Governor's Conversation with Business Today at the Banking and Economy Summit on January 13, 2023 (Edited Excerpts)

Moderator:
Hello, ladies and gentlemen, I don't think I need to introduce the RBI Governor to you. All of you know him, so we can get started straight away. Mr. Das, thank you very much for finding the time today. Has it been the most challenging year of your tenure or would you say the COVID year 2020 was more challenging?

Shaktikanta Das:
Every challenge in a particular context looks more challenging than the previous one. There were so many situations when I was a part of the government and we dealt with a lot of challenges. When I came to RBI in December 2018, the entire 2019, the primary focus was not just one of the areas where we concentrated from RBI, but the primary focus in the financial sector was on the NBFC segment. Post IL&FS, liquidity had dried up. There was a considerable undermining of market confidence in the NBFC sector. In that context, we had to focus and see that the NBFC sector makes a comeback. We were very intensively focused on the liquidity situation in NBFCs; the bad assets situation in NBFCs. By the end of 2019, we were almost coming to an end of that problem, then, COVID came in 2020, 2021 was the delta wave, and 2022 was the war. So, it has been one challenge after the other.

Moderator:
Exciting times for you. Of late, there has been a lot of talk of monetary policy failure, the letter that you have written to the government, which none of us has seen. But I want to ask you if you think in hindsight, you could have done anything differently. It is a hypothetical question. Hindsight is always 20:20, but do you think you could have done anything differently or would have done anything differently in the last one-year?

Shaktikanta Das:
Our assessment is that we have been on the right path. People can hold different opinions. I will tell you why. The inflation even during 2020 later part, around October 2020, had gone up. It had touched 6% and there was an expectation in some segments of the market that RBI will probably increase the rate. Some people were also saying that RBI should now turn the focus to inflation and increase the rate. But our assessment showed that by January 2021, the inflation will come down and indeed it came down. In the latter part of 2021, inflation was gradually going up. In the February's MPC, which was very critical, the inflation projection for 2021-22, our assessment of the average inflation was that it was going to be 4.5%. The forecast of the professional forecasters in the market ranged between 4.6% to about 5.2%. Whatever it is, inflation was going to be around in the worst situation around 5%. We had done our scenario analysis assuming crude at even higher prices at US$95-100 per barrel and we found that the inflation in the worst situation would be around 5%. Now, growth was recovering. We wanted a safe landing of the economy during the year 2021-22. In February, contrary to what somebody may say that RBI probably

should have increased around December 2021 or February 2022. The point is that we wanted the economy to have a safe landing, the GDP to be above the pre-pandemic levels and 2021-22 growth was about 1.6% above the pre-pandemic levels of 2019-20. I am giving a long answer but it is necessary. So, the economy was recovering. We wanted a safe landing for the economy in terms of the growth figures, and today looking back, it gives us great satisfaction that during 2021-22, the economy recorded a growth of 8.7% and for the current year 2022-23, our projection in RBI is 6.8%, the National Statistical Office projected 7%. So, the economy has not only landed safely, but the economy has also remained resilient notwithstanding the huge amount of global spillovers, which are emanating because of the effect of the war, geopolitics and the synchronised monetary policy tightening, especially by the US Fed and other advanced economies. Inflation did go up to 7%, after reaching a peak of 7.8% in April 2022. In between, it went up once for 7.4% or so. Now, December figures were released yesterday; it was 5.7%. It has come down from 5.8% to 5.7%. It is mainly due to softening of food inflation, I do concede that point. The law mandates that RBI has to maintain price stability that is to maintain inflation around 4%, keeping in mind the objective of growth. Therefore, looking at this, I think we have kept the objective of growth, which had to be given primacy during the pandemic times and thereafter, we have not lost sight of the need to focus on inflation. When the war started, and the international prices of commodities and food prices went up, prices of edible oil, prices of cereals also went up because of the war in Ukraine. We did not hesitate to take a decision in an off-cycle meeting last year in May. We were criticised for that, but it was necessary because we didn't want to give a big shock in our June's monetary policy. So, we split it. We did 40 basis points increase in May and we did another 50 basis points increase in June. So, even looking back, I think we have been on the right course and I think the earlier theories and discussion of being behind the curve etc., are over.

Moderator:
In this long answer, have you just paraphrased your letter to the government?

Shaktikanta Das:
I have said it earlier. It is an intelligent guess, which I am sure anybody else can make in this room. But broadly, yes.

