

Book Review - **India's Relations with The International Monetary Fund (IMF) 25 Years in Perspective 1991-2016**

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This book has come to me for a review at a time when the world is on the edge of yet another recession, triggered by Russia-Ukraine war at one end, global inflation, turmoil in the markets, and closer home, collapse of Sri Lanka Government with aid promised by India to sustain itself.

V. Srinivas, a career civil servant, distinguishes himself as a pragmatic researcher in this excellent research output of over fifteen months. Authenticity of this publication arises from his participation in Annual Fund-Bank Meetings when he was private secretary to the Union Finance Minister and an average seventeen IMF Board meetings every month for a period of 3 years from 2003-06. His research contribution with a Foreword from the former Governor of Reserve Bank of India, Dr. Y.V. Reddy is a valuable addition to Economics Literature.

Since the appearance of this book in 2019, the literature on this subject is largely on the website of IMF that has been publishing Global Financial Stability Report annually and several research publications. This is mostly visited by the researchers, policy makers and students of international trade. Students of economics usually get a glimpse of the trinity – the International Monetary Fund (IMF), World Bank (WB), and the World Trade Organisation (WTO) to have a basic understanding of global funding and trade issues.

This book is divided into 13 chapters that can be broken into four parts for convenience: IMF and its role in global financial stability; India's interface with IMF; The role played by the Ministers of Finance, Finance Secretaries to Government, Chief Economic Advisors, Executive Directors of IMF, and Governors of RBI; Author's own experience with the IMF and the period beyond G-20 to the present.

People generally do not think of either the World Bank or International Monetary Fund or the World Trade Organization when their bellies are to the ground. Most Indians recall with recalcitrance, if not contempt, the conditionalities imposed by the IMF when India had to resort to borrowing since its forex resources dwindled to just fifteen days of imports.

It is only when one reads this book by V. Srinivas, a career civil servant, now Secretary to Government of India, Department of Administrative Reforms and Public Grievances and Department of Pensions and Pensioners Welfare, Government of India, the reader gets a glimpse of global economic history of the last twenty-five years with shifts from uni-polarism to bipolarism to multilateralism and the rationale behind the conditionalities it generally imposes on its borrowers.

Since this book is an outcome of his personal experience, the most significant are truisms. An economic historian is concerned less to appraise the validity of an idea than to understand its development. But this historian, travelling through the 25 years of the IMF journey, appreciates and understands the development as well.

The author vividly describes the reason for the existence of IMF, how it has accomplished its objectives, how it changed over time, albeit, within its own limitations and the ethos of an economic system. He did not profess to offer a complete interpretation of the events that led to various decisions of the Fund.

The book is fundamentally about the IMF and the way it dealt with global issues in financial stability. The book gives the impression that the author observed tremendous restraint while giving an account of the way the Fund treated different nations differently even in similar circumstances.

The book deals with the most important crises periods of Asia, Europe, and the rest of the world that IMF intervened to resolve: International Debt Crisis (1982-89), The East Asian Crisis (1997), The Russian Economy Crisis (Economic perestroika), the great recession (2008), The European Crises (2010).

The author describes the dynamics of the decision to devalue the Indian Rupee when P.C. Bhattacharya, the then Governor, RBI

“If I were to look back and say the causes of the 1991 crisis, they would be fourfold:

- 1. Complacency caused by Bombay High Oil discoveries**
- 2. Lack of export competitiveness**
- 3. High dependence on public sector**
- 4. Collapse of Rupee-Ruble trade following the dismantling of the Soviet Union which was largely barter system because the rupee component was significant.”**
(p.69)

reluctantly agreed to making Indian Rupee to a new par of Rs.7.50 per US Dollar. He is of the opinion that we would have done better by going to the IMF in 1989 itself instead of 1991 when our chips were completely down.

Dr. Tarapore, former Dy. Governor, RBI was right in allowing the Indian rupee to slide down to get the actual price instead of RBI releasing the Forex resources to artificially keep the rupee afloat.

Nevertheless, looking at its generosity in loan dispensations to countries like Pakistan, Turkey, Ukraine, Argentina, Ecuador, and other European nations of far less economic significance than India, it is difficult to reconcile to its partisan attitude in either conditionalities or quantum of fund dispensation.

To give a simple understanding of the IMF I drew from its website, the following chart:

The IMF: Key Facts
Membership: 190 Countries.
Headquarters: Washington, DC.
Executive Board: 24 Directors; the United States, China, Japan, Germany, France, and the United Kingdom each have their own representatives; others are formed into constituencies.
Total Resources: \$687 billion in quota; \$708 billion of additional pledged or committed resources.
U.S. Financial Commitment: about \$117 billion in IMF quota and \$44 billion in supplemental funds.
Largest Borrowers: Argentina, Egypt, Ukraine, Pakistan, Ecuador.

