26 July, 2019

Indian Council of World Affairs
Sapru House, Barakhamba Road
New Delhi

Statement

by

Shri V. Srinivas, IAS
Additional Secretary to Government of India
DARPG, Ministry of Personnel, Public Grievances and Pensions

at the Book Launch and Discussion

on

'India's Relations with the International Monetary Fund: 25 Years In Perspective 1991-2016'

[An ICWA Publication]

(26 July 2019)
(Sapru House, New Delhi)

Respected Shri Shaktikanta Das, Governor Reserve Bank of India, Dr. Anoop Singh, Member 15th Finance Commission, Shri K.V.Eapen, Secretary Department of Administrative Reforms and Public Grievances, Mr. Andreas Bauer, Senior Resident Representative IMF India Office, Shri T.C.A.Raghavan, Director General Indian Council of World Affairs, Distinguished Ambassadors, Senior Colleagues from the IAS, Senior Faculty of AIIMS, Assistant Secretaries of the IAS 2017 batch, Students of Classes 11 and 12 of Modern School, Ladies and Gentlemen,

Introduction

Today is one of the most of significant days of my life, and I am extremely grateful to each one of you for sharing this moment of personal achievement.

The IMF represents the greatest institution that I have served in, a global institution without parallel whose ideals of economic liberalism and democracy continue to inspire me. The IMF is the world's lender of last resort – its approach multilateral, multicultural, multiethnic and above all highly professional – the collective intellectual firepower of macroeconomists the IMF carries is unmatched by any organization in the world.

I am grateful to Shri Shaktikanta Das, Governor Reserve Bank of India and India's Alternate Governor to the IMF for his support in guiding me through this endeavor. Let me also extend a warm and hearty welcome to Shri K.V.Eapen who had served as Senior Advisor in the ED's Office in the IMF, Dr. Anoop Singh, who had served as Director of the IMF's Asia Pacific Department and Dr. Andreas Bauer, IMF's Senior Resident Representative to India.

It is not an easy task for a serving civil servant to write a book. A subject of the complexity of "India's Relations with the International Monetary Fund: 25 Years in Perspective 1991-2016" required a lot of research work and interactions with a number of senior officials. I was encouraged to take up this task by Ambassador Nalin Surie, Ambassador Bhaswati Mukherji and Smt. Kalyani Shankar. I submitted my book research proposal following discussions with Ambassador T.C.A.Raghavan, who had always encouraged me to pursue academic excellence since I first served with him in the Ministry of External Affairs in 2001. Shortly thereafter, I was offered a fellowship by ICWA in 2017, perhaps, the first IAS officer to be awarded a book research fellowship from Sapru House.

I wish to acknowledge the support I received from Dr. Y.V.Reddy, Dr. Duvvuri Subbarao, Dr. C.Rangarajan, Dr. Bimal Jalan, Dr. M.Narasimham, Dr. Rakesh Mohan, Dr. Subir Gokarn, Dr. Kanagasabapathy Kuppuswamy, Dr. Nitin Desai, Dr. Deepak Nayyar, Dr. Shankar Acharya, Dr. Ashok Lahiri, Dr. Arvind Virmani, Shri Bhaskar Venkatramany, Dr. Partha Ray and Shri Krishnan Saranyan. I also wish to thank Dr. Montek Singh Ahluwalia and Dr. Rahul Khullar for guiding my research work.

I worked in several libraries - ICWA, NIPFP, RBI Archives, NMML, Parliament Library, National Library and the IMF Library going through thousands of documents of historical value, and acknowledge the support of all the Librarians and support staff. In my years in Ajmer, my personal staff Shri Satyamanyu Singh and Shri Naveen Anandkar helped me with various inputs.