Moderator:
You spoke about this inflation-targeting band. Would you go as far as to say that given the way inflation is moving and the kind of volatility in prices, we are seeing globally, that whole notion of that target band needs to be revisited today?

Shaktikanta Das:
I would not think so at this point in time. The inflation targeting framework did facilitate the maintenance of the average CPI inflation at about 3.9% from 2016 when it started to the pre-pandemic position in February 2020. So, for almost three years, the average inflation was 3.9% or close to 4%. After the pandemic, of course, the situation

changed. Now, we have had one after the other major shocks, the COVID, then the war, monetary policy tightening, the current volatility in the financial markets, etc. But it is too early to shift the goalpost. The 4% has a certain meaning and let me add that our target of 4% plus/minus 2% is to declare it as a failure, if you exceed that, then only it's a failure. I think that gives us sufficient flexibility in our monetary policy decision-making. The Monetary Policy Committee (MPC) utilises this flexibility embedded in the inflation targeting framework to tolerate higher inflation of 5%, 5.5% and even more than 5.5% up to 6% because the requirement of the time when we were undergoing mostly the COVID impact during those two years, slightly higher inflation had to be tolerated because the economy required support. We had to infuse a lot of liquidity, we had to also do a substantial reduction in policy rates. The current target of plus/minus 2% gives enough policy flexibility to the monetary policy committee. So, keeping that in mind, I would feel that the 4% target with plus/minus 2% is very robust in the Indian context. I don't think there is any need for any change.

Moderator:
Okay. You say that you would not have done anything differently looking back. But when you look at the Federal Reserve's actions – I am not asking you to pass judgment on them – but as one central bank observing another central bank, would you say they made a mistake?

Shaktikanta Das:
It would not be fair on my part to comment on another central bank.

Moderator:
There are no Americans in the audience.

Shaktikanta Das:
We have a central bank community also. We meet every two months in Basel under the aegis of the Bank for International Settlements. Last weekend, I was in Basel and we had a very free and frank exchange of views and thoughts and how we look at each other.

Moderator:
You don't think the Federal Reserve should have pressed the trigger earlier?

Shaktikanta Das:
I would not like to comment on that. I think he's the best judge, where he is sitting. We can assume so many things from the outside. We can form our own opinion, but ultimately, it depends on the person who is in the chair. He knows so many inside details and so many other angularities and details. He is much better positioned to take a decision. So, whether he was right or he was wrong, it is not proper for me to comment.

Moderator:
Now, the whole focus has shifted, I mean, earlier, everybody's focus was when the Fed will stop raising rates and when they will pivot and start cutting rates once again;

but now everybody is saying it will be higher for longer, maybe rates will remain at this elevated level in the US for a very long time, and that is probably material to us as well because we cannot function immune of what the US Federal Reserve is doing. So, what is your expectation or what may pan out there?

Shaktikanta Das:
I will talk about the global situation, and let me also qualify by saying that, I am not giving any forward guidance or any indication about what the MPC is going to do in the first week of February. If the current geopolitical crisis continues in the way it is, it could be a situation of high for a long with regard to interest rates the world over, not just in the United States. India is part of the world. I would also like to add that notwithstanding the geopolitical tensions persisting, every country, every system, and human society knows how to adjust to a new situation. So, global supply chains have considerably eased out, compared to the supply chain bottlenecks, which were there. New alignments are being developed, countries are looking at new sources of supply. The United States is looking at a situation where they can develop an alternate source for the semiconductor supply, alternate to China. Countries will find their way of improving the supply situation. In this event, there could be a moderation in the inflation numbers, going forward. It all depends on the depth of the slowdown that countries are going to experience. Six months ago, the expectation around global slowdown and global recession was much grimmer than it is today. Six months ago, everybody thought that there will be a recession in the European Union. I am not ruling out that possibility, but it has improved considerably. The United States also looked as if it will face a recession, but the United States also may avoid a recession and perhaps just have a growth slowdown at best and maybe a mild or a softer recession for a very, very temporary period. There are so many uncertainties. The possibility of high for long is very much there, but these are the uncertainties, which one has to factor in. The bottom line is that, given the uncertainties, one has to be prepared for all eventualities.

