Edited excerpts of the Governor's interview at Hindustan Times Leadership Summit – 2022 on November 12, 2022

Sukumar Ranganathan

Good afternoon, everyone. I have with me Mr. Shaktikanta Das, who really needs no introduction, the Governor of the Reserve Bank of India; and I think we can all safely say that his has been one of the reassuring voices, every time when he comes on television to present his policy, especially over the last two years in the course of the pandemic.

The Bank has seen us through a really tough phase, and there are challenges ahead, so he and I are going to discuss this. This is a session where we will be taking audience questions. So, you will find cards on your table. Please fill in your questions and your name. There will be people coming across to pick them up and I will filter them and ask the questions which I think can add most value to this gathering.

I am going to start with the big question, Mr. Das, which is the economy. What is your prognosis? Where do you see it heading? What do you think is good with the economy? Where do you see the vulnerabilities?

Shaktikanta Das

The Indian economy remains resilient. You look at the whole world where the other economies are standing, the kind of stress they have gone through. The entire world has withstood multiple shocks, and I call it triple shocks of COVID-19 pandemic, then the war in Ukraine, and now the financial market turmoil. The financial market turmoil is mainly emanating from the synchronised monetary policy tightening across the world by central banks, especially the advanced country central banks led by the US Fed. Naturally, the spillovers are felt by emerging market economies, including India. In this kind of successive turmoil the world has gone through; the European Union is today facing a recession situation. They are on the brink of a recession, but there are possibilities that they will avoid that. The United States is holding stable, but there are other countries also where the growth has slowed down.

So far as India is concerned, its economy, overall macroeconomic fundamentals, the financial sector stability, all these aspects remain resilient. The banking sector, that is the financial sector is stable because all the parameters concerning banking or the non-banking lenders or the other major financial sector players are stable. Overall, the financial sector in India is stable. The gross numbers are looking good in the current context. Our estimate is that India, during this year, will grow by about 7.0%. The IMF has projected that India will grow by about 6.8% in the current year. That puts India among the fastest-growing major economies in the world.

We have a major challenge with regard to inflation. If you see our target, the upper ceiling is about 6.0%. The last inflation number, which was released for September, was 7.4%. We expect the October number, which will be released on Monday, to be lower than 7%.

Inflation is a matter of concern with which we are now dealing effectively. For the last six or seven months, we have taken a number of steps. We have increased the interest rates, and the government also has undertaken several supply-side measures.

Overall, just to sum up, the macroeconomic fundamentals of India remain strong and resilient. Growth prospects are looking good. India is taking over the Presidency of G20 in a year which is perhaps the most challenging year in modern times, and we are assuming the Presidency of G20 with stronger macroeconomic fundamentals compared to many other countries.

Sukumar Ranganathan

You spoke about inflation, and in keeping with your mandate, one part of your mandate as Central Bank is inflation management. You sent a letter to the government explaining the whole process of management of inflation and why it is still above the band. Can you tell us what you said in that letter? Or is that information confidential?

Shaktikanta Das

What we have written in the letter, I think, anybody can make an intelligent guess. The law requires that when for three consecutive quarters the inflation remains above 6%, it will be treated as a failure of monetary policy and the Reserve Bank is required to write a letter to the government highlighting three things.

i) What are the reasons for which it has happened? What are the principal reasons behind that?
ii) What steps the Reserve Bank proposes to undertake to bring it down below 6% and closer to 4%, which is the target rate? and,
iii) What is the timeframe within which we expect inflation to come back to the target level?

So, we have broadly explained the reasons why it happened. I have spoken about it on several occasions. About a week ago, I also spoke at one conference in Mumbai where I have explained why the inflation went up in India.

In February this year, when we met in the Monetary Policy Committee, our inflation projection which was not different from what the market and the professional forecasters were estimating, we projected that our average inflation in 2022-23 financial year will be about 4.5%. We did stress tests assuming crude oil even at US$100 per barrel and we found that even at US$100 per barrel of crude oil, the inflation would be maximum 5%. That was the estimate we had made in February. Then on 24th February, the Russia-Ukraine war started, and naturally, it completely changed the picture. Thereafter, crude oil hit US$130 per barrel before coming down to US$120 per barrel. It remained around US$120, 110 per barrel for a considerable period of time. Now, it has come below US$100 per barrel, but it ranges between US$93-96 per barrel. So, in February it looked like that inflation is well under control, and India is well on course to reach the target of 4%.

