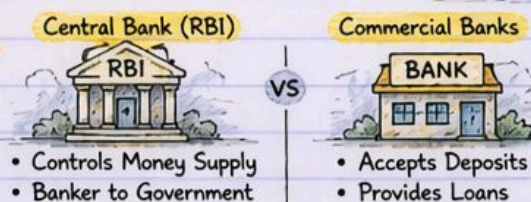
● WTO



● IMF Fund



● Central vs Commercial Banks



Features and Nature of the Indian Economy

1. **Mixed Economy:** Blends both public and private sector roles.

- Public Sector: Government manages key industries like Railways, Defense, and Energy.
- Private Enterprise: Significant role in Technology, Manufacturing, and Services.



2. **Agrarian Dominance with Gradual Transition:**

- Agriculture provides employment to a large portion of the population.
- Gradual shift towards industrial and service economy, reducing GDP share from agriculture.



3. **Developing Economy:**

- Characterized by moderate per capita income and relatively high population growth.
- Socio-economic challenges: poverty, unemployment, and inequality.



4. **Global Integration (LPG reforms):**

- Policies of Liberalization, Privatization, & Globalization (LPG) since 1991.
- Enhanced foreign investments, trade, and tech advancements.



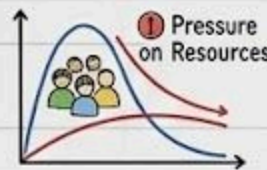
5. **Diversified Economy:** Diverse structure with 3 sectors:

- Primary Sector: Agriculture, forestry, fishing.
- Secondary Sector: Manufacturing, construction, industries.
- Tertiary Sector: Services (IT, banking, tourism). Significant GDP.



6. **Population Pressure and Workforce:**

- Large and young workforce (Demographic Dividend) offers growth potential.
- Puts pressure on resources and job creation.



7. **Economic Disparities:**

- Income and wealth inequalities persist.
- Regional imbalances between Rural and Urban areas, and across states.



8. **Government Intervention:**

- Government plays a crucial role in addressing challenges through schemes and reforms.
- Focuses on inclusive growth, infrastructure development, and welfare programs.

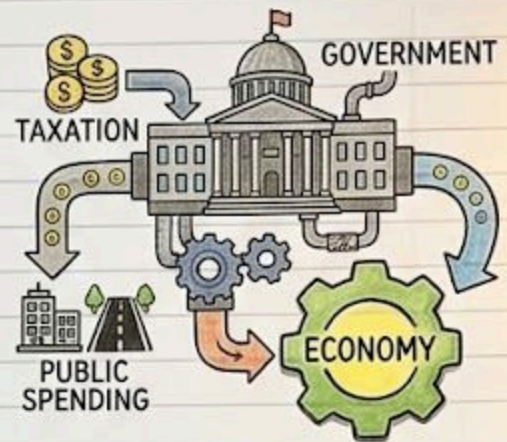


Inclusive Growth

Fiscal Policy and its Objectives

1. Definition

The government's use of **taxation**, **public spending**, and **borrowing** to influence the **economy**.



2. Fiscal Policy Objectives:

1) Economic Growth

Promoting sustainable economic growth by increasing **public expenditure** on **infrastructure, health, and education**.



2) Redistribution of Income

Reducing economic **inequalities** through **progressive taxation** and **welfare schemes**.



3) Employment Generation

Encouraging **job creation** through **government spending** and **development programs**.



4) Price Stability

Controlling **inflation** by managing **public expenditure** and **tax policies**.
Contrie to control a under balloon.
Keep it neat and under control.



5) Fiscal Discipline

Reducing **fiscal deficits** and ensuring **efficient management** of public finances.



Government Governance FISCAL POLICY TOOLS

Main tools are:

1. Government Spending

- Spending on **infrastructure**, **education**, **defense**, **social welfare programs**

During Inflation:

- Reducing public expenditures on **infrastructure**, **education** to decrease **demand**

- Lower govt spending reduces the fiscal deficit, helps **control inflation**

2. Taxation

- **Increasing tax rates** (income tax, **corporate tax**) to reduce **aggregate income** and **aggregate demand**
- Lower tax rates (income tax, **corporate tax**) to increase **aggregate income** and **aggregate demand**

During Inflation: Increasing **tax rates** (direct and indirect) reduces **aggregate income** and **aggregate demand**, helps **control inflation**.

3. Public Debt

- Increase **public debt** (government bonds) or securities to **finance deficits** or **reduce taxes**

During Inflation: Issuing **government bonds** or **borrowing** to **finance deficits**

4. Monetary Policy

- Increase **monetary supply** to **stimulate aggregate demand** (e.g. **lower interest rates**)

During Inflation: Reducing or **eliminating stimulus** means **lower aggregate demand** and **lower inflation**

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Fiscal Policy in the Situation of Inflation

Definition: In inflation (rising prices, eroded purchasing power), the goal of fiscal policy is to reduce **aggregate demand** to control inflationary pressures. This is called **contractionary fiscal policy**.



