Governor's Conversation at Fireside Chat of the Business Standard BFSI Insight Summit in Mumbai on December 21, 2022 (Edited Excerpts)

Tamal Bandyopadhyay:
A very warm welcome to this fireside chat. I am a bit nervous sir. You always wear a different kind of tie. What is the brand that you prefer?

Shaktikanta Das:
It goes with the season and a Central Bank has to be for all seasons.

Tamal Bandyopadhyay:
Somebody told me that if you want to speak to someone and make them feel at ease, you start talking about ties. Mr Dave, CEO, HSBC India is sitting here. He was trying to excite me to ask all sorts of difficult questions. Mr. Dave, you do not know how good a communicator Mr. Das is. Last Sunday, there was the World Cup. Just for a moment, you think that we are not at Jio Global Centre, but we are at Lusail Stadium Qatar. If that is the case, just think about that and I am facing Messi on the Central Banking turf.

Shaktikanta Das:
I do not mind it but was Messi also a post-graduate in History. I am sometimes reminded by people that I am supposed to have done History.

Tamal Bandyopadhyay:
But your work and policy speak for you.

Shaktikanta Das:

On a serious note, let's get going.

Tamal Bandyopadhyay:
I remember, in November last year, we had a fireside chat with you that was in the Reserve Bank of India, 18th floor. Very strongly then, you wished a war, if I may say so, against cryptocurrency. So, do you think that you have won the battle because the Finance Ministry has all along been ambivalent till recently? So, the cryptocurrency war is over, do you think you are a winner?

Shaktikanta Das:
No, there is no war or anything like that. We firmly believed then and do firmly believe even now that cryptocurrencies have absolutely no underlying. Cryptocurrencies have certain huge inherent risks for our macroeconomic and financial stability. We have been pointing it out and its developments over the last one year, including the latest episode that was built around the FTX. We do not need to say anything more about our stand. Time has proved that cryptocurrencies are worth what they are today. According to some estimates, the total value of cryptocurrencies was about US$180 billion, but now the value has come down to about US$140 billion or so, and about US$40 billion value has really got wiped out. The change in value in any product is a function of the market, but unlike any other asset or product, our main concern about crypto is that it doesn't have any underlying, whatsoever. The term cryptocurrency, private cryptocurrency is a fashionable way of describing what is otherwise 100 per cent speculative activity. There is a talk that it should be regulated. How it is to be regulated? Somebody needs to explain. I would like to mention three points. One, the

origin of the cryptocurrencies, the private cryptocurrencies is to bypass the system, to break the system. They do not believe in the central bank currency; they do not believe in the regulated financial world. They want to bypass and beat the system. Second, they have absolutely no underlying. Not only that, I am yet to hear any credible argument about what public good or what public purpose, it serves. There is still no clarity about it. Third, it is a 100 per cent speculative activity. I still hold the view that it should be prohibited. Countries have been taking different views, but our view is that it should be prohibited. If you try to regulate it and allow it to grow, please mark my words, the next financial crisis will come from private cryptocurrencies.

Tamal Bandyopadhyay:
You are reiterating what you said earlier. I have a series of questions. I do not want to get into only GDP and inflation. So, a little different thing. You launched CBDC pilot projects. Can you very briefly explain to us, what's the use of CBDC? You said it is a currency, it is like currency notes and it is anonymous. But what is new there? I am happy using UPI and all, why do I shift to CBDC? Is it just an optic to fight crypto or there is something meaningful for me if people here use CBDC for retail?

Shaktikanta Das:
In the post-monetary policy statement press conference, I had explained the difference between UPI and CBDC. The first difference is, UPI is a payment system while the CBDC is the currency itself. Secondly, UPI involves the intermediation of banks, you pay somebody through mobile, then the message goes to the bank, your account gets debited, the bank transfers the money to the recipient's bank account and the recipient's bank account sends a message that so much money has been received. So, there is an intermediation of the bank. CBDC is like currency notes. You go to the bank, you draw it, you keep it in your purse and you spend it. What is more about CBDC is that there is an automatic sweep-in and sweep-out facility. 24 hours, you can draw CBDC and if you are carrying excess CBDC, you can put it back into your bank account. So, there is an automatic sweep-in and sweep-out facility.

The third is the huge logistics, the cost of printing notes that is not there. Manufacturing paper, getting the ink, and having a printing press, all these things will become outdated over a period of time. Logistics-wise, CBDC will be much simpler, and it will be much faster.