But the geopolitical crisis, the sudden spike in commodity prices, the sudden spike in edible oil prices, the sudden spike in prices of cereals, for example, wheat. We have surplus wheat, but the price of wheat in India also went up because we are a part of the globalised world. The international prices of wheat went up because a lot of wheat exports go into the rest of the world from the Black Sea region. So, we were impacted by major external factors, and the entire inflation picture underwent a particular change.

These are the three things; we have explained why it happened. Other two aspects, I will leave them for the time being.

Sukumar Ranganathan
If oil stays where it is, or it continues to range round about what you are saying it will range, which seems like a conservative estimate, right? I mean, US$95 per barrel could go up. The problem is we don't know what is going to happen with the war. It seems to be a war without an end and global inflation isn't easing. There is already some talk that maybe, we need to revise our inflation band, that we have got a certain inflation band. Maybe India's inflation target needs to be revised upwards. What is your thinking on this?

Shaktikanta Das
There is a reason why the target has been kept at 4%. There was an internal committee in the Reserve Bank which did a detailed analysis and found that 4% inflation target with a price band of plus minus 2% so that

we have a range of 2% to 6%. The RBI research at that point of time found and even now that holds good, that inflation above 6% for India would be detrimental to growth. It will be counter-productive because it will act through a negative loop. If it is above 6%, the financial savings will be hit. The investment climate will hit. India will lose the confidence of international investors if it remains above 6% for a prolonged period.

So, any inflation above 6% is detrimental to growth. Therefore, 6% has been kept as the upper tolerance band. The fact that we have a tolerance band between 4 and 6%, gives RBI enough policy space to use during times of stress as we did during the COVID-19 pandemic. Although the inflation was about 5.0 - 5.5% the Monetary Policy Committee very consciously and quite rightly decided to tolerate higher inflation because, during COVID, the priority was to support the economy by keeping liquidity easy and interest rates lower.

During COVID, when the COVID had still not ended; when the economy was still facing a lot of stress and we had negative growth in India after a long time; that was not the time to start the monetary policy tightening.

So, this range between 4 to 6% gave us the flexibility to keep the monetary policy supportive of the economy. We decided to deal with the inflation at a later date that is after things are under control. When we started the change in our stance in April this year, growth for the previous year that is for 2021-22 was 7.7%.

Coming back to your principal question, is it the time to change the whole regime? I would say that 6%, *i.e.*, that is 2 to 6% with 4% as the main target makes lot of economic sense. We should not think of shifting the goalpost because we have not been able to meet it. We remain committed to bring inflation down to 4% over a period of time; but I also take note of your point. Internationally, there is a debate which is now starting; I don't want to enter into that debate so early because we need to study it in greater detail. Internationally, there is a debate now starting that we had low interest rates for a long time and it was called ‘Low for Long’. There is now a debate starting that are we entering into an era of ‘High for Long’? Internationally, are the interest rates going to remain high for too long? Then you have a challenge, and I think every country internally will have to analyse what they want to do about it. If the length of the high inflation is due to certain structural factors, then countries need to look at it internally. So far as India is concerned, I would say that we stand committed to the current target of 4%, which makes a lot of sense. It gives us enough flexibility to deal with crisis situations and shocks like COVID that we encounter.

Sukumar Ranganathan
Your point on whether or not the issue is structural, I think it's a great point. The question that follows is simply whether the shocks that you spoke of, the externalities, are they unprecedented enough for us to think in terms of making a change? Or do you think these are shocks that you negotiated before as a country and can negotiate again?

Shaktikanta Das
No, it's too early. In fact, I would not like this debate to start prematurely. I think it is too premature to enter into that debate. It will only mean less commitment of central banks to fight the war against inflation. It's too early to enter into that debate. I personally believe and the Reserve Bank of India also believes that we should not enter into that debate so early in the day. Let us see how it works out this year and next year. Going forward, if we see that inflation globally persists, and the inflation will persist as long as you have the geopolitical crisis continuing. Of course, it will depend on the intensity of the geopolitical crisis. On the other hand, if the geopolitical crisis sort of becomes something like where there is a simmering war but not a major conflagration, then things may settle down because supply chains will get restored. There is friend-shoring. There is reshoring. Supply chains internationally are getting restructured. The world will deal with it. The global community will deal with it. If geopolitical crisis instead of being at a point of conflagration, if it moderates and remains a kind of a simmering latent war with some skirmishes here and there and if the supply chains get mended; we will see an earlier end to global inflation than what I said earlier for which some people are talking about that it could be an inflation high for long. So, it is premature to start that debate, and it will unnecessarily dilute the commitment and credibility of central banks to fight the war against inflation.

