IMF's Srinivasan: Rupee Flexibility, the Skills Mismatch and Jobs in the Age of AI

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Mains Analysis | Economy, Exchange Rate and Employment



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Why in the News

In an interview to the Indian Express (26 October 2026), Krishna Srinivasan, Director of the Asia and Pacific Department of the International Monetary Fund (IMF), said that since the rupee's 'de facto' arrangement was moved from the 'stabilised' to the 'crawl-like' category last year, the exchange rate has shown "considerably more flexibility". In his view, for an energy-importing country like India, the exchange rate should be the first line of defence in the event of a shock. He also stressed removing the skills mismatch for the demographic dividend. These are views expressed by an IMF official in an interview, not the conclusions of an official IMF report.

Key Points of the Interview

- **Exchange rate:** Srinivasan said that prices give signals, so protecting them is not advised. In his view, intervention by many Asian countries did not bring "much relief", so it is better to let the exchange rate move and keep the reserves as a buffer for future shocks. Intervention can be considered in extremely disorderly volatility.

He said that at present currency misalignments are not large and the market is quite deep.

- **Classification and the RBI's steps:** The classification of the rupee is a "mechanical" process of the IMF's Article IV team, which he leaves to that team. About the RBI's recent regulatory steps making hedging costlier, he said these need to be examined more deeply to see whether they are having the right effect.
- **AI and employment:** Citing the IMF's work, he said that after the arrival of generative AI services, labour demand in the sectors more affected by AI fell by about 10 per cent and then stabilised - that is, this is a reorganisation of jobs, not their disappearance. In his view, bridging the skills gap and reskilling are essential.
- **Demographics:** He said that for India, the number of people joining the labour force between now and 2050 could be 15 crore to 30 crore. In his view, unemployment is higher among the young and educated population, which is a sign of a skills mismatch. He described three kinds of demographic groups in Asia: early dividend (such as Nepal, the Philippines), late dividend (India, Indonesia) and post-dividend (China, Japan).
- **China and regional trade:** He said that every 1 percentage-point change in China's growth rate has an effect of about 0.3 percentage points on other emerging markets in the medium term. Regional trade in final goods in Asia is only 30 per cent, while it is 60 per cent in the European Union and North America.

Analysis

- **Arguments in favour:** A flexible exchange rate can become the first means of absorbing an external shock, and the reserves can remain protected.
- **Concerns:** Rapid volatility can affect import costs, inflation and the hedging costs of companies. Signs of a difference between the IMF and India on exchange-rate policy are present in the interviewer's question, but no formal disagreement was stated in the answer.
- **The skills question:** Not merely the number of jobs, but the link from education to employment and the system of reskilling are decisive.

Mains Practice Question

"'The exchange rate should be the first line of defence.' Evaluate this statement in the context of India." (GS-III, 250 words)

Answer Outline

Introduction: Give the context of the rupee's 'crawl-like' classification and the IMF official's statement.

Main Body: Write about the benefits of a flexible exchange rate, the role of intervention, the reserves as a buffer, and the risks (volatility, hedging costs).

Conclusion: Say that flexibility with gradual and rule-based intervention can be the balanced path.

Sources and Limitations

- Indian Express (interview), 26 October 2026 (read): Rupee much more flexible now, FX rate should be first line of defence: IMF's Srinivasan
- **Limitations:** All statements are from the interview; the IMF's regional economic report (October 2026) has not been opened here, so the report's figures have not been checked separately.