



C RANGARAJAN

THE COURAGEOUS BANKER

S Venkitaramanan helped steer India out of balance of payment crisis

ICAME INTO contact with S Venkitaramanan in the late 1980s when he was finance secretary in the government of India and I was deputy governor in the Reserve Bank of India (RBI). We met often and discussed many issues relating to the Indian economy. At that time, we in the RBI were concerned with the impact of excessive borrowing on prices and balance of payments because of the monetisation of the debt. Venkitaramanan was conscious of it but continued to emphasise on the compulsions and pressures on the government with respect to expenditures.

Venkitaramanan, who died on November 18, took over the governorship of RBI at a critical point when the country faced a difficult balance of payment problem which was exacerbated by the Iraq-Kuwait War. He faced the situation with great determination and courage. We had to raise the necessary resources to bridge the gap and avoid "default" in our payments obligations. We took the extraordinary step of shipping gold out to raise some part of the required foreign exchange. Under the Statute, the RBI can keep part of the gold reserves outside India. It can also borrow from other central banks for a short period. Outright sale of gold was not contemplated. Pledging of gold and raising foreign exchange was the only thing that was on our mind. We borrowed around USD 405 million from the Bank of England and the Bank of Japan by pledging the gold kept outside. (The good

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thing is that we repaid and redeemed the gold within a short period. Even though the approval for such shipping was given by the Chandra Shekhar government, the bulk of the actual shipping happened after the P V Narasimha Rao government took office.)

It must be noted that this was the time when there were quick changes in the central government. In that context, the responsibility of the Reserve Bank and its governor became even more onerous. Venkitaramanan tapped all his friends in various international financial institutions to raise the needed foreign exchange. As one commentator remarked at that time, he was a "loan (lone) ranger". It was a trying time. He and I travelled from one central bank to another to raise resources.

The RBI had written to the government in August 1990 to approach the International Monetary Fund (IMF) to tide over the difficulties. But the government and the RBI went only in December. And it helped. The initial approach to the IMF was in relation to the Compensatory and Contingency Financing Facility (CCFF). This facility was mainly created to help countries that were affected by a sudden rise in the price of imported commodities, like oil, or a sudden fall in the price of exports. This came with very limited conditionalities. However, our objective was not just confined to this facility. We wanted a much larger arrangement.

The government also decided to devalue

the rupee sharply in June 1991. The interesting thing was that this change was made in two steps by the RBI through its daily announcements in the value of the rupee. On previous occasions of devaluation, the announcement was made by the government. This action was taken by the new government which came into office in 1991 after extensive discussions with us.

By instinct, Venkitaramanan was in favour of a liberal monetary policy. But given the situation, he went along with a tight monetary policy during most of his tenure.

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Venkitaramanan was a person with a sharp mind. He could cut through any problem and get to the core of the issue immediately. He listened carefully to people who held views contrary to his. This enriched the decision-making process. All in all, he was a courageous person who made the right decisions at the right time. The nation is deeply indebted to him.

The writer is former chairman, Prime Minister's Economic Advisory Council and former governor, Reserve Bank of India