Sukumar Ranganathan
That is a point well made. I will not go down that road. Let's move on to the rupee. You have repeatedly said that RBI does not have a preferred band for the rupee-dollar exchange rate, but you have also been intervening off and on in the foreign exchange markets. Is there a medium-term, long-term kind of method for this intervention? When do you choose to intervene? Why do you intervene?

Shaktikanta Das
Our intervention depends on the day-to-day developments. Two days ago, the US CPI inflation data came, and the rupee appreciated by one rupee from Rs.81.80, it came down Rs.80.80 to the dollar. On a day-to-

day basis, there are developments. There are also situations where somebody makes a statement somewhere, some statement emanates from advanced countries and that impacts the market. We also study what kind of flows, inflows and outflows are taking place on a day-to-day basis. Many of the inflows and outflows are easier to anticipate, we would have anticipated them, but there are also some unanticipated, unexpected flows, both inward as well as outward. The strategy is decided on a day-to-day basis within the broad underlying theme, which has principally three objectives. One is to prevent excessive volatility of currency movement. You cannot have a situation where suddenly in a matter of 2-3 days, there will be a sudden crash in the exchange rate of the rupee. So, the first objective is to prevent excessive volatility and ensure an orderly evolution in the exchange rate of the rupee in both directions, while it is appreciating and while it is depreciating.

If you recall, when there were heavy inflows during the pandemic year 2020-21, that is the time we built up our reserves. We were just picking up dollars in the market and we built up our reserves because we knew that the reserves which are coming with great speed will flow out at some stage and we have to be prepared for that. The reserves went up from about US$400 billion to US$642 billion, which was the peak. We built up this US$240 billion because we knew that there will be a reversal of the situation where we will have to provide dollars to the market. At one point of time, there was no dollar supply in the market, it was only Reserve Bank, which was supplying the dollars. Therefore, we started intervening in the market, which means we were selling dollars.

Now, there were some observations made that RBI is using these reserves indiscriminately, but it's not so. We picked up these reserves only for this rainy day. When it rains, you have to pick up your umbrella and use it. We didn't pick up reserves just to keep it as a showpiece in the Reserve Bank of India. Even at this point of time, our reserves are very comfortable.

So, the first objective of market intervention in the foreign exchange market is to ensure an orderly movement of the exchange rate. Second is to anchor market expectations. If the Reserve Bank or the Central Bank doesn't intervene, the market takes it that the rupee will just depreciate, and the Reserve Bank is indifferent and agnostic to it. That will fuel further depreciation. So, we will have to anchor expectations in both directions again, both when it is appreciating and when it is depreciating.

Third, a stable exchange rate regime is underlying at the core of the overall financial stability of a system. That is the principal factor because if you have so disorderly movement of your currency, it will impact importers, it will impact exporters, it will impact investors and it will lead to kind of disruptions, which ultimately will result in financial sector instability. So, the third and principal objective is to maintain financial stability, which requires stability of the exchange rate system.

Sukumar Ranganathan
You spoke of disruption, and technology and new business models are disruptors in their own way in the financial system. What is the Central Bank's approach to governing new-age financial products and companies which needs to balance prudence, governance, and consumer protection on one side, and on the other side facilitate innovation and growth of fintech in the country?

Shaktikanta Das
The Reserve Bank is very supportive of innovation. But every innovation has to be well regulated when it is commercialised and implemented as a financial intermediary or as a part of the financial system. This has been a problem area. There were complaints of customer harassment and problems of excessive interest rates being charged. There were some cases of harassment of the borrowers. This became more felt, especially during COVID, when perhaps because of the lockdown and all, the unauthorised lenders started giving pre-approved loans and people started taking the loan. At that time, as early as June 2020, we had issued a fair practices code for all entities, and thereafter we constituted a committee. About 6 months ago, we had come out with our guidelines for digital lending. We have issued a regulatory framework for digital lending with a principal focus on customer protection, on transparency of the loan product. We have said that every digital lender must have a Key Fact Statement (KFS), which should clearly reflect the rate of interest as well as other charges including all-in-cost in an annualised manner. What happens is when somebody offers you Rs.100 and asks you to pay Re.1 per day as interest, it looks very attractive, but Re.1 on Rs.100 per day, that is 1% interest per day. If you calculate it on an annualised basis, it is prohibitive. We have said that there should be a mechanism for customers' grievance redressal. So, the guidelines are very robust, and it has been well-received in the market. It also says that there has to be a complaint officer if there are complaints. Complaints have to be received by the digital lender.

But let me also say that, despite this, there are still illegal digital apps. There are apps which are continuing the practices of lending. We have had detailed interactions with the law enforcement authorities. Entities of this nature will have to be dealt with by the law enforcement authorities. Whenever something like this comes to our notice, we immediately pass it on to the concerned law enforcement authorities to take legal action and other actions against such entities.