Key Measures:

1. Reduce Government Spending:

- Decrease expenditure on non-essential public services and projects to reduce money flow in the economy.
- Prioritize essential sectors like healthcare and education while cutting back on luxury or less productive expenditures.



2. Increase Taxes:

- Raise direct taxes (e.g., income tax) to decrease disposable income, thereby curbing consumer spending.
- Increase indirect taxes (e.g., GST or VAT) on non-essential goods to discourage consumption.



3. Reduce Budget Deficit:

- Aim for a balanced or surplus budget by reducing the gap between government revenue and expenditure.



4. Delay or Cancel Subsidies:

- Curtail subsidies on fuel, electricity, or other sectors to discourage excessive consumption and reduce government expenditure.



5. Promote Savings:

- Introduce schemes that incentivize savings, such as higher interest rates on government bonds or tax exemptions for savings accounts.



6. Public Borrowing:

- Increase borrowing through government bonds to absorb excess liquidity in the market, limiting money circulation.



7. Discourage Borrowing by the Private Sector:

- Coordinate with monetary policy to ensure fiscal policies complement higher interest rates set by the central bank, reducing borrowing and spending.



These measures should be carefully implemented to ensure inflation is controlled without **stifling economic growth** excessively.

Monetary Policy and its Objectives

1. **Definition:** Monetary policy refers to the actions of a country's central bank (like the RBI in India or the Federal Reserve in the U.S.) to regulate the money supply and interest rates.



2. Monetary Policy Objectives:

1. **Control of Inflation:** Ensuring price stability through regulation of money supply and interest rates.



2. **Economic Stability:** Mitigating the effects of economic fluctuations and maintaining macroeconomic balance.



3. **Encouraging Investments:** Maintaining favorable interest rates to boost private and public sector investments.



4. **Exchange Rate Stability:** Managing foreign exchange reserves and exchange rates to promote trade and attract foreign investments.



5. **Employment and Growth:** Supporting government initiatives for employment generation and overall economic growth through monetary interventions.

Monetary Policy Tools

(Governed by the Central Bank)



Monetary policy is controlled by a country's central bank (like the RBI in India or the Federal Reserve in the U.S.) to regulate the money supply and interest rates. Key tools are:

1. Open Market Operations (OMO)

- Definition: **Buying or selling** government securities in the open market to **influence** liquidity. Buying injects money, while selling absorbs excess money.
- During Inflation: **Selling** government securities in the open market to **reduce** money supply and control inflation.



2. Repo & Reverse Repo Rates

- Definition (Repo Rate): The rate at which banks **borrow** from the central bank. **Lower** rates encourage borrowing and investment.
- During Inflation (Repo): Increasing the repo rate (the rate at which banks borrow from the central bank) **discourages** borrowing and **reduces** liquidity in the economy.
- Definition (Reverse Repo Rate): The rate at which banks **deposit** funds with the central bank. **Higher** rates encourage saving.
- During Inflation (Reverse Repo): Increasing the reverse repo rate encourages banks to **deposit** excess funds, **reducing** money supply.



3. Cash Reserve Ratio (CRR)

- Definition: The percentage of **deposits** banks must **keep** with the central bank. A **higher** CRR **reduces** liquidity, while a **lower** CRR **increases** it.
- During Inflation: **Raising** the CRR requires banks to **keep** a higher percentage of their deposits, **limiting** ability to **lend** money.



4. Statutory Liquidity Ratio (SLR)

- Definition: The percentage of **net demand and time liabilities** banks must **maintain** in **safe and liquid assets** like government securities.
- During Inflation: Increasing the SLR **compels** banks to **invest** more in government securities, **reducing** credit availability.



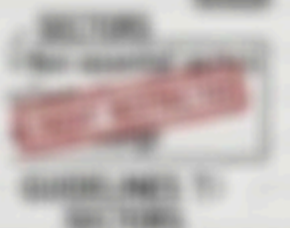
5. Monetary Policy Stance (Quantitative & Qualitative)

- Definition (Quantitative): **Adjusting** money supply via CRR, SLR, or OMOs.
- Definition (Qualitative): **Direct** control or **direction** to regulate credit distribution.
- During Inflation: Adopting a **contractionary** monetary policy **reduces** overall demand.



6. Credit Control Measures

- Definition: Guidelines to ensure **credit** is **allocated** to **productive** sectors.
- During Inflation: **Restricting** credit availability to **non-essential** sectors **reduces** excessive demand-driven inflation.



FISCAL POLICY vs MONETARY POLICY

Summary of differences for revision.

1) Definition:

- Fiscal Policy: Govt actions on **taxation & spending** to influence the economy.
- Monetary Policy: Central bank actions to control **money supply & interest rates**.



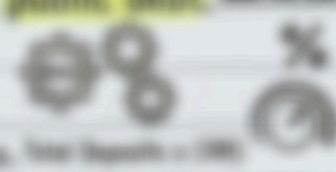
2) Implemented By:

- Fiscal Policy: **Government or Ministry of Finance**
- Monetary Policy: **Central Bank** (e.g., RBI, Fed).



