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Finance Track: Approach and Contributions under India's G20 Presidency

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Over the years, G20 has grown into an eminent forum for addressing various global issues and finding global solutions. In my capacity as Finance Deputy, G20 Sherpa earlier and now as Governor of the Reserve Bank of India, I have witnessed the evolution of G20 during the last ten years or so. In the Finance Track of this year, we have addressed major global challenges in the economic front and worked towards re-energising multilateralism which is the need of the hour. Our approach to every challenge, be it climate change, fragmented supply chains, debt distress in low and middle-income countries or BigTech and third-party risks is to treat these challenges as opportunities and build consensus around the proposed solutions. We feel global cooperation, technology and innovation have a pivotal role in improving the standard of living everywhere. In this context, we see digital public infrastructure as one of the biggest opportunities of the current decade.

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Our approach envisions a more inclusive world that thinks and acts beyond national boundaries and works in harmony. In this inclusive journey, we hope to take along all countries, capitalising on the spirit of *Vasudhaiva Kutumbakam: One Earth, One Family, One Future*. Through *Jan Bhagidari* (people's participation) programmes throughout the country consisting of events like marathons, quiz programmes, painting competitions, financial literacy events, cleanliness drives, sports events and the like, we have spread this message amongst our citizenry.

India's G20 Agenda has been crystallised on the basis of past experiences, current global issues and future challenges. It is with humility and quiet pride that we take stock of the progress made on our G20 priorities and the tangible outcomes. Against this backdrop, it is incumbent upon us to remain focused on the spirit of *Vasudhaiva Kutumbakam* and work towards one future for the entire world.

India assumed the G20 Presidency amidst weak global growth, geopolitical tensions, persistent inflation and fragmentation in global economic cooperation. The COVID-19 pandemic, apart from dragging down economic activity, also led to constrained policy space and reduced ability of countries to undertake developmental activities. This situation was further complicated by the conflict in Ukraine, which led to the scarcity of fuel, food, fertilizers and critical minerals, with consequent increase in inflation across the world. This was followed by synchronised monetary policy tightening with attendant spillovers. In conjunction with these immediate challenges, the global economy continues to face long-term challenges like climate change and a decline in productivity growth. A number of low and middle-income countries are also confronted with severe debt distress.

Against this backdrop, the G20 Presidency gave India the opportunity to set the agenda for global policy cooperation to address these multifarious challenges. We have endeavoured to utilise this unprecedented chance to be the voice of the Global South

and flag the issues faced by the Emerging Market and Developing Economies (EMDEs) and Low-Income Countries (LICs). The Indian Presidency has worked for many more voices to be heard in the global high table by inviting countries like Bangladesh, Egypt, Mauritius, Nigeria, Oman and the United Arab Emirates to participate in the G20 deliberations. Under the Finance Track, the Indian Presidency has accorded primacy to the broad themes of climate change and digitalisation with priorities that include mobilising resources for climate transition and sustainable development goals; leveraging digital public infrastructure for enhancing financial inclusion and productivity gains; interlinking national fast payments systems; strengthening multilateral development banks; and addressing debt vulnerabilities.

On the climate change agenda, our priorities included assessing macroeconomic risks stemming from climate change and transition pathways; strengthening financial resilience through sustainable capital flows; financing sustainable and resilient cities of tomorrow; mechanisms for mobilisation of timely and adequate resources for climate finance and Sustainable Development Goals (SDGs). On all these priorities, a number of deliverables were prepared. One such instance is the G20 report on Macroeconomic Risks Stemming from Climate Change and Transition Pathways. Similarly, the G20 Principles for Financing Cities of Tomorrow will enable cities to develop customised policies that encourage alternative financing sources and enable greater public-private collaboration. The OECD report – Towards Orderly Green Transition Investment Requirements and Managing Risks to Capital Flows, has outlined the trends in portfolio flows to green finance activities and highlighted various aspects that need to be addressed to facilitate greater green capital flows to EMDEs.

Indian Presidency has aimed to harness the benefits from the growing footprint of digital economy, while minimising the risks emerging from the same. In this broad theme, Indian presidency focused on leveraging Digital Public Infrastructure for financial

inclusion and productivity gains, interlinking of national fast payment systems for seamless flow of funds and assessing the macrofinancial implications of Central Bank Digital Currencies (CBDCs). To deal with the emerging risks, our priorities included working towards a global framework for the so-called crypto-assets, stablecoins and Decentralised Finance (DeFi); efforts for strengthening financial institutions' ability to manage third-party risks and outsourcing, especially in the context of BigTech and FinTech; and achieving a greater convergence in cyber incident reporting.