Sukumar Ranganathan
You're right, predatory lending, especially in small towns, it is a malaise. It is also among consumers who are not aware, which is also the way many of the crypto exchanges used to function, right? I remember, the CEO of one of them came to see me and he spoke very proudly about people who are investing in cryptocurrency in small towns, and my heart sank because these are the people who are not aware of the risks. What about the CBDC? There's a pilot, which is now going on. Tell us a little more about this. Fundamentally, is there a functional benefit to digital currencies? Or is it one of those nice-to-have things?

Shaktikanta Das
No, it has a fundamental benefit. The world is changing. The way business is done is changing. Technology is evolving very fast. You have to keep pace with the time. That is a kind of motherhood way of looking at the whole issue. More specifically, the printing of notes, currency notes, and paper notes, involves cost. It involves the cost of printing, cost of paper, cost of logistics, cost of storage, and the entire logistics and everything, it requires a lot of efforts and a lot of cost. Going forward, this will be much less costly compared the paper currencies. That is number one. Secondly, this is something which will become very important for cross-border transactions and cross-border payments. Today, when money is remitted or transferred on a cross-country basis, according to a World Bank report, the average charges are about 6%. When CBDC comes in, let us say in a group of countries, the cost will be practically very marginal. It will be the cost of overheads of our system and their system. It will be substantially minimised and it will be instantaneous. Of course, you may ask a question that even now under UPI, we are working for real-time transfer of money. In fact, between India and several other countries like Singapore, the United Arab Emirates, and other Gulf countries, the UPI is already being linked so that the real-time transfer of money takes place between India and those countries. You may say that this is happening, but UPI is a payment system, whereas this is a currency system. UPI facilitates the payments to take place. Here the currency itself - the currency issued by the Central Bank will get transmitted. This is less costly, it will facilitate international payments,

cross border payments, and it will be good for exporters and importers. I think the future belongs to technology. There could be a time when half the world or more than half the world would be on digital currency and you cannot be on paper currency. You have to be moving in tune with the changing technological developments.

Sukumar Ranganathan
Moving on to a slightly more macro question. Before the pandemic, there was this consistent debate, not just in India but in many parts of the world on the autonomy and independence of central banks and the role of government. What we have seen since is, central banks and governments increasingly have to act in concert. What are your views on this?

Shaktikanta Das
When I joined the Reserve Bank of India on the 12th of December 2018; on the first day, I had a press conference in which I had said that the monetary authority namely the Reserve Bank, and the government, which is the fiscal authority, there has to be coordination as both are working in the interest of the economy. Both are in the business of ensuring the public good. These two institutions need to talk to each other and engage with each other. The process of consultation has to prevail because both are dealing with the economy. Regarding Central Bank autonomy, let me tell you very clearly that so far as India is concerned, what does autonomy mean? Autonomy means autonomy in decision-making. There is an interdependence of the government with the RBI and the RBI with the government, the government needs the RBI for financial inclusion, digital payments and for so many things. The Reserve Bank also needs the government because we need legislative changes.

Let me also mention that many legislative changes have been carried out over the last 3 – 4 years. We got additional powers to regulate the NBFCs; to deal with the problem of the urban cooperative banks and to regulate housing finance companies, which were earlier regulated by the National Housing Bank. They were transferred to the RBI because there is no difference between a housing finance company and an NBFC. So, we also need the support of the government. Ultimately, if the economy has to do well, both fiscal and monetary authorities will have to work in close coordination, and this coordination and this conversation, let me mention, happens all over the world. It is not something peculiar to India. It happens all over the world, but various kind of extraneous noises come from time to time. There is close coordination, there is a constant engagement between the treasury and the monetary authority; between the finance ministries and the monetary authorities the world over. It is nothing unusual, and especially in COVID times, even the conventional purists have now recognised that to deal with stressful situations like the COVID, there has to be proper coordination between the monetary and the fiscal authorities. Coordination and engagement do not mean a compromise of autonomy. Nobody interferes with each other's work, but we share our views. Look at the issue of inflation. While we have taken several monetary measures by controlling liquidity, raising interest rates and several other measures; the government has undertaken supply-side measures in terms of bringing down the taxes on petrol and diesel, reducing the import duty on edible oil and pulses, which have had a positive impact on inflation. So, there is an interdependence between the two.

Sukumar Ranganathan
You have to act in concert. Thank you very much, Governor. It was a pleasure having you here. I am sure our audience is going back feeling very secure that we have a stable hand at the wheel. Thank you.

Shaktikanta Das
Thank you very much.