Moderator:
So, if it is high for a long, you have not said it for India, I accept that. I want to ask you if you have raised repo rates five times, how long do you think it takes for the cumulative interest rate hikes that you've done; a) to be translated by the banking system and b) to have the kind of effect that you had in mind while raising those interest rates, how much time does it take in your eyes?

Shaktikanta Das:
Normally, it takes about a minimum of seven to eight months for the impact to really play out so far as inflation or all of the outcomes of any monetary policy tightening or monetary policy easing. In the easing cycle, because injecting liquidity is much easier, the actual impact plays out faster. In a tightening cycle, pulling out liquidity takes time, therefore, it takes that much more time. So, it takes at least seven to eight months for the impact to be felt. Our researchers in RBI; of course, it does not reflect the views of

the RBI; the report on currency and finance, which was done two years ago, concluded that it will take about four quarters for the impact to be felt.

Moderator:
One full year?

Shaktikanta Das:
That is their view. They did not say it in that way, they said it in the context of the definition of failure of monetary policy, instead of being three quarters, it should be four quarters. But I would say that it would take at least seven to eight months for the impact to be felt.

Moderator:
Should I infer that it could remain high for that long for you to have the desired effect?

Shaktikanta Das:
No, let us say, we take a decision today. The impact of that decision will be felt seven months down the road.

Moderator:
But, do you think this is the right instrument, Mr. Das? This is an important question because I was just reading an article by Joseph Stiglitz. I am sure you have read the same, where he invokes Maslow's saying, to a man with a hammer, everything looks like a nail, and he says that central banks across the world are using a sledgehammer approach to tame this variety of inflation, and this is not the right instrument because it will have the opposite effect, it will not bring down this kind of inflation, on the other hand, it will bring down growth. You may disagree with him, but is there a grain of truth to what he's saying?

Shaktikanta Das:
I would like to add two points. Given the fact that the current inflation, to a great extent, is supply-side driven. Given that being the real situation that is prevailing today, coordinated action between the monetary and fiscal authorities is very important. In the context of India, I am happy to mention that there has been coordinated action between the monetary and fiscal authorities. The government has reduced the taxes on petrol and diesel twice during this period, and the import duties on the import of pulses, edible oil and several other food items have also been reduced. There were some restrictions put on steel exports. There have been measures taken by the government to deal with supply-side issues. On the monetary policy side, we have taken out a lot of liquidity. We are out of the Chakravyuh of liquidity. We have increased the policy rates by 225 basis points. The central bank has to do it for two reasons: one is to sober down the demand side. Let me not say compression of demand, let me just say that rebalancing the demand and supply. If the prices are more, obviously, the demand is in excess of the supply and you have to balance supply and demand. That is the first thing the central bank's monetary policy action does. The second thing which is very important is that it provides an anchor to inflation expectations. Inflation expectations do play a major role in the future inflation trajectory. If the stakeholders

in the economy feel that the central bank is tolerant of higher inflation, what will it mean? It will mean, everybody will start pricing their products, assuming that the inflation will remain at the current level or will go up further and the central bank will do nothing. Inaction on the part of the central bank will fuel further inflation expectations, which in turn will be self-fulfilling, it will give a further push to inflation. The central bank has a primary role in this. Coming to your point that it will lead to a contractionary situation; it will slow down growth. Some amount of growth slowdown can happen, but there is a policy challenge for each central bank depending on their domestic context to keep in mind the requirements of growth. To what extent you can push the envelope in the sense that it should not be detrimental to the growth objectives and detrimental to your employment and your growth situation? I use the word, 'employment,' because in the United States, mostly it is they go by the employment numbers, in countries like India, we go by the GDP numbers.

Moderator:
How much sobering of demand are you expecting, Mr. Das, because the new credit cycle for the banking system has just begun, do you think it will be thought it, or reined in by this kind of moderation in demand? I was speaking to a banker this morning who made the point that they are still not seeing that kind of enthusiasm on the part of corporates to take up credit in a large way; it is largely still retail.