3) Tools Used:

- Fiscal Policy: include **Taxes, Govt spending, subsidies, public debt**.
- Monetary Policy: include **Repo rate, CRR, SLR, OMOs, interest rate changes**.



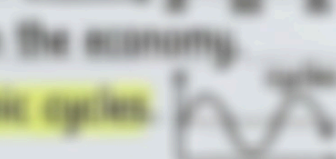
4) Objective:

- Fiscal Policy: **Economic growth, employment, and income distribution**.
- Monetary Policy: **Price stability, controlling inflation, and stabilizing currency**.



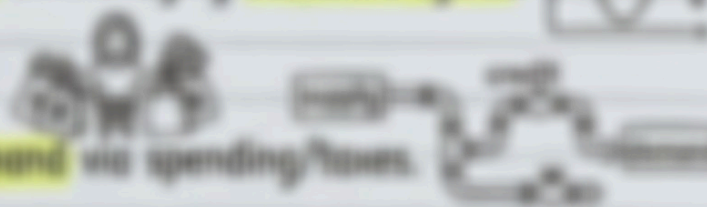
5) Nature:

- Fiscal Policy: **Long-term focus on structural changes** in the economy.
- Monetary Policy: **Short-term focus on managing economic cycles**.



6) Effect on Economy:

- Fiscal Policy: **Directly affects demand** via spending/taxes.
- Monetary Policy: **Indirectly affects demand** via money supply & credit availability.



7) Flexibility:

- Fiscal Policy: **politically influenced, less flexible**.
- Monetary Policy: **relatively independent and flexible**.



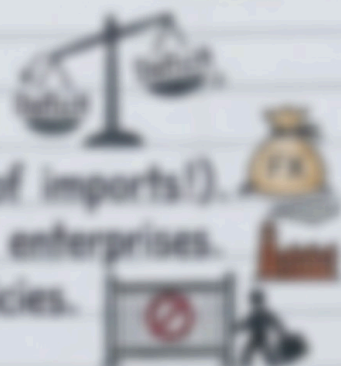
LPG Policies: Background & Advantages

LPG Policies and Need for LPG Reforms

Background and Need for LPG Reforms

Pre-1991 Status: India followed a mixed economy model with **heavy** **govt control**. The economy faced severe challenges:

- 1 High **fiscal deficits & balance of payments crisis**.
- 2 Declining **forex reserves** (enough for only 2 weeks of imports!).
- 3 Low **industrial productivity & inefficiency** in public enterprises.
- 4 Lack of **foreign investments** due to restrictive policies.

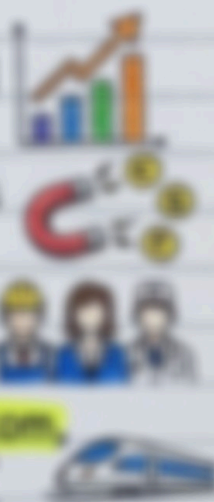


Govt. under PM **Narasimha Rao** & Finance Minister **Singh** introduced LPG reforms as part of the **New Economic Policy (NEP)**.


Main Goal: Make India a fast-growing economy.

Advantages of LPG Policies


- **Economic Growth:** India witnessed rapid **GDP** growth and higher **economic stability**.
- **Foreign Investments:** Significant increase in **FDI** and **FII**s contributed to **capital formation**.
- **Job Creation:** Expanding industries and new enterprises created **employment opportunities**.
- **Infrastructure Development:** Better infrastructure in **telecom**, energy, and transportation.
- **Technology Advancement:** Access to global **technologies** improved **productivity** and quality.




Influences of LPG (Liberalization, Privatization, Globalization) on the Indian Economy

The 1991 economic reforms were a major turning point. 

1. Liberalization 'Deregulation'


 Definition: Removal of government restrictions and controls in trade, industry, & investment.

Impact: • Reduced barriers for foreign trade/invest, fostering a competitive environment. 


• Deregulation of industries led to increased efficiency & productivity. 

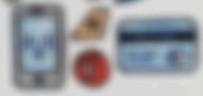
• Tax reforms simplified tax structure, increasing compliance. 

2. Privatization 'Private Enterprise'


 Definition: Transfer of ownership & management of Public Sector Enterprises (PSEs) to the private sector.

Impact: • Increased efficiency & innovation in formerly gov-run sectors. 

• Reduction in fiscal burden through disinvestment & better revenue gen. 

• Enhanced consumer choice & quality in telecom, aviation & banking. 

3. Globalization

 Definition: Integration of the Indian economy with the global economy through trade, invest & tech exchanges.

Impact: • Boosted exports, esp in IT, pharmaceuticals & textiles. 

• Increased Foreign Direct Investment (FDI), bringing capital, tech & expertise.

• Exposure to global markets encouraged innovation & improved standards. ...

• Enhanced competitiveness of Indian industries on a global platform. 

Positive & Negative Impacts of LPG

Positive Impacts of LPG

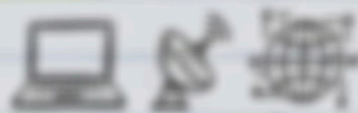
- **Economic Growth:**

India's GDP growth rate improved significantly, averaging around 7% post-1991.