India's Relations with the IMF

My book starts with a chapter on the International Monetary Fund, followed by a chapter on the Major Financial Crisis: From Great Depression to the Great Recession. There are 3 India specific chapters, an analytical view of 1966 and 1981 IMF programs, the Origins of the 1991 crisis and India's 1991 Standby Arrangement. I have presented IMF's Article IV annual consultations with Indian authorities from 1997-2016 and the evolutionary positions taken by India's Governors and Alternate Governors at the IMFC meetings in this period. The India specific chapters are, followed by chapters on My Years with the IMF and interviews with Governors of RBI, Finance Secretaries, Chief Economic Advisors and Executive Directors. As part of the Road Map Forward, there are 2 chapters G20: A Decade of Multilateralism and a chapter on The Rise of China in the International Monetary System.

India is an original member of the IMF. Exactly 75 years ago, in 1944, India was represented at the Bretton Woods Conference by a six-member delegation led by the Finance Minister Sir Jeremy Raisman, the Governor of the Reserve Bank of India Sir C.D.Deshmukh, and Mr. A.D.Shroff. It was felt that India should lend its support to an Institution, which was intended to put an end to the disastrous practices of competitive depreciation of currencies by establishing exchange rates. India's quota was the fifth largest in 1945.

India-IMF relations are as much individual relations as they are institutional relations. The Bretton Woods Conference 1944, witnessed the famous exchange between A.D.Shroff and John Maynard Keynes. However in the subsequent years, an intellectual convergence of ideas was a major reason for the seamless implementation of India's 3 IMF programs in 1966, 1981 and 1991. The Narasimham – Jacques De-Larosiere relationship stands out for sheer perseverance as they jointly ensured Fund approval for a US $ 5 billion Stand-By Arrangement in 1966. The Montek Singh Ahluwalia – Hubert Neiss engagement helped push together radical reforms post 1991 crisis. I was witness to Y.V.Reddy's constructive engagement with Rodrigo De Rato and Anne Kruger and then subsequently the cordial interactions between Duvvuri Subbarao and Dominque Strauss-Kahn. The Christine Lagarde years have witnessed significant positive synergy with the Indian authorities.

I have said that India has been a poster child for the IMF. Each of India's 3 programs terminated earlier than projected. Post program growth rates were always higher than pre-program growth rates. The repayments were always on schedule. Economic History will remember the flag bearers of India's economic reforms well.

The IMF history on India's 1991 program says the following:

> *"The politics of borrowing from the IMF is always complex, but in India it was especially so. On the one hand politicians had long viewed the IMF conditionality with some disdain. As soon as it became known that the government was applying for a stand-by arrangement, its leaders would be attacked in Parliament, and in the press for subjugating the interests to foreign domination. On the other hand, most of the countries' economic and financial officials had good relations with the IMF and an unusually high degree of trust had developed on both sides over the years.*
>
> *The working relationship was a little unusual, in that the authorities knew full well what they needed to do to qualify for the Fund's seal of approval and financial support. The decision to devalue for example was not made at the insistence of the Fund but on the understanding that the Fund would approve it and that both sides believed that it was necessary and was in India's interest. As had been true for the 1981 negotiations, these discussions were amicable and collegial."*

In many ways, the IMF program of 1991/92 ensured India's integration into the global economy.

From 2004-2008, the Indian economy witnessed a strong momentum in investment, buoyant corporate profits and high business confidence along with a rise in productivity, surpassed only by China. Inflation was low and export growth remained robust at 20 percent. The country witnessed strong capital inflows adequate to finance an increase current account deficit of 1.5 percent. It was a period when the Fund needed India than India needed the Fund. India became a creditor country in the IMF Financial Transactions Plan, which was a major step forward.

I have highlighted the role of the IMF as the world's lender of last resort formulating policies to enable crisis-ridden countries to regain macroeconomic stability. The book deals with 9 major financial crises which the world has witnessed from the Great Depression to the Great Recession including the Suez Crisis, the International Debt Crisis, the East Asian Economic Crisis, the Russian Economic Crisis, the Latin American Debt Crisis, and the European Crisis. In a world of increasing capital flows, regulatory challenges have thrown up policy trilemmas – the incompatibility of capital flows with monetary policy autonomy and fixed exchange rate, the incompatibility between financial stability and capital mobility and the interplay between fiscal policy, monetary policy and capital mobility.