Shaktikanta Das:
You are right. The credit growth so far has been largely retail in India in this cycle. But my sense from our interaction with bankers is that they have started receiving proposals for wholesale credit. I do believe that given the importance which is being given by the policy authorities to let us say to renewables and several other sectors, there will be a big demand for credit from the domestic banking sector. A lot of credit was availed by our domestic corporate houses, particularly, during 2020 or 2021 from the overseas markets. They made their funds requirement by going to overseas markets at that time. Now, the focus is turning more towards the domestic segment because the rates overseas have started going up and there is also the uncertainty of how much of an increase in the US and other countries will do. So, there are signs that wholesale credit is picking up. Given the fact that our economy has held up very well and remains resilient, going forward, we should see more wholesale credit demand coming up. The current GDP growth is sustained mostly by consumption and investment demand, but investment demand till now has come from government capital expenditure. The private capital expenditure cycle is showing some signs of improvement and going forward, it should pick up further. Our last survey for Q2 showed that seasonally adjusted capacity utilisation for the manufacturing sector is around 75%. Services exports are doing very well, the domestic services sector is doing very well. So, going forward, we should see some pickup in wholesale credit also.

Moderator:
You mentioned services, which reminds me that I wanted to ask you a lot of focus on imported inflation in discussions on inflation, but I think people speak less about core services inflation. Do you think that could be a fairly significant part of the problem?

Shaktikanta Das:
Core inflation is certainly an area of concern. We have highlighted in the last monetary policy statement. If you see the minutes of the resolution of the last monetary policy committee meeting, the focus was on core inflation. In my policy statement, I had given the focus on core inflation. Core inflation still remains sticky at around 6%. The number which came out yesterday, core inflation is about 6.1%, the previous month was about 6%. Although the momentum of core inflation within that seems to have slightly moderated, the point remains that core inflation remains sticky at 6%. That is not a very comfortable number to deal with. So, as I said earlier in my last monetary policy statement, we have to be very resilient and we have to keep the focus on the core part of the inflation because that is becoming sticky and that is something that has to be dealt with. The supply-side measures taken by the government, the easing of supply chain bottlenecks internationally and also within India, all these factors will probably have their impact and the monetary policy action taken, which we started in May. Going forward, they should start working in a more visible or pronounced manner so far as core inflation is concerned. At the moment, we have to continue the focus on core inflation or as I said Arjuna's eye has to be kept on core inflation.

Moderator:
Back to growth, you spoke about the moderation in demand. Now, if there is a significant sobering of demand in the coming year, plus the cost of capital goes up for companies, could we be saddled at the end of this credit cycle with another set of bad assets like we had in the previous round, NPLs go up again over four, five years?

Shaktikanta Das:
You see the cost of capital if you have to see it in real terms. Real terms would be taking into account inflation. We cannot just go by the nominal number of interest rate. You have to see it as what is the real interest rate taking into account net of inflation.

Now with regard to your point on bad assets. A number of steps have been taken by the RBI over the years. But especially in the last three years post ILFS and post all those bad asset problems, which the banks faced, we have tightened our supervision and the kind of things which we are now looking at in the banks, in the NBFC sector, we didn't do it earlier.

We have developed early warning signals. We are looking into the business models of banks. Our information system in terms of the data that we get from the banks has been further improved. So, we get information almost on a near real-time basis. I would say that supervision by the RBI is an ongoing process now, where we keep on monitoring not only the numbers but within each bank, within each NBFC, particularly the bigger ones; we look at where the credit growth is happening. What is the buildup in bad assets, if any? for example, retail credit has picked up over the last one year. We are always mindful of within retail credit. What is the stress level? What is the bad asset level? The bad asset level is 91 days or more. But within that, we have in our system, over dues which are more than 30 days; over dues of more than 60 days. We monitor that. The moment we see that some stress is developing in a particular sector or a particular bank, we immediately sort of become alert and we have internal red flagging systems. We have early warning signals, and we immediately flag them to the banks concerned.

Moderator:
Is it at a micro level? Is it at a bank level also?

Shaktikanta Das:
It is at the individual bank level. It is also at the level of individual large NBFCs. So, we immediately flag the issue to the banks concerned. We have also advised the banks to make their risk management committees and their audit committees more functional and more robust. We have issued some guidelines for that, and we just convey them to the banks and request that you examine it, go back, discuss it with your board, take a view of what is happening, and take whatever mitigation measures are required. Please do take it and inform us. There is a great awareness even among the banks. I am happy to point out that banks, today, themselves are much more concerned about the problem of rising bad assets. Overall, the whole banking culture, if I can say, that the prudence, the culture of prudence has developed in the Indian banking sector over the last few years.

Moderator:
Going by the metrics that you just spoke about, would something like the ICICI Bank/Videocon case have propped up as a red flag alert with the RBI, that too many loans are going to one group not backed by enough kind of assets? Would it have shown up?