- **Technological Advancement:**

Sectors like IT and telecom thrived, making India a global technology hub.



- **Employment Generation:**

Growth in industrial and service sectors created new job opportunities.



- **Consumer Benefits:**

Increased competition led to better quality products and services at competitive prices.



- **Global Recognition:**

India became an important player in global forums like WTO and G20.



Negative Impacts of LPG

- **Rising Inequalities:**

Benefits of economic growth were unevenly distributed, widening the rich-poor gap.



- **Unemployment in Traditional Sectors:**

Global competition adversely affected small-scale industries and traditional sectors.



- **Overdependence on Foreign Capital:**

Heavy reliance on FDI made India vulnerable to global economic fluctuations.



- **Cultural Erosion:**

Increased globalization led to the erosion of traditional values and lifestyles.



- **Environmental Degradation:**

Rapid industrialization resulted in deforestation, pollution, and depletion of natural resources.



Inflation

Inflation is the rate at which the general level of prices for goods and services rises, leading to a decrease in the purchasing power of money. It is typically measured by indices such as the Consumer Price Index (CPI). When inflation occurs, each unit of currency buys fewer goods and services, affecting consumers' cost of living and the overall economy.



The primary types of inflation are:

1. **Demand-pull Inflation:** This occurs when demand for goods and services exceeds their supply, causing prices to rise. It often happens in a growing economy where consumers and businesses have more money to spend.



2. **Cost-push Inflation:** This type arises when the costs of production increase, leading producers to raise prices to maintain profit margins. Common causes include rising labor costs or higher raw material prices.

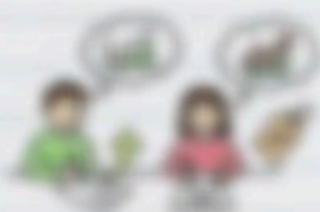


3. **Built-in Inflation:** Also known as wage-price inflation, it occurs when workers demand higher wages to keep up with rising living costs, and businesses increase prices to cover the higher wages, creating a cycle.

Measurement & Reasons for Inflation

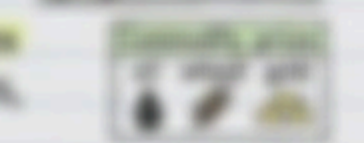
The primary reasons for inflation include:

1. **Demand-Pull Inflation:** This occurs when the demand for goods and services exceeds their supply, leading to price increases.
2. **Cost-Push Inflation:** When the cost of production rises (e.g., due to higher raw material prices or wages), producers pass these costs on to consumers in the form of higher prices.
3. **Monetary Policy:** An increase in the money supply, often through central bank policies like lowering interest rates or increasing government spending, can lead to inflation by increasing the amount of money chasing the same amount of goods.
4. **Expectations of Future Inflation:** If businesses and consumers expect inflation to rise, they may adjust their behavior (like raising wages or prices), thus fueling further inflation.



Measurement of Inflation

- **Wholesale Price Index (WPI)** - It is estimated by the Ministry of Commerce & Industry and measured on a monthly basis.
- **Consumer Price Index (CPI)** - It is calculated by taking price changes for each item in the predetermined list of goods and averaging them.
- **Producer Price Index** - It is a measure of the average change in the selling prices over time received by domestic producers for their output.
- **Commodity Price Index** - It is a fixed-weight index or (weighted) average of selected commodity prices, which may be based on spot or futures price.
- **Core Price Index** - It measures the prices paid by consumers for goods and services the volatility caused by movements in food and energy prices. It is a way to measure the underlying inflation trends.
- **GDP deflator** - It is a measure of general price inflation.



Effect and Remedies to Inflation

1. Effect of Inflation on the Economy:

- Effect is not distributed evenly in the economy.
- There are chances of hidden costs for different goods & services.
- Sudden or unpredictable inflation rates are harmful to an overall economy.
- Lead to market instability & make budget planning difficult for companies long-term.
- Can act as a drag on productivity.
- Companies are forced to mobilize resources away from products & services to handle profit & loss situations.
- Moderate inflation enables labour markets to reach equilibrium at a faster pace.



2. Remedies to Inflation:

[A.] Monetary Policy (Contractionary policy)

- Managed by Reserve Bank of India (RBI) to meet sector requirements & boost economic growth.
- Contractionary policy is manifested by:
 - decreasing bond prices
 - increasing interest rates
- Helps to reduce expenses during inflation, but also helping to halt economic growth and halt rate of inflation.



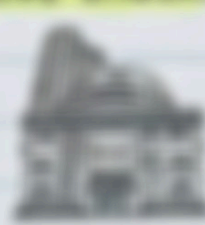








[B.] Fiscal Policy

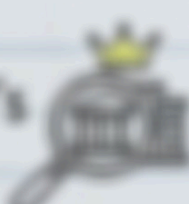






- Seen separate from monetary policy, which is either contractionary or expansionary.
- Deals with taxation, public spending, and borrowing.
- Deals with the Revenue & Expenditure policy of the government.