The International Monetary Fund in some ways became irrelevant in the mid 2000s with several countries building reserves, in the absence of any significant crisis and faced severe criticism from leading economists and civil society, that the IMF had outlived its mission and the time has come for it to go into oblivion. The clarion call of the critics was "50 years are long enough". Private capital flows had become much larger. There was inadequate quota and voice for developing countries resulting in imposition of stringent conditionality for borrowings from the Fund. Major issues and policies were not developed in the Fund but in G7 meetings with close to one half of the voting power of Fund. The IMF did not have any major financing requests from members for crisis resolution. To ensure Fund's financing viability, the IMF Executive Board approved gold sales of 403.3 metric tons, 1/8th of the Fund's total holdings of gold. The Gold sales program was completed by December 2010. India purchased US $ 10 billion in IMF worth of IMF notes to enhance Fund's lending capacity.

The 2008 Great Recession and global financial crisis exposed the inconsistencies in the Fund surveillance necessitating significant changes. This led to the rise of the G20 as the highest level of multilateral international cooperation. The advanced economies had to resort to unconventional monetary policies and quantitative easing and large-scale asset purchases to flood the system with liquidity.

Following the 2008 Global Financial Crisis, the implications of IMF Quota reforms were significant for Global Economic Governance. There was a large gap between economic reality and quotas. Dissatisfaction among global opinion could only be reduced if quota shares were changed to reflect the fast changing economic reality. In December 2015, the US Congress adopted legislation to authorize the IMF 2010 quota and governance reforms and all the conditions for their implementation were met in January 2016. The Implementation of Quota and Voice reforms enabled a more representative and modern IMF better equipped to meet the ends of member countries in the 21st century. More than 6 percent of the IMF quota shares were shifted to dynamic emerging market economies and developing countries and from over-represented to under-represented members. The advanced European economies agreed to reduce their combined Executive Board representation by 2 chairs. The top 10 Quota shares on the IMF Board are United States - 16.66, Japan- 6.21, China 6.14, Germany 5.37, United Kingdom and France 4.07, Italy 3.05, India 2.66, Russia 2.61 and Brazil 2.24 percent. The RMB was introduced into the SDR basket of currencies and China got a 4th Deputy Managing Director's position on the IMF.

In recent years, two developments standout – increased multilateralism with the G20 framework representing the 19 largest economies and the European Union becoming the coordinating body for handling global crisis and the Rise of China in the International Monetary System wielding an all time high influence in international institutions.

There future challenges for Fund governance have been flagged in my concluding chapter – evenhandedness of Fund Surveillance, the Fund's work on financial sector regulation, capital account management and exchange rate management and the new priorities and policies for the Fund.

On October 8, 2016 the Indian Finance Minister addressed the International Monetary and Financial Committee (IMFC) during the Fund-Bank Annual Meetings presented India as the fastest growing major economy globally with GDP growth at 7.2 percent, foreign exchange reserves of USD 372 billion, current account deficit of (-) 1.1 percent and CPI inflation at 5.05 percent. The economic transformation from an IMF program country to the world's fastest growing major economy in a period of 25 years represents a significant success story for India-IMF relations.

My long held view is that the IMF remains very relevant to India. The IMF is an Institution of high credibility whose voice is heard and heeded across the world. Today India is a moderately open economy. In another 5 years we will be more open. India's financial systems are integrating with the global economy quite rapidly. India's economic prospects depend on global growth and global welfare more than ever before.

Once again, I am extremely grateful to the Governor RBI Shri Shaktikanta Das, Shri K.V.Eapen, Dr. Anoop Singh and Dr. Andreas Bauer for accepting my invitation. I am grateful to DG ICWA Dr. T.C.A. Raghavan and the entire ICWA team of senior officials who have supported me throughout the past 2 years. I am grateful to my family for their continuous support. I am would also like to thank each and every one in the audience on this special occasion.

****