The next point is for international transactions. When two countries have their own CBDCs, it can be an instant money transfer between one country to another country. The whole world is becoming more digital. Almost in every sphere today, you have digital activities happening. Many central banks are still in the experimental stage. They are still analysing. Some central banks have started pilot projects. You will see in days to come; more and more central banks will embrace digital currencies and India has been at the forefront of the digital revolution in the current century. It is not a question of fear of missing out or it is not a question of offering competition to a private cryptocurrency rather that it is how the world is going to evolve and the digital world is going to take shape in the days and years to come and we have to be ready for that. So, it's a currency of the future.

Tamal Bandyopadhyay:
Sir, you said that you are a student of history, but let me take the liberty of asking you about economics which you know better than many economists. How decoupled is India from the rest of the world? How long the US Federal Reserve will continue to be the big daddy? Whether we want it or not, our eyes are on the FOMC meeting. One or two members of the MPC can dissent, but collectively the Reserve Bank of India and MPC's eyes, you use that Arjuna's eye, what is FOMC doing, is it slowing down, etc., so, there is no escape from that?

Shaktikanta Das:
Being the largest economy in the world, naturally what the US Fed does, matters to everyone and a large part of global trade is also dollar denominated. Therefore, what the US Fed does is definitely important for everyone. So far as our monetary policy making and other decisions are concerned, we are largely guided by our domestic inflation growth dynamics and several other international factors. The actions of the US Fed are considered and studied, but that's only one of the factors. It is not as if something the Fed does, and we will have to follow that line. I have said earlier also, our monetary policies are governed and driven primarily by our domestic growth inflation dynamics. Actions of the US Fed do impact our domestic situation because if there is a tightening, let's say, the dollar becomes stronger, naturally the price of our imported goods will go up. Nobody is anybody's big daddy. In the current world, everybody has their own space. The days of big daddy and all that thing is 19th century, it is no more the case. But yes, the US is a major player. Let me reiterate that primarily, we are governed by our domestic factors. When I say it, I mean it.

Tamal Bandyopadhyay:
You brought in the two words, which are inflation and growth. 10 months in a row, the Reserve Bank of India failed to contain inflation within the band, which is nothing new, everybody knows and as we speak, it has gone within the band, etc. However historically, very often RBI's estimate of inflation is off the mark, actual inflation is higher than RBI's estimate. So, do we need to take a look at the composition of inflation or it could be the Reserve Bank of India needs to take a look at its assessment of inflation, where are we?

Shaktikanta Das:
We constantly keep on fine-tuning our models of inflation forecasting. Any forecast, whether it is of inflation or it is of growth by any central bank, not just the Reserve Bank, is always conditional to so many factors. Now, if the underlying conditions change or do not happen the way you had assumed, then naturally, the numbers will be different. However, in the last few prints, our expectations both on inflation and growth, we are almost getting it to the second decimal or the first decimal if not the second. Our estimate for the growth of the second quarter was 6.3%, and we got 6.3%. The last inflation print, which came at 5.88%, our expectation was about 20 or 30 basis points higher than that for November. So, sudden developments do take place. We keep on fine-tuning our model. What is important to see in the context of inflation forecasting is not whether you are getting the number right but essentially whether you are getting the direction of inflation right. Not only the direction but also the force of the direction. Whether we are able to read correctly that inflation is going to go up very

fast or is going to go very steadily? So, it is the direction and the speed of the inflation movement while it is going down or while it is going up or if there is volatility. So, it is the direction and speed, underlying the inflation momentum, which is important; not just getting that number right because monetary policy is based on the direction of inflation, the broad speed of inflation and rise or decline of inflation. We do not go by that the inflation will be 6.34% or 6.48%, or something like that.

Tamal Bandyopadhyay:
So, talking about growth, Governor, you seem to be pretty conservative. In fact, in your latest assessment of growth, you pared it a bit, the World Bank assessment is higher than that. Why this sudden conservatism? Typically, you seem to be less bullish.

Shaktikanta Das:
The World Bank, in its latest projection, has projected a growth of 6.9% for the current year. We have given 6.8%. Primarily, it is because of the global headwinds. Europe and other large countries are facing a very serious growth slowdown. Five months ago, the talk of a global recession was much more intense. Now, the expectations built around recession have slightly moderated, but the fear of recession in many parts of the world or the fact of slowing growth is quite visible in large parts of the world. They will affect the external demand and external demand do contribute a lot to our growth calculation through our export performance, etc. So, it is primarily the international factors, the slowdown in growth all around, and the tightening of financial conditions the world over, all these external factors will have an impact on the domestic growth scenario, but the underlying economic activity in India continues to be strong. Most of the fast-moving indicators – RBI monitor about 70 fast-moving indicators – are in the green box during the last month. That means they are all picking up and they are still growing, but external factors are important and they will cause some dent in our economy. So, we have considered those aspects and, therefore, we have adopted this 6.8%.