SENSEX (Stock Exchange Sensitive Index)

- Full form of SENSEX is **Stock Exchange Sensitive Index**.  
- Also termed **BSE (Bombay Stock Exchange)**. The **oldest stock exchange** in India. 
- Launched in **1986**. A **key indicator** of the Indian market's performance. 
- The **base year** for Sensex is **1978-79**, with a **base value of 100**. 
- A **free float, economy-weighted index** of **30**  financially sound and well-established **organizations**  listed on BSE. 
- Firms are branded as **Blue chip companies** in India. Represents various industries. 

Advantages of SENSEX

- Offers **greater visibility** and enhances a company's **reputation**. Leveraging some valuation. 
- Strengthens company's reputation (includes **top-performing firms**). 
- Enables an enterprise to **raise their share capital**. 
- Provides **growth opportunities**, such as **mergers**, **expansions**, and **acquisitions**.    
- Other benefits include scope for **worker's efficiency** in risk distribution and incentives.

GATT (General Agreement on Tariffs and Trade)

General Agreement on Tariffs and Trade (GATT) was an international trade agreement signed in 1947.

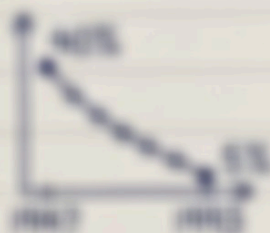
23 nations were signatories. Effective Jan 1, 1948.



Purpose: liberalise trade by reducing tariffs and reducing quotas among member countries. Members had to remove all trade discriminations.



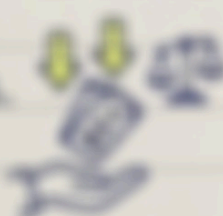
Tariff Reduction: Average tariffs on industrial goods reduced from 40% to 5% over 7 negotiation rounds (1947-1993).



Foundation for global trade regulation until 1995, when replaced by WTO. Led to economic globalization.



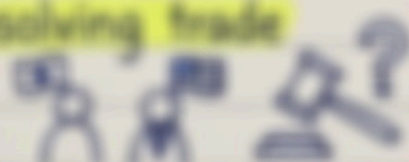
1. Objectives: promote free trade by encouraging reduction of trade barriers. Platform for disputes. Promoted non-discriminatory trade practices.



2. Structure: Governed by periodic rounds of negotiations. Uruguay Round (1986-1994) led to the creation of WTO.

1986 ← Uruguay Round → 1994 →

3. Dispute Resolution: Framework for resolving trade disputes, but not as robust as WTO.



1995, GATT superseded by WTO, which incorporated its principles & expanded coverage to services, intellectual property, and agricultural trade.



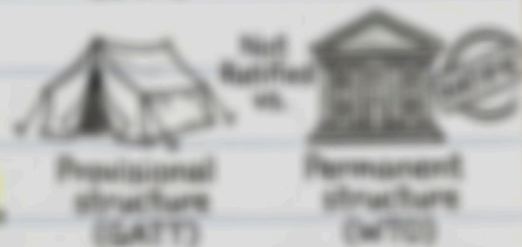
WTO in Place of GATT: Comparative Transition Reasons

- Based on source text, here are the key comparative reasons for the transition:

1. GATT lacked a coherent institutional structure. World Trade Organisation (WTO) incorporates the principles of GATT and provides a more institutional framework for implementing and extending them.

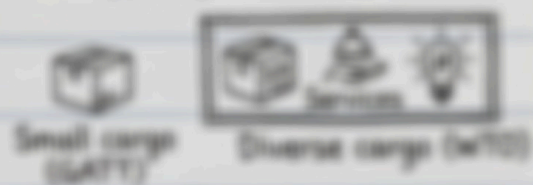


2. GATT was ad hoc and provisional in nature, it was never ratified in the parliaments of member countries.



3. WTO and its agreements are permanent, it has a strong legal basis, and member countries have ratified it in their parliaments.

4. GATT dealt with just trade in goods, WTO covers services and intellectual property as well.



5. WTO dispute settlement is faster, its rulings can never be blocked.

WTO - World Trade Organisation

Established in 1995

History & Foundation

- heir organization to GATT (General Agreement on Trade and Tariff)
- GATT was founded in 1948 with 23 nations
- WTO is a rule-based trading government, forbids unreasonable trade constraints

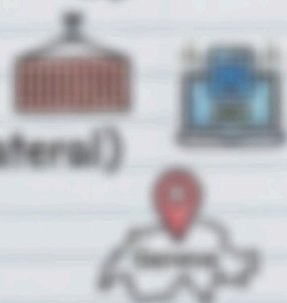
Mission & Purpose

1. Increase stock and trade of services
2. Assure maximum utilization of world resources
3. Preserve the environment



Scope & Operations

- Deals with trade in commodities and services
- Promotes international trade (bilateral & multilateral)
- Aims to eliminate tax & non-tariff obstacles
- Implementing greater marketplace access
- Headquarters in Geneva, Switzerland