Shaktikanta Das:
I don't want to comment on a specific case.

Moderator:
But it is a very large case.

Shaktikanta Das:
It is not proper for me being the regulator to comment on a specific case. I am not commenting on the specific case but in general terms, I would like to say that RBI is monitoring each and every check payment, and loan sanction. It is not our job. Each bank has got a risk management committee. The bank has a credit sanction committee. The bank has a Board of Directors. The bank has senior management, and a qualified professional CEO assisted by a lot of senior management. It is their responsibility to do due diligence. We cannot be looking into the kind of loan appraisal and the due diligence that a bank does in each and every case. That's not our job, and that's not desirable.

If RBI or any regulations in any country gets into those areas, it will be highly detrimental to the credit effect. Individual cases of failure could be due to business failure also but, it is not possible for the Reserve Bank to monitor individual cases, we cannot put ourselves into the chair of the credit sanction committee of the bank. So, we monitor the overall numbers. We monitor the sectors. We do not look at individual cases of how the loan was sanctioned, but yes, if there is slippage in a large portfolio that over-dues are building up, we would certainly flag it to that bank to focus on this.

Moderator:
I was hardly blaming you, sir. You seem to have taken it personally. I was asking whether it would show up in your searches. I was not blaming the RBI for the ICICI Bank/Videocon case at all.

Shaktikanta Das:
Not that way. I think it needs to be examined. Did I sound as if I was trying to? No, I didn't see it that way, at all. What I am saying is we cannot become the appraisal authority in any bank. To that extent, I just clarified the RBI's role. We look at individual portfolios, and if there is a very large loan, and if it is showing signs of stress, naturally it will be noticed. It is the first line of defence in any financial system and the first line of defence has to be the bank management itself.

Moderator:
Sure. Let me rephrase the question in a different way on the same subject. There is a report which came out last week authored by Sucheta Dalal where she points out that in the IDBI Bank case, almost all the loans which were made to a group called the Seva Group came from public sector banks. Do you think, or would you agree that public sector banks are more susceptible to such kind of dubious loan practices, which end up in scams, and therefore lead to large NPLs? Or is it an unfair assessment?

Shaktikanta Das:
I don't want to comment on individual cases, what happened in this case or that case. The improvement in the banking sector over the last few years is both in the public and private sectors. So, it will not be fair to just pick up the public sector and say that this has happened in the public sector. Today, the functioning in prudent management and the improvement in terms of governance are visible both in public and private sector banks. So, it will not be correct to generalise and put all the public sector banks in one bracket. There might have been individual instances in individual banks and it will not be correct to generalise on that basis.

Moderator:
My colleagues have a few questions. Before that, I want to ask one question about your recent comments on cryptocurrencies. You made a statement that they might be triggering the next financial crisis. It could come from there. Do you think they should be banned?

Shaktikanta Das:
RBI's position is very clear. It should be banned.

Moderator:
In all of them, no activity should be allowed in cryptocurrency?

Shaktikanta Das:
The technology of blockchain needs to be supported because the technology has got so many other applications. Apart from the commonly known dangers of money laundering and terror funding, what are the principal concerns that we have?

The first thing is: what is crypto? Some people call it an asset. Some people call it a financial product but you will agree that every asset, every financial product has to have some underlying. In the case of crypto, there is no underlying, and I have said in some press conferences that not even a tulip, alluding to the Dutch tulip mania. The increase in the market price of various kinds of crypto, which start at a particular place, then multiplies over in a matter of few weeks or few months is based on make-believe that this is worth so much or it will go up to such and such level. So, anything without any underlying whose valuation is dependent entirely on make-believe is nothing but 100% speculation, or to put it very bluntly, it is gambling. In our country, we do not allow gambling. If you want to allow gambling, treat it as gambling and lay down the rules for gambling, but that's not a financial product.

Therefore, crypto masquerading as a financial product or financial asset is a completely misplaced argument. The bigger and more macro reason for what we are saying is that so-called crypto assets or cryptocurrencies have the potential and characteristics of becoming a means of exchange for doing a transaction, and most of it is dollar-denominated. Assume a situation where 20% of our transactions in the economy, 20% I am mentioning an ad-hoc number, are taking place through cryptos which are not issued by the central bank. It is issued by private companies which are placed all over the world. The Reserve Bank, being the monetary authority of the country as the central bank, will lose control over the money supply in the economy and will lose control over 20% of the transactions in our economy. Reserve Bank's ability to decide monetary policy, to decide on the liquidity of, the level of liquidity that needs to be maintained, the level of money supply M3 that has to be maintained in the economy, to that extent will get undermined.

