EFFECT OF IMF AND WORLD BANK ON INDIA

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ABSTRACT

In this Globalised world it is very important to know the place of developing countries i.e. third world countries, because both developed and developing countries are interlinked by having economic relations, trade, commerce, and mostly the developed countries does have interest in developing countries because these are the major markets for their products.

Keyword: IMF, WORLD BANK, India.

INTRODUCTION

India is member of IMF and condition of IMF is that if anyone wants to be the member of IMF then it is mandatory to become member of World Bank and World Bank affiliates those are International finance Corporation and International development Association. India is one of the biggest borrowers from World Bank. Regulations by IMF has been benefited in expansion in international trade which brought prosperity. Financial assistance of IMF helped India after partition when there was imbalance in economy comparing with dollar and other currencies.[1]

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India had borrowed 753.8 crores from IMF in August 1975. In 1981 India was given 5,000 crores to overcome foreign exchange crisis which was result of continued deficit in balance of payments on current account. IMF and World Bank supported India in its problematic situations.

For development of infrastructure, river projects, communication system development India needed lot of capital which was provided by World Bank which was one of the benefits of becoming member of IMF.

The Structural Adjustment Program was given by World Bank and IMF to 70 third world and Eastern European countries which had devasting results. This SAP has two phases, one is short term macro-economic stabilization and second is narrow range of polices which looks only to reduce account deficits.[2]

When debt crisis has not been solved by stabilization programs then US Treasury Secretary, Mr. James Baker came with solution to solve debt crisis. This was called as 'Baker Plan'. In this plan WB imposed more comprehensive conditions on countries who had borrowed from WB. After 1990, all member countries who had taken loan were received in more harsh conditions from WB. The countries subjected to SAP's were told that structural reforms are necessary for sustaining growth and stability of economy. Countries had to follow the painful program and demands of Wb otherwise there was fear of cutting the fund from Wb. More than 70 countries were subjected to 566 IMF and WB SAP programs by 1992.

Most of the countries who borrowed money are waiting for the goal of stabilized economy after fourteen years of SAP. The burden of loan has raised from $785 billion in 1978 to $1.3 trillion in 1992 of developing nations. The repayment was towards western commercial banks which provided loan on conditions (SAP) to ensure repayment but it neither solved the problem nor stabilized the economy it only intensified the poverty.[3]

The series of policy measures launched by the Indian government are part of structural adjustment program in India. Government has taken up following measures to implement SAP:

"• Devaluation of rupee by 23%.

• New Industrial Policy allowing more foreign investments.

• Opening up more areas for private domestic and foreign investment.

• Part disinvestment of government equity in profitable public sector enterprises.

• Sick public sector units to be closed down.

• Reforms of the financial sector by allowing in private banks.

• Liberal import and export policy.

• Cuts in social sector spending to reduce fiscal deficit.

• Amendments to the existing laws and regulations to support reforms.

• Market-friendly approach and less government intervention.”

• Liberalization of the banking system.

• Tax reforms leading to greater share of indirect taxes.

All the above-mentioned ingredients of SAP are based on the Anderson Memorandum titled "Trade Reforms in India" dated Nov. 30, 1990 submitted to Government of India by the World Bank. It is interesting to note that this memorandum was not disclosed to the then Prime Minister, Mr. Chandra Shekhar, the then Finance Minister and the Cabinet Secretary by a group of senior officials in the Finance Ministry. Incidentally, all these officials were ex-World Bank and ex-IMF employees”.

CONCLUSION

Developing countries need loans and financial assistance for stabilizing their economy and to grow their economy for this, developing countries run towards IMF and World Bank. Because these institutions have money to give loan in need, and have experts to assist in regulating and growing the economy. The main purpose of the IMF and World Bank is to help the poor countries by giving loan and financial assistance through giving them structure and plans of money spending.

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