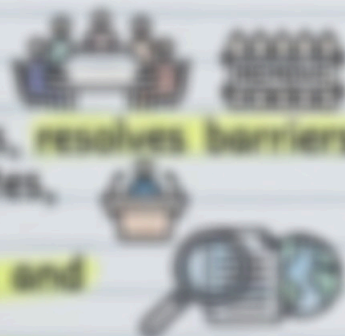
Objectives of WTO

- Set & execute rules for international trade
- Panel for negotiating trade liberalization
- Solve trade conflicts
- Improve clarity of decision-making methods



Key Functions

1. Trade Negotiations: Facilitates trade agreements, resolves barriers
2. Dispute Resolution: Forum for resolving disputes, ensures rule adherence
3. Monitoring Trade Policies: Checks transparency and consistency in global trade
4. Technical Assistance: Offers support to developing countries, helps build trade capacity
5. Promoting Free Trade: Reduces tariffs & subsidies, other barriers; fosters global economic growth.



WTO Main Features

Based on the content, the main features of the World Trade Organization (WTO, est. 1995) are: highlights **smooth flows**.

1. Trade Negotiations

- provides a platform for members to **negotiate trade agreements**.
- aims to **reduce tariffs, quotas, and other trade barriers**.



2. Dispute Settlement

- formal mechanism to **resolving trade disputes**.
- **structured process to enforce trade rules**.



3. Trade Rules

- sets **global trade rules** across areas like **goods, services, and intellectual property**.



4. Monitoring & Review

- **monitors national trade policies** to ensure **compliance**.
- conducts **regular reviews**.



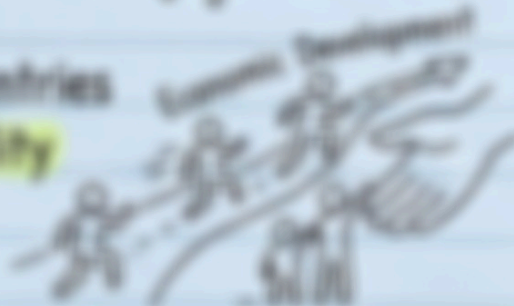
5. Capacity Building

- provides **technical assistance and training**.
- helps build **developing countries' capacity**.



6. Special Provisions for Developing Countries

- offers **special treatment and flexibility** to developing nations.
- supports **economic development**.



WTO vs. GATT

The General Agreement on Tariffs and Trade (GATT) was the predecessor to the World Trade Organization (WTO), created in 1947. Their differences are:

1. Scope

- GATT: Main focus on trade in goods, with limited coverage of services and intellectual property.
- WTO: Covers a wider range of issues, including goods, services, and intellectual property, thereby making it a more comprehensive body.

2. Legal Status

- GATT: Was a set of rules and a procedural agreement without formal international organizational authority.
- WTO: Is a fully-fledged international organization with its own legal standing and an established framework to enforce its decisions.

3. Dispute Settlement

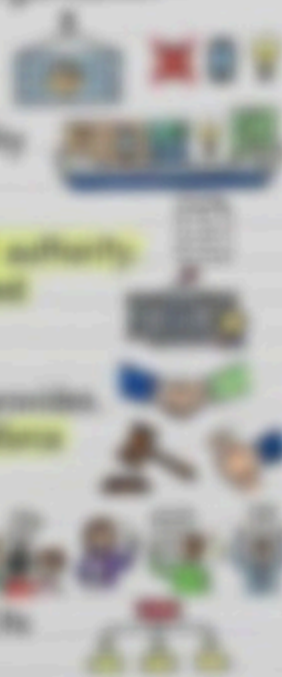
- GATT: Had a dispute settlement mechanism, but it lacked the enforceability that the WTO now provides.
- WTO: Has a stronger, more structured, and binding dispute settlement mechanism, which can enforce rulings on member states.

4. Institutional Structure

- GATT: Was a set of rules, not an organization, and lacked institutional features such as a permanent secretariat or a governing body.
- WTO: Is an organization with a permanent institutional structure, including a Secretariat, and its General Council is the decision-making body.

5. Multilateral Trade Negotiations

- GATT: Operated under a series of negotiation rounds (e.g., Uruguay Round), often requiring extensive time and effort.
- WTO: Provides a more formalized and institutionalized process for multilateral trade negotiations with more regular updates and progress.



The International Monetary Fund (IMF)

1. Definition & Foundation:

- Global financial institution established in 1944 (Bretton Woods Conference).
- Officially began existence on Dec 27, 1945.
- Headquartered in Washington, D.C., USA, and currently has 190 member countries.

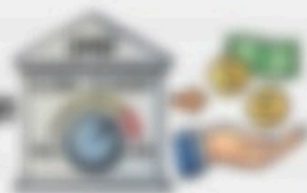
2. Primary Objectives (Key Points):

1. **Promoting International Monetary Cooperation:** Fostering collaboration among nations on monetary and financial issues.
2. **Ensuring Financial Stability:** Monitoring global economic trends and offering advice to prevent crises.
3. **Facilitating International Trade:** Encouraging balanced trade to boost economic growth and job creation.
4. **Promoting High Employment and Sustainable Growth:** Supporting policies aimed at reducing unemployment and fostering long-term development.
5. **Reducing Global Poverty:** Providing financial aid and policy advice to improve living standards in low-income countries.