Specifically, to address the risks stemming from the rise of so-called crypto-assets, the International Monetary Fund (IMF) and Financial Stability Board (FSB) have prepared a Synthesis Paper, aimed at drawing up a comprehensive policy framework, taking into account the full range of risks, including risks specific to the EMDEs, and ongoing global implementation of FATF standards to address money laundering and terror financing risks. This work is supported by the Bank for International Settlements (BIS) with a report on the key elements and risks of the crypto ecosystem. The BIS report has concluded by stating that "...crypto has so far failed to harness innovation to the benefit of society. Crypto remains largely self-referential and does not finance real economic activity. It suffers from inherent shortcomings related to stability and efficiency, as well as accountability and integrity. Crypto's inherent structural flaws make it unsuitable to play a significant role in the monetary system".

Substantial work was also done by the FSB on enhancing the operational resilience of financial institutions, and addressing the challenges arising from their growing reliance on critical third-party service providers, including BigTechs and FinTechs. The FSB has made several recommendations to enhance resilience against cyber risks and achieve greater convergence in cyber incident reporting. It has provided updates to the Cyber Lexicon and delivered a concept note for a Format for Incident Reporting Exchange (FIRE).

On CBDCs, the Bank for International Settlements Innovation Hub (BISIH) prepared a report highlighting the lessons learnt so far, including the design elements, from various pilot projects across the world.

The Indian Presidency brought out the importance of Digital Public Infrastructure (DPI) in the G20 discussions and showcased innovations such as the India Stack and the Unified Payments Interface (UPI), among others in promoting financial inclusion.

As part of the Indian Presidency's efforts to mainstream the voice of the global south, our key priorities included strengthening the MDBs to address shared challenges of the 21st century; managing global debt vulnerabilities; assessing the macroeconomic impact of food and energy insecurity; improving readiness for large-scale pandemic response; and capacity building of the ecosystem for financing sustainable development. The Indian Presidency constituted an Independent Expert Group, which has recommended a triple agenda to harness the potential of multilateral development banks (MDBs). The three elements of this agenda are: (i) adopting a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods; (ii) tripling sustainable lending levels by 2030; and (iii) creating a third funding mechanism which would permit flexible and innovative arrangements for purposefully engaging with investors willing to support elements of the MDB agenda. On managing global debt vulnerabilities, the Global Sovereign Debt Roundtable (GSDR) was operationalised during Indian Presidency to strengthen communication among stakeholders on the debt restructuring process. The Indian Presidency facilitated discussions on Framework on Economic Vulnerabilities and Risks (FEVR) arising from pandemics, while taking into account country-specific circumstances.

In addition to the above focus areas, the Indian G20 Presidency also carried forward some legacy issues. These included *inter alia*,

discussions on supporting strong, sustainable and balanced growth, IMF governance reforms, and fostering improvements in tax transparency. Under the financial sector issues, there was progress in work relating to non-bank financial intermediaries, liquidity mismatch in open-ended funds and the roadmap for addressing financial risks from climate change.

Another important facet of India's G20 Presidency has been to bring in broader perspectives to the discussions through engagement with experts in academia, international organisations, policy think tanks and industry on priority issues. Several seminars and panel discussions were organised on the sidelines of the main G20 working groups and ministerial meetings. The Presidency encouraged candid exchange of views among Finance Ministers and Central Bank Governors in separate free-flowing and informal breakfast meetings, preceding the formal meeting sessions. Further, to illustrate the "unity in diversity" of India, the Presidency showcased various aspects of local culture and heritage, including local products, cuisines and cultural events, specific to the venue of the G20 meetings.

Overall, Indian Presidency has endeavoured to prioritise inclusivity, resilient growth and development. We envision a form of globalisation that brings prosperity and well-being to humanity as a whole. The Indian G20 Presidency has presented itself as the torch-bearer of global cooperation in today's fragmented world, connecting the G20 beyond the member nations to the voices of the Global South.

“We fought the pandemic with a clear and coordinated approach. We took care of the needs of the poor and vulnerable. Our digital public infrastructure helped us reach them directly with welfare assistance throughout.”

*— Shri Narendra Modi
Hon'ble Prime Minister of India*