International monetary and financial institutions

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International monetary governance

- IMF – manages the international monetary system, combats crises
- WB – provision and coordination of development assistance
- BIS – CBs coordination, international banking regulation
- G5, G7, G10, G20 – key fora for international monetary and financial cooperation, discusses the most pressing issues
- FED – de facto lender of last resort for most of the world, crisis management of the world financial system

IMF – general characteristic

- Formed: 1.-22. July 1944 in **Bretton Woods, Articles of Agreement**
- Headquarters: Washington
- Purpose:
  - **To promote international monetary cooperation** by means of permanent international institution
  - **To promote stable growth of international trade,** employment and GDP
  - **To promote exchange rate stability,** prevent competitive devaluations, ensure smooth international payments (no payments restrictions on current account)
  - **Short term lending** to countries experiencing balance of payments difficulties
  - Shorten the BoP crises and **cushion their impact** on the world monetary and financial system
- Due to its rescue role in international monetary and financial crises, the IMF is probably the **most powerful international economic institution**

Governing structure

- Board of Governors
  - One representative per country
  - Normally meets once a year
  - Responsible for key decisions, most powers delegated to the Executive Board
- Executive Board
  - 7 executive directors represent one country (USA, UK, GER, FRA, JAP, SA, CHN)
  - 17 represent **constituencies** (e.g. Czechia together with Turkey, Austria, Hungary…)
  - In practice the most important body (lending, conditionality etc.)
- Managing Director
  - Kristalina Georgieva (Bg) (historically always a European)
  - the head of staff, chairman of the Executive Board

Decision making in the IMF

- Unique among international organizations – voting based on a **quota system** (in principle similar to voting in private corporations)
- The quota is measured in SDR (Special Drawing Rights) and is derived from key economic variables (GDP, openness etc.) but is also somewhat arbitrary
- Every member has basic votes (equal share of 5.502 of total votes) + 1 vote per 100 000 SDR of quota
- Originally the USA had 27,5 per cent – today over 16 per cent
- Several thresholds 51-66-85 per cent of votes depending on the issue – USA is the only country that can **veto** the most important decisions
- Quotas normally reviewed every five years, major reforms in 2008 (implemented in 2011) and 2010 (implemented in 2016)

Voting power before and after the reforms (in per cent)			
	2010	**2011**	**2016**
United States	16,74	16,75	16,48
Japan	6,01	6,23	6,14
Germany	5,87	5,81	5,31
France	4,85	4,29	4,02
United Kingdom	4,85	4,29	4,02
China	3,65	3,81	6,07
India	1,88	2,34	2,63
Russia	2,69	2,39	2,59
Czechia	0,39	0,43	0,46

Source: IMF Data and Statistics

IMF policies

- The IMF oversees smooth functioning of the international monetary and financial system
  - Addressing and mitigating international financial crises
  - The IMF lends on short term basis to countries in BoP difficulties
  - The funding proceeds in several tranches, limited by a certain ratio of lending to quota, the higher the ratio, the stringent the conditions
  - **Conditionality –** countries have to accept IMF conditions – usually “market friendly” reforms and austerity programs
  - **Article IV surveillance** – IMF monitors economies of its member states
  - IMF and the **capital controls**
  - **Scarce currency clause**
- IMF funding
  - Member quotas – 651 bn USD (own resources), multilateral arrangements to borrow, bilateral borrowing agreements, SDR, gold

International development banks

- **What is an international development bank?**
- The original concept – **International bank for reconstruction and development (1944)**
- Many regional copies after decolonization
  - Inter-American Development Bank (1959)
  - African Development Bank (1964)
  - Asian Development Bank (1966)
  - Islamic Development Bank (1973)
- Other examples
  - **European Investment Bank**(1957)
  - European Bank for Reconstruction and Development (1991)
  - **Asian Infrastructure Investment Bank** (2015)

The World Bank Group

- Global, public, source of foreign investment funds for **developing countries**
- Probably the most important development institution in the world
- The World Bank Group
  - World Bank
    - International Bank for Development and Reconstruction (IBRD)
    - International Development Agency (IDA)
  - Affiliated agencies
    - International financial corporation (IFC)
    - Multilateral Investment Guarantee Agency (MIGA)
    - International Centre for Settlement of Investment Disputes (ICSID)

World bank

- Formd: 1.-22. July 1944 in **Bretton Woods**
- Headquarters: Washington
- Objectives
  - Original objective – to **fund reconstruction** after WWII
  - Later the focus shifted to **development**, especially in **developing countries**
  - Since 1980s WB initiated **structural adjustment programs**, mostly in developing countries with long term BoP difficulties
  - Since the turn of the century WB plays a key role in addressing **Millennium Development Goals** (2000-2015) and **Sustainable Development Goals** (2016-)

Governing structure

- Board of Governors
  - One representative per country
  - Normally meets once a year (along with the IMF)
  - Responsible for key decisions, most powers delegated to the Executive Board
- Board of Directors
  - 25 members, some represent one country, other represent **constituencies**
  - In practice the most important body (lending, conditionality etc.)
- Administration
  - WB president (David Malpass), historically always from the US, many agencies all over the world, over 10 000 employees
- Voting
  - Very similar to the IMF
  - Differences between IBRD and IDA

Current voting shares in IBRD (in per cent)	
United States	15,98
Japan	6,89
Germany	4,03
France	3,78
United Kingdom	3,78
China	4,45
India	2,93
Russia	2,79
Czechia	0,38

Source World Bank

Current voting shares in IDA (in per cent)	
United States	10,20
Japan	8,33
Germany	5,37
France	3,79
United Kingdom	6,48
China	2,21
Saudi Arabia	3,27
Russia	0,32
Czechia	0,44

Source World Bank

MUNI
FSS

World bank policies

- IBRD (189 members)
  - Maturity usually 15-20 years, very low interest rate spread (difference between interest rate paid by WB and to WB)
  - Usually with sovereign guarantees, has to be repaid
- IDA, since **1960** (173 members)
  - Highly concessional lending (and grants) for very poor countries
  - More leeway than IBRD, usually without sovereign currencies,
  - Funded by contributions from developed countries, every three years, + 20 per cent from IBRD profit, very long maturity
- Country classification according the WB, income per capita per year
  - Low-income (below 995 USD) - IDA
  - Low-middle income (996-3 895 USD) – both IDA and IBRD
  - Upper-middle income (3 896-12 055 USD) – IBRD only
  - High-income (over 12 056 USD) – closed access to funding from WB

Bank for International Settlements

- Formed in 1930 to settle WWI reparations
- Since 1970s it serves as a platform for regulation of international banking
- Quasi-govermental organization (limited liability)
- Only central banks can become members, 60 members (59 countries plus ECB, USA since 1996)
- Headquarters: Basel, Switzerland

Governing structure

- General meetings
  - Once a year, all member CBs, quota-based system of voting
  - Profits, dividends, membership etc.
- Board of directors
  - Currently 17 members (BEL, FRA, GER, UK, USA, ITA plus others)
  - Most important decisions by 2/3 majorty
  - General manager – Augustin Carstens (Mex.)
- Relations with governments
  - Independence, no oversight
  - No direct lending to governments, representatives can not be members of governments etc.
  - The bank operations happen in a legal vacuum, funds can not be confiscated, staff has substantial immunity from local law (diplomatic status)

Basel committee on banking supervision

- Organization formed by 10 CBs, 45 members, under supervision from G10
- International forum for banking regulation
- Submits recommendations for international banking regulation
  - **Basel I** (1988)
  - **Basel II** (2004)
  - **Basel III** (2023?)
- **Minimum reserve requirements, capital adequacy**