Key Functions of the IMF

The *International Monetary Fund (IMF)* performs several critical roles to manage the global economy and support member countries. The main functions are:



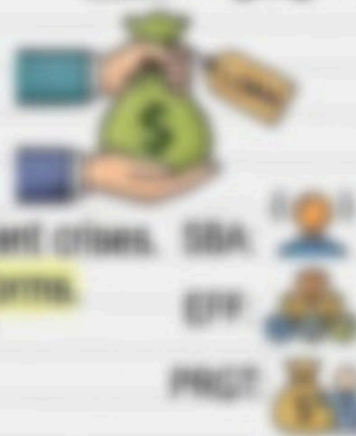
1. Surveillance:

- **Definition:** The IMF monitors the global economy, individual member economies, and regional economic trends.
- **Reports:** It provides assessments through periodic reports like the World Economic Outlook (WEO) and Global Financial Stability Report (GFSR).
- **Consultations:** It conducts Article IV Consultations to review the economic policies of each member country annually.



2. Financial Assistance:

- **Loans:** The IMF provides loans to countries facing balance-of-payments problems (difficulty in paying for imports or debt).
- **Programs:** Financial support is offered under various programs like:
 - **Stand-By Arrangements (SBA):** Short-term loans for balance-of-payment crises.
 - **Extended Fund Facility (EFF):** Long-term assistance for structural reforms.
 - **Poverty Reduction and Growth Trust (PRGT):** Concessional loans for low-income countries.



3. Capacity Development:

- **Definition:** The IMF provides technical assistance and training to member countries to strengthen institutions, improve governance, and enhance economic policy frameworks.
- **Areas include** tax policy, financial sector stability, monetary policy, and public debt management.



4. Policy Advice:

- **Definition:** Member countries receive expert advice on managing their economies, improving fiscal discipline, and addressing structural challenges.

Governance Structure of the IMF

Board of Governors:

- Comprises **one governor** from each **member country**.
- Usually the **Finance Minister or Central Bank Governor**.
- Meets **annually**.



ANNUAL MEETING



Executive Board:

- Composed of **24 Executive Directors** representing **member countries or groups**.
- Oversees **daily operations and policy implementation**.



Managing Director:

- Acts as the IMF's **head and chair** of the Executive Board.
- Current MD (as of Jan 2025): **Kristalina Georgieva**.



Quotas:

- Members contribute financial resources via **quota system**. Quotas **voting power, access to financing, and contributions**.



India and the International Monetary Fund (IMF)

1. Governance & Representation:

- India is a **founding member** of the IMF.
- Union Finance Minister is the **Ex Officio Governor** on the IMF's Board of Governors.
- **Alternate Governor**: Governor of the Reserve Bank of India (RBI).
- Represented by an **Executive Director** of the IMF for India.



2. India's Quota & Position

- Total Quota: **SDR 13,114.4 million**.
- Shareholding percentage: **2.76%**.
- Rank: **Eighth largest** quota-holding country.



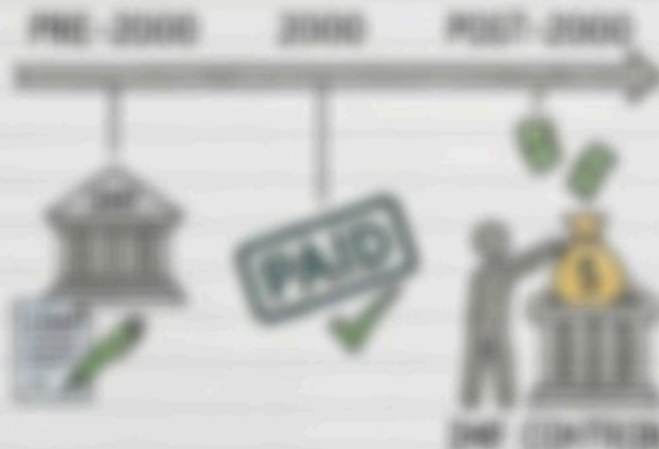
Special Drawing Rights (SDRs)

Created in 1969, an **international reserve asset**.



3. Evolution of Relationship

- Timeline: Pre-2000 was a borrowing country.
- In 2000: Completed the **repayment** of all loans taken from the IMF.
- Now (Post-2000): India is a **contributor** to the IMF.



Differences Between Central Bank & Commercial Bank

- Central bank and commercial banks are distinct types of financial institutions with unique roles.

1. Definition:

- **Central Bank:** National or international institution managing currency, money supply, and interest rates. Implements **monetary policy** and **maintains financial stability**.
 - Examples: RBI (India), Fed (USA), ECB (Europe)
- **Commercial Bank:** Financial institution providing **services** (accepting deposits, providing loans, offering other products) to the **general public** and **businesses**.
 - Examples: State Bank of India (SBI), HDFC Bank, ICICI Bank.