It will lead to a dollarisation of the economy. Believe me, these are not empty alarm signals. This can happen. One year ago in the Reserve Bank, we had said that this whole thing is likely to collapse sooner than later. If you see the developments over the last one-year climaxing in the FTX episode; I think I don't need to add anything more.

Moderator:
My colleague Sourav Majumdar from Business Today magazine has a question for you, Mr. Das.

Sourav Majumdar:
Good evening Governor. You spoke about your views on crypto which you just elaborated on is very well known. RBI has just rolled out the CBDC. You know, there is some confusion yet about what the CBDC will do and how it will play out. It will be great if you can just throw some light on what the CBDC exactly will entail.

Another little question attached to this is, not strictly related to CBDC, but is about the digital initiatives of banks. They are hugely under pressure in terms of core banking. What are the risks you see as the regulator in terms of banks going increasingly digital? As the regulator, what are you telling them to do because digital is a given?

Shaktikanta Das:
So far as the digital part is concerned, the basic IT systems of banks will have to be very robust. Data privacy is an issue. There must be adequate safeguards. There are a large number of bankers here. They are in a much better place to reply to this question, but let me say that the focus should be on the issues of data privacy, issues of the robustness of the technology and the IT system itself. Many banks are also actively engaged with many big tech companies. So, the challenge to the banks is that it should not lead to a situation where the big techs come and sort of start dominating the banks. The banks should take their own decisions. The bank should not be swallowed by the big techs, but the bank should utilise the technology and the service provided by the big techs. They can develop various kinds of partnerships or arrangements, etc.

Coming to CBDCs, CBDC is a currency system. People compare it with UPI. UPI is a payment system. CBDC is a currency system. It is just like cash and paper currency. You go to a shop, you pay money to the shopkeeper. He gives you whatever you are buying. Your settlement is done. In the case of CBDC also, it is an instant settlement. The money, the currency, digital currency, and the e-rupee will flow from your wallet to the wallet of the merchant without the intermediation of the bank. So, it will become faster apart from issues of saving on logistics and cost of printing, etc.

CBDC is the future money. A large number of countries are working on CBDCs. Technology is becoming more and more robust in this area. We cannot be left behind. We have to be there and it is going to be the shape of future money. Settlement is going to be quicker but the technology will have to be very robust and very safe. We have to ensure that it is not cloned or it is not counterfeited. Therefore, the trial which we have launched, we have been very careful about it. There are many experiences and many learnings which are coming and will come out of the wholesale and retail trials which we are doing. So, we are sort of getting ready for the future.

Moderator:
One question, Mr. Das, I should ask you quickly before I ask my colleagues to join in is about the last quarter's current account deficit and the fact that the rupee was doing quite well against other currencies. But by the end of the year, if you look at it versus

many other emerging market currencies, it has not done that well. Should one be worried about the current account deficit (CAD)? And what it could do to the rupee this year?

Shaktikanta Das:
It is a common way for people to say the day the rupee depreciates or at the end of the year they say that the rupee is the worst performing currency and all. China grew on the back of a weak currency and reached where they are today. So, whether the currency is strong or weak, has to be seen in relative terms. It has to be seen in a proper context. So, I don't enter into that weak or strong and good or bad. I am not entering into that. So, far as RBI is concerned, the exchange rate is market driven. Your question is on the current account deficit. The first quarter number this year is very easy. Incidentally, the numbers are quite easy to remember, because, in the first quarter, the current account deficit was 2.2%. The second quarter became 4.4%, and the average for the first half is 3.3%. So, it is quite easy to remember. But on a more serious note, the CAD for the first half of the year is 3.3%.

Having said that, in October and November, the situation is showing a great amount of improvement. The merchandise trade deficit is moderating. Imports have come down benefiting also from the decline in commodity prices. On the other hand, services exports have picked up and they are doing very well at the moment. So, we do expect the CAD of the current year to be eminently manageable so far as RBI is concerned and so far as the financing of the CAD is concerned, remittances are doing very well. The World Bank projects that India will receive US$100 billion of remittances this year, and the growth of the World Bank has been projected at 10 or 12%, but in the first half itself, the growth is almost 20%. So, remittances are doing very well. FDI, net FDI up to the end of October has been about US$22 billion. Net FPI up to the end of December has been about US$11 billion or so. The figures may be little here and there, but broadly, these are the numbers.