Source: IMF IF 10676.pdf <reports.crs.loc.gov>

To quote Dr. Y. V. Reddy from the Foreword, “The origin of the IMF can be traced to the Breton-wood Conference convened in 1944 for purpose of formulating post-war currency system. India was invited to attend the meeting, though it was not yet independent. India, thus, became a founder member of IMF in December 1945 even before Independence. However, since Soviet Union did not join the IMF and the Peoples’ Republic of China was not represented in the IMF, the institution was identified with the capitalist system as distinct from the socialist block led by Soviet Union. The picture, however, changed in 1980s with the expanded membership to include them.” It is in the nature of a club – nay- a cooperative society where the members have unequal voting rights.

India’s economic crisis (1990) preceded the Asian economic crisis(1997), when it had barely a fortnights value of imports in dollars.

He described the devaluation, how it was dealt with both by the government and the RBI and how the various differing viewpoints converged to admit to even inconvenient conditionalities of the IMF at the material time. I. G. Patel, former Governor of the RBI held out a strong defense of the IMF policy at the material time.

The author could have done greater justice to the chapter had he commented on the equity principle that was set aside in 1985-86 Budget itself. Kaushik Basu, who went to the IMF later as an economist, commented in the Economic & Political Weekly (20th April 1985): "There can be no denial that over the years the Indian government, in preaching socialism and practicing capitalism, has created fiscal structure which is a maze of confusion." This was the year when corporate tax was lowered by 5%; income tax and wealth tax exemption limits were raised. He says, 'finally, the poor man should be happy seeing so much happiness all around!!' This budget took some important steps to inject efficiency and responsiveness into our industrial sector: (a) 25 industries delicensed; (b) the import of several capital goods and industrial inputs liberalized (e.g., customs duty on some computer components were lowered from 75 percent to 25 percent, (c) export duties on several items removed (iron ore, manganese ore, raw cotton, certain kinds of oil cakes); and (d) firms were allowed to spend more on sales promotion.

1991-96 budgets focused on compliance with conditionalities and laying the foundation for fiscal responsibility budget management (FRMB). There is an inherent assumption that lower taxes would lead to better disclosures of the incomes resulting in better compliance. The arguments to validate this assumption are tenuous. One cannot be sure that taxpayers would disclose more of their hidden income if the tax burden were lower. The hopes of better compliance actually lie in detecting the erring taxpayer and penalizing him stiffer and not in general reducing the tax.

In the third part of the book, he described his experience with the Finance Ministers, notably, Yashwant Sinha, Manmohan Singh, Pranab Mukherjee, Chidambaram and Arun Jaitley and the way they interacted with the Fund with high sense of accommodation, alacrity, and national compulsions to revive and reform for a formidable growth.

The world of Finance Ministers is driven by macroeconomic stability, control of inflation, promoting economic growth and boosting investments. In 2002, India's economic growth was on an upswing and there was buoyancy in the economic outlook. Yet, India never held the leadership of the IMFC despite being an original member of the IMF.

The IMF's instruments for non-concessional loans are Stand-By Arrangements (SBA); the Flexible Credit Line (FCL); the Precautionary and Liquidity Line (PLL); for medium-term needs, the Extended Fund Facility (EFF); and for emergency assistance to members facing urgent balance of payments needs, the Rapid Financing Instrument (RFI). All non-concessional facilities are subject to the IMF's market-related interest rate, known as the "rate of charge," and large loans (above certain limits) carry a surcharge. The rate of charge is based on the SDR interest rate, which is revised weekly to take account of changes in short-term interest rates in major international money markets.

The maximum amount that a country can borrow from the IMF, known as its access limit, varies depending on the type of loan, but is typically a multiple of the country's IMF quota. This limit may be exceeded in exceptional circumstances. The Stand-By Arrangement, the Flexible Credit Line and the Extended Fund Facility have no pre-set cap on access.

The IMF's mandate is promotion and maintenance of monetary and financial stability, in individual countries and at the international level. The IMF discharges this mandate in a variety of ways. It provides the framework and mechanisms for international economic cooperation through the annual IMFC and G-24 meetings. Second, the IMF helps countries design macroeconomic policies that achieve and maintain prominent levels of employment and income. The promotion of open economies and trade is a key element of these policies. Third, the IMF helps in the orderly correction of a country's balance of payments problems by providing temporary financing.