Tamal Bandyopadhyay:
The latest bulletin, which was released yesterday, also spoke about what exactly you are saying. So, let's get from macro to micro. All these gentlemen, sitting here representing a large part of Indian banking –foreign, private and public sector banks – would love to hear your views. This kind of credit growth that we are seeing year-on-year, is it sustainable? Do you think that these gentlemen sowing seeds of troubles ahead? Will we again get into a bad loan or you think that Indian financial system and the bankers now know risk management, underwriting, etc.? Anecdotally, we hear private bankers saying that risk pricing is not exactly correct and probably, we are going overboard and all. Are you concerned about this or is everything fine?

Shaktikanta Das:
There are two aspects. Number one, the credit growth of 17.5% – the latest number as of December 2 – reflects the underlying fundamentals of our economy. The credit growth in the previous two years was very modest. In the first year of COVID, the credit growth was just about 6%; in the second year, it was slightly better. So, the current 17.5% is on a low base of the previous two years. There is a base effect which is also playing its role here. Secondly, the current credit growth is reflective of the underlying fundamentals of the economy, and it is also a reflection of the pent-up demand for

credit over the last two years. So, considering all these factors, the credit growth at the current point is certainly far away from, what you call, exuberance or something like that. It is definitely very steady. We are monitoring it very carefully. On this point, let me also mention, because this question comes up again and again in any public discourse that deposits are not growing and credit is growing, are we heading for an unsustainable situation? I do agree that deposits must grow to sustain credit growth in the medium or the long term, but also certain facts will have to be kept in mind. The credit growth looks very high because of the low base of the previous year. The deposit growth also looks pretty low because of the base effect of the previous years. The deposits were growing by about 10% or 11% during the COVID period, so, the deposit growth – the latest data of 9.9% – is on a slightly higher base. Looking at the absolute amount over a period of the last one year, the credit growth in absolute numbers is ₹19 lakh crore and the deposit growth is ₹17.5 lakh crore. So, it is not as if there is a big gap between deposit growth and credit growth. The base effect of those is making it look much more divergent. At the current moment, I would like to say that credit growth is reflective of the underlying economic fundamentals and growth of the economy.

Tamal Bandyopadhyay:
Do you think that the banking system is pretty unfair to the saving community because you also spoke about the negative interest rate? You have an external benchmark for the loan rates; for deposits, it's free. So, what needs to be done if you want to attract savers to the bankers' fold?

Shaktikanta Das:
All the leading bankers are here. Most of the banks have already started raising the deposit rates. Going forward, they will take a commercial call as they do need deposits. The banks also have a considerable amount of surplus SLR holdings, which they have the option to dip anytime they wish to. The weighted average lending rate on fresh loans has gone up by about 117 basis points. I remember 117 because during my student days, there was a DTC bus number 117. The last time when I read the number I visualised that particular DTC bus, that is how I remember 117.

For the fresh deposits, both retail and bulk deposits, the deposit rates have gone up by 150 basis points. Deposit rates are picking up, going forward. It's a function of the market. Both lending rates and deposit rates are a function of the market and the Reserve Bank's policy rate. Deposit rates are picking up and they may even go up a little bit more or further.

Tamal Bandyopadhyay:
Thanks, Governor. You spoke about DTC bus number 117. I was wondering if Mr. Dayal sitting here, Chief Communications Officer, CGM, Reserve Bank of India, probably kept an invisible teleprompter for you. The way you are rolling out numbers.

Shaktikanta Das:
I will share my experience. The best thing to remember certain numbers is to relate something to your own experience. So, that is the best way to remember even a number like 117.

Tamal Bandyopadhyay:
The Reserve Bank of India has two roles. One is the developmental role, meaning the financial system stability, etc. There is supervision and all. Of late, the private bankers say that you are becoming a bit of a micro-manager and that you are running the banking system, not the bankers themselves, but the RBI. Whatever we are doing, we have to tell them, anything we need to do we have to tell them. They call it "micromanagement." Is there any validity to what they're saying?

Shaktikanta Das:
I do not know; this is the first time I am hearing that. I do interact with the MDs and CEOs of the banks. I have not got that sense. Apart from the official engagement, I do know a lot of people who work in the banking sector at various levels, and personally, I know several people and get a lot of feedback from them about various banks. You have your friends, relatives or their children working in various banks. So, you get a lot of feedback from them. I have not heard anything of that sort. Perhaps, what you are referring to is the intense and deep supervision that we are doing.