2. Primary Function:

- **Central Bank:** Regulate and manage monetary policy, **control inflation**, **stabilize currency**, ensure system stability. Served as **banker to the government** and commercial banks.
- **Commercial Bank:** Providing services like **savings/checking accounts**, **business loans**, mortgages, and other financial products like **mutual funds**.



Govt Banker



3. Role in the Economy:

- **Central Bank:** Crucial role in **controlling national economy** (interest rates, money supply). Acts as **lender of last resort** to commercial banks during crises.
- **Commercial Bank:** Direct impact facilitating transactions and providing loans. Act as **intermediaries** between **depositors** and **borrowers**. → →



4. Ownership:

- **Central Bank:** Usually **government-owned**. Not motivated by profit but by **economic welfare** of the nation.
- **Commercial Bank:** Typically owned by **private individuals or corporations**. **Profit-motivated**, earning returns for **shareholders**.



5. Regulation:

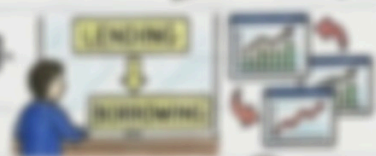
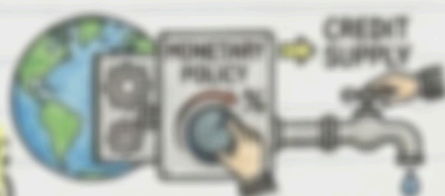
- **Central Bank:** Regulatory role **overseeing commercial banks**, controlling money supply, and **setting interest rates**.
- **Commercial Bank:** Operates **within the regulatory framework** set by central bank. Follows central bank rules on **reserve requirements**, interest rates, and **credit policies**. Small banks enclosed by fences and rules on not rules (not handcuffs, just enclosed rules).



CENTRAL BANKS VS COMMERCIAL BANKS (Continued)

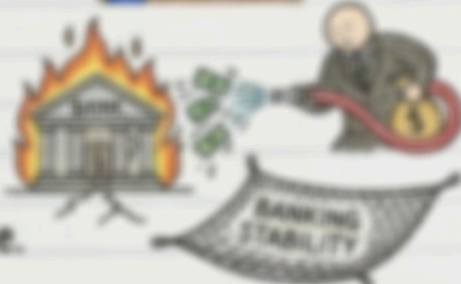
6. Monetary Policy and Credit Control:

- Central Bank: Formulates & implements monetary policy; Sets key interest rates (e.g., repo rate, reverse repo rate).
- Commercial Bank: Handles day-to-day lending & borrowing. Sets "own" loan/deposit rates, but must adjust them within CB policies & broader economic conditions.



7. Lender of Last Resort:

- Central Bank: Key function: Acts as lender of last resort to commercial banks with liquidity shortages. Ensures banking stability.
- Commercial Bank: Rely on Central Bank for assistance.



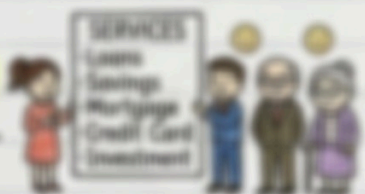
8. Currency Issuance:

- Central Bank: Exclusive right to issue national currency (banknotes & coins). Authorizes legal tender.
- Commercial Bank: Does not issue currency. Facilitates deposits & withdrawals.



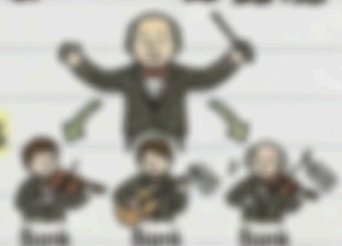
9. Financial Products and Services:

- Central Bank: No direct services to the public. Instead, offers services for Govt & commercial banks (e.g., clearing systems, banking sector regulation).
- Commercial Bank: Offers wide range of services to general public: personal & business loans, savings accounts, mortgages.



10. Interest Rate Setting:

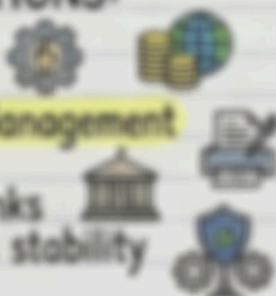
- Central Bank: Controls benchmark rates in the economy, influencing borrowing costs for banks & public.
- Commercial Bank: Determines own rates based on CB policies and business strategy.



SUMMARY OF FUNCTIONS:

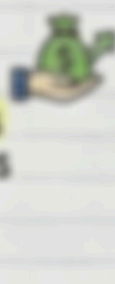
• Central Bank

- Formulates policy
- National Reserves Management
- Currency Issuance
- Bank to Govt & banks
- Regulates & ensures stability



• Commercial Bank

- Loans & Credit Provision
- Deposits & Savings Accounts
- Mutual Funds & investments
- Facilitates payments
- Mortgages





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of the subject on
'pyqfort.com'
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