"The serious issues relating to IMF, according to the author are a) the governance of IMF and associated ideological biases; b) its asymmetric treatment of countries in its surveillance; c) differentiated conditionality prescribed as between borrowing countries; d) its failure in recognizing the contribution of borrowers; e) its incapacity to resolve sovereign debt restructuring issues; and finally f) developing a system to replace U.S. Dollar as a de facto global currency since 1970s."

India is an original member of the IMF. Its bustling democracy and reform-oriented leadership always received support from the Fund management. India had played several roles in the Fund, as a Founding Member and Owner, as a Borrower and then as a Creditor Nation.

'Global per capita income has more than tripled since 1944, and amongst the biggest gainers have been the developing nations — whose ranks include Brazil, Chile, China, India, Korea, and Mexico—

which were able to double their share in world trade, raise per capita incomes, and lift millions out of poverty.’ Poverty reduction or elimination was never on the cards of IMF and its outlook is more in line with the Washington Consensus that promoted globalization, liberalisation, and privatization.

Globalization challenges were a constant theme of discussions. There was more discontent with globalization to quote Nobel Laureate Joseph Stiglitz. Capital flows from advanced to the developing economies moved in the other direction. Reduction of tariffs and global free trade were assumed to be the growth model for developing economies. India currently has eighth position on the quota of IMF while China has third position, despite India joining the club even ahead of independence.

For decades, India promoted the values of democracy and liberalism in the various IMF meetings. Although Christine Lagarde, the Fund Managing Director (2015), while addressing the students of Lady Shriram College in Delhi said that the moment of Chak De India had come, the bigger say for the country is yet to come.

Even Advanced Economies were not very enthused by free trade and looked at protectionist policies, which became more visible during and after the pandemic. The Fund is a highly legalistic organisation with several Articles of Agreement observed as faith.

India lends a powerful voice of support for African member countries on PRGF programs in the IMF Board. It acts as a bridge between the G 7 member countries and Emerging Market economies, a supporter for reforms in the CIS member States and above all a voice for economic progress and development in South Asia.

The author says that the IMF represents asymmetric economic power. The Fund programs focused on fiscal integrity, monetary restraint, and structural reforms. It works on Keynesian models and countercyclical measures for reviving economies. Its bias for capitalism is visible when it came to reform measures. Indian reforms had to skip agriculture reforms as its package focused on financial sector reforms, fiscal reforms, and industrial reforms.

Quota reform that received legislative support from the US, the main member of the Fund in December 2015, is an important aspect of the functioning of the IMF. The author dealt with this subject as part of the wide-ranging historic reforms that supported global financial stability. These reforms enabled shifting of 6 percent of IMF quota shares to dynamic emerging markets.

The four emerging market economies – Brazil, India, China, and Russia are today amongst the IMF's 10 largest member countries joining the United States, Japan, and the four largest European countries – France, Germany, Italy, and the United Kingdom.

Chapter XI describes the shift to multilateralism from bipolarism, while the next chapter speaks of the rise of China as a super economic power. China's capital account liberalization in 1994 and the floating rate mechanism made it into a super financial power. One point that seems to have escaped the attention of the author is the large stakes of China in Fed Reserve.

The 2014 Triennial Surveillance Review was conducted by the Executive Board in September 2014. The Fund identified five operational priorities for the 2014-2019 Surveillance. The priority areas were identified as risks and spillovers, macro-financial surveillance, macro- critical structural policy advise, cohesive expert policy advise and client focused approach to surveillance.

In 2016, India's financial sector was ranked 9th in size, 29th in Interconnectedness and has a 14th overall rank. United States was ranked 1st in size, 10th in interconnectedness and 3rd overall, while the United Kingdom was ranked 3rd in size, 1st in interconnectedness and 1st in overall rank.

The author has dealt with all the economic crises that the world saw during the last fifteen years with a depth of understanding that only a few economists can claim. The IMF Article IV consultations were dealt with in a separate chapter, and this adds tremendous value to the book. India is a poster child of the IMF as it never failed to meet its commitments and the Fund conditionalities.

IMF contributed significantly to institutional building – in SAARC and BRIC nations that uniquely helped in building infrastructure in the emerging economies. China had to be dealt with more by involving them as part of those institutions than as an alien member. This has in a way, neutralized their otherwise economic hegemony.

This book's validity enhances at the moment, when the Economist, in its current week's front cover, maintaining that India will continue to be looking northwards in its growth, raises the alarm: "Persistently high inflation in many economies continue to spread gloom. Slowing growth, even recession, may be on the cards all over." IMF may have to gird up its loins again to evolve uniformly acceptable conditionalities for its lending and donor programmes.

The author's description of his own experience with the IMF would guide many a civil servant who aspire to make a career in finance.

This book is a must-read for all the students and researchers of economics, policy makers and decision-makers in the areas of economy and finance.

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