To sum it up, I would say that the improvement in the CAD is visible. It will be eminently manageable. Financing it also will be fairly comfortable. I should also add that our foreign exchange reserves, which had gone down to US$524 billion, have again come back to US$562 billion. The figure for last Friday is US$561.5 billion or so, but that's mostly because of reevaluation, but taking into account all parameters of measurement of adequacy of reserves is very comfortable.

Moderator:
You have been RBI Governor for more than four years now. If you look at the previous stints of your predecessors, the one thing, which was common is that almost every six months or so there would be some signs of strain between the RBI and the government, pulls and pressures, and differences in opinion. None of that seems to be visible right now. So, your admirers or supporters would say that is because you have mastered the art of relationship management with the Finance Ministry. It is a compliment, but your critics would say that you are too compliant with the government,

and you have sacrificed some of the Central Bank's autonomy. What is the truth between these two?

Shaktikanta Das:
It is for you to judge. Somebody has to tell specifically where the central bank has compromised its autonomy. Making sweeping statements is not fair. Somebody has to say where we have compromised on our autonomy. Initially, there was this talk of surplus transfer and all that, but the surplus transfer was determined and decided by the recommendations of the Bimal Jalan Committee, which has been accepted by everybody. So, it was the calculation that our accounts department did place before the audit committee – that is a surplus number is coming. I have no discretion to increase the surplus transfer or decrease the surplus transfer. It is audited and the numbers are placed in the public domain. Everybody knows about it.

Autonomy basically means autonomy in decision-making. I am not commenting on any other. I will just focus on my tenure. I think in any institution whether it is central bank vis-à-vis the government or it is between, let us say, management of a company with its Board of Directors, in any institution, in any organisation, interface with others requires consultations, requires active engagement. So, without proper engagement, that could be the areas of communication gap. So, we should not allow that situation to develop.

In my first press conference, when I took over in December 2018, I had said that my approach would be consultative and I will constantly engage with the government to explain why we have done what we have done. That does not mean that I have compromised our position but the government should know the background of important decisions. When we do, for example, the monetary policy increases, we have been able to do it. Nobody has prevented us. Nobody has stopped us from doing it contrary to what may be the perception outside. We have done what we wanted to do. The Monetary Policy Committee, constituted by the government, took decisions.

So, ultimately, at the end of the day, what is important is to maintain good communication and to constantly engage. The engagement and communication between the government and the RBI are very important. Having said that, it's not as if there have not been any differences of opinion on certain individual issues, but all those issues have been internally resolved through discussions.

Moderator:
One question from my colleague, Siddharth Zarabi.

Siddharth Zarabi:
Thank you very much. Governor, you spent a lot of time in North Block and now at Mint Street as we call it and you covered a lot of ground in this interaction. My question is very simple. Going forward, is the monetary policy going to be a T20, a one-day or a test match? And I ask this question because many in the audience may perhaps

know you have some interest in cricket. So, I used this opportunity to pose that question to you.

Shaktikanta Das:
I have a great interest in cricket. So, we can hold another session on cricket if you wish but having worked in the North Block, what is also important is that I know the corridors of North Block. I know which corridor takes a right bend where or a left bend where. Now I am familiar with the Reserve Bank. So, I can close my eyes and enter into the Reserve Bank and reach my office. I know where we have to take a turn. So, on a more serious note, I think you cannot classify it as a T20 or a limited over 50. You see Virat Kohli is good in T20. He is good in limited over one-day cricket. He is also good at test cricket.

So, the RBI has to function and perform both in a T20 match, in a 50-over match, as well as in test cricket. Our effort and endeavour are always to optimise our performance to the best extent that we can. We put our best foot forward.

Moderator:
Governor, we are out of time but thank you very much for a great session and thank you very much for accepting our invitation today. A great pleasure talking to you today. Thank you very much.

Shaktikanta Das:
Thank you very much, and thank you very much for your patient hearing. I think we have overshot the time primarily for my long answers, but I thought it was necessary. Thank you once again for inviting me.

Moderator:
Thank you so much, Governor.