

ANSWERS & EXPLANATIONS OF Economic & Social Development-3

GS Paper-I: (1020)

1. **Answer: (c)**

Explanation:

The Special Drawing Right (SDR) is an international reserve asset, created by the International Monetary Fund (IMF) to supplement the official reserves of its member countries.

The SDR is not a currency. It is a potential claim on the freely usable currencies of the IMF members. As such, the SDRs can provide a country with liquidity.

A basket of currencies defines the SDR: the US dollar; Euro; the Chinese Yuan; the Japanese Yen; and the British Pound.

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. To date, a total of SDR 660.7 billion (equivalent to about US\$ 943 billion) have been allocated. This includes the largest-ever allocation of about SDR 456 billion approved on August 2, 2021 (effective on August 23, 2021). This most recent allocation was to address the long-term global need for reserves and help the countries cope with the impact of the COVID-19 pandemic.

2. **Answer: (c)**

Explanation:

The primary means of financing the International Monetary Fund (IMF) is through the members' quotas. Each member of the IMF is assigned a quota (membership fee), part of which is payable in the Special Drawing Rights (SDRs) or specified usable currencies (reserve assets) and part in the member's own currency. The difference between a member's quota

and the IMF's holdings of its currency is a country's Reserve Tranche Position (RTP). The Reserve Tranche Position is accounted among a country's foreign-exchange reserves. Part of the quota can be withdrawn from the IMF without any interest during critical situations of a country, such as the Balance of Payment (BoP) crises. This part of the money, which can be withdrawn without any interest, is the RTP.

3. **Answer: (c)**

Explanation:

About the G-Secs:

- Besides providing a return in the form of coupons (interest), the G-Secs offer maximum safety, as they carry the Sovereign's commitment for the payment of interest and the repayment of principal.
- They can be held in book entry, i.e., dematerialized/ scrip-less form, thus, obviating the need for safe-keeping. They can also be held in physical form.
- The G-Secs are available in a wide range of maturities, from 91 days to as long as 40 years, to suit the duration of varied liability structure of various institutions.
- The G-Secs can be sold easily in the secondary market to meet cash requirements.
- The G-Secs can also be used as collateral to borrow funds in the repo market.
- Securities, such as the State Development Loans (SDLs) and Special Securities (Oil bonds, UDAY bonds, etc.) provide attractive yields.