Over the last 3 to 4 years, we have deepened our supervision. In the United States, the failure of banks is nothing unusual. There are cases of bank failures, it happens, everybody takes it. In India, failure of a bank is not acceptable to the public or anyone and everybody looks at the RBI. So, it is our responsibility as the regulator and as the supervisor of the banking system to ensure that the banking system is stable, the banking system is robust and it is ready to cater to the emerging requirements of the Indian economy which has aspirations of becoming a US$5 trillion economy in the next few years and aspiring to be an advanced economy by 2047. Our focus is to ensure that the banks are stable and robust and keeping that in mind, we intensified and deepened our supervision methods. Our supervision approach is very constructive and friendly dialogue.

Wherever we have difficulties and we are worried, we do have a meeting with the CEO of the public sector or the private sector bank and share with them our concerns. We are now looking at the business models of banks. For example, if we find that the unsecured retail portfolio, the loans, the unsecured loans, retail loans are rising very fast, and they occupy a larger space in the entire portfolio, the lending portfolio of the banks, we immediately flag our concern to the bank but we do not interfere. All we tell them is that please place it before your risk management committee. Have your risk management committee considered it? Have your Board considered it? We leave it to the Board.

Our effort is to ensure that the banking system is robust and stable. It is nobody's intention to do micromanagement and/or macromanagement of banks. We do not interfere with that at all, but we keep on raising it wherever we feel some signs of worry or discomfort. We do raise those points with the bank and it is an ongoing exercise. Supervision of RBI is no more a year-end exercise. It is an ongoing and around-the-year exercise. We follow a very consultative approach with the banks. Right from the beginning, on the day of my joining the Reserve Bank four years ago, I had said that we will follow a consultative approach. The first meeting I held after taking over as RBI Governor, which I announced on the day of my joining, was a consultation meeting with the chief executives of both public and private sector banks. So, we follow a consultative approach, whether it is banks or other players in the financial sector. It is a very constructive relationship that we have.

Tamal Bandyopadhyay:
Now talking about IBC. IBC came into the picture in 2016. In the first lot, where Essar and others quite a few, there was a pretty good recovery then started slowing down. Now, NBFCs are also coming under IBC. There were at least two cases. I will not name them. The kind of offer they are getting is much less than the liquidation value. So, something needs to be done when you bring IBC for NBFCs also. It is a complete disaster. Prima facie, it seems, going by the numbers, something needs to be done.

Shaktikanta Das:
First thing is that we should not look at IBC as a mechanism for loan recovery. It's a new law. It was enacted in 2016. It is already 6 years old, but still, it is a new law. The legal jurisprudence around the new law develops. A lot of Supreme Court judgments have come and the jurisprudence around the IBC is now fairly well settled. The main challenge for IBC has been the time that is being taken. The initial idea was that certain things will happen in 15 days and certain things will happen in 90 days or 6 months. That has not happened and there are multiple reasons for that. So, there is the factor of delay.

The second factor is, it is not a recovery mechanism. Nonetheless, how much money you are realising, how much recovery you are doing is very important, that cannot be wished away just like that. It is an important thing. When I say it is not a recovery instrument, it should be seen in the proper context. Recovery is important, I'm not denying that, but if you compare with what was getting recovered in the earlier regime – when the BIFR framework was there or the other frameworks which have been in place over the last so many years – compared to that, the recoveries under IBC, in terms of numbers, are far better. What is important is to make a timely invoking of the IBC. Traditionally, the approach has been that you wait for an asset to deteriorate up to a point and then you put it before IBC. What is important now is to identify the early stress in a particular portfolio and refer it on time to the IBC so that not only the recoveries of the credit are better, but also the company revives far better. So, a timely invoking of the IBC provision is also equally important, and it is improving. Under Section 227 of the IBC, we were given powers to apply it to NBFCs. As soon as we got the powers in July 2020, along with the regulatory powers with regard to housing finance companies, we referred the first case within 2-3 months. Thereafter, there were two cases, which have now been referred before the IBC. Let us wait for the outcome. It is in a very advanced stage. Both cases are in a very advanced stage.

Tamal Bandyopadhyay:
The 2024 budget is just months away. Reserve Bank of India will have its MPC meeting immediately after that. This is the last budget before the elections. Let us accept that the approach to the entire economy gets a different kind of shift in the run-up to the elections. The administration would love to talk more about growth than inflation. Do you think that your job will be more difficult now in the run-up to the elections? You spoke about the deposits are growing and the banks are having enough excess SLR which they can liquidate to support the Government borrowing programme. If you go by the media reports, they are talking about a fiscal deficit of

around 5.0%-6.0%. We had a historically high Government borrowing programme this year, which you have pulled through almost, but the yield has gone up because there is a credit demand.

Earlier during past 2 years, we could manage the yield because there was no credit demand and enough liquidity was available. Now liquidity is on balance with plus and minus depending on how the Government is spending. So, you do not have the advantage of that since the credit demand is there. So, the Government borrowing programme will not be as easy as you have managed till now. Probably, you need to allow the yield to go up. This is the sort of macro background. As a Governor, do you think that it will be more difficult now? Till now, you continued to say that inflation is enemy number one and even your latest bulletin also spoke about inflation, etc. So going forward, whether the growth-inflation dynamics will change because the election is knocking at the door only down the line.

Shaktikanta Das:
What will change I cannot say. The next Monetary Policy is still one and a half months away. So many things will happen by then. In any case, what we have in mind will be determined as we move closer to the MPC date. Many things can happen in between and we will take a decision at that stage. In any case, it is not possible for me to comment on what we will do in the next MPC. However, I would like to make it very clear that the fact of elections coming up in 2024 is not a factor at all so far as monetary policy making is concerned. Monetary policy making is for checking and controlling inflation. The Government is also equally serious about controlling inflation.

I must say that to check inflation, there has been a very coordinated approach between the Reserve Bank and the Central Government in the sense that we have done our bit, we have taken a number of measures with regard to the rates, stance and liquidity. The Government has also undertaken several supply-side measures, like cutting down the taxes on petrol and diesel and reducing import duties on several other imported food items.

Everyone is interested in bringing down inflation and I am sure that the Government would also be equally keen that inflation is brought down. But what matters for monetary policy? You use the term Arjuna’s eye. Arjuna only looks at inflation and growth. Arjuna is not looking at whether there is an election coming up. In other words, what I am trying to say is that in India, elections happen almost every year. There will be a combination of States also undergoing elections. So, the election is not a consideration so far as monetary policy making is concerned and monetary policy will do whatever is in the best interest of the economy.

Tamal Bandyopadhyay:
My last question, everybody would like to know about India's presidency at G20. So how do you see this? What are the opportunities you see?

Shaktikanta Das:
It is a great opportunity for India. It gives India a much bigger role in the international arena. India has now a much bigger role at the world stage. India will be chairing all the G20 meetings. It is a place for India to play a bigger role. The biggest task for the world community, not just for India, and for G20 is to restore the trust and efficacy of

multilateralism. After all, G20 represents 85% of the world's GDP and about 75% of the world trade. The G20 as a group does matter a lot to the rest of the world.

Over the last few years, multilateralism appears to be losing its efficacy, whether in the context of fighting COVID or in the context of dealing with various other global problems. The whole underlying theme of India is ‘Vasudhaiva Kutumbakam’, which is One Earth, One Family, One Future. So, it is one future which is important. The G20 as a group needs to address collectively that the most important thing is to restore the efficacy and trust built around multilateralism. India today; whether you look at it from the point of view of the way the world is growing or you look at it from the point of view of the current geopolitics that is happening today in the world; is uniquely placed to play that role effectively.

Tamal Bandyopadhyay:
Any message for this audience comprising bankers, NBFC, insurers, and mutual funds as the microcosm of the entire Indian financial system is present here. Apart from YouTube and other channels, there is a big screen and the other room also being live. Any last one-sentence message for them.

Shaktikanta Das:
Not one sentence, but maybe 3-4 sentences. One thing I would like to say is that in the last 3 years, the world has seen in succession multiple shocks of extreme severity, 3 black swan events one after the other. I have talked about it earlier. The Indian economy and the Indian financial sector today remain resilient and much better placed. For that the credit goes not just to the regulators, the credit goes to all the participants and the players in the financial sector, together all of us have done it.

As we enter 2023, let us not think that the problems are over, there could be new challenges and there could be new battles, which we have to work on. We should all remain optimistic and together as we have done in the last 3 years. I am quite sure that we will work together, notwithstanding your comment on some banks having differences and feeling the heat. Notwithstanding all that, I am quite confident that the financial sector players and the regulators, not just RBI but the other regulators will be working together to maintain and strengthen the inherent resilience and capacity of the Indian economy.

Thank you.

Tamal Bandyopadhyay:
Thank you, sir. It is confidence, optimism, and caution. I do not want to summarise and take a longer time. Like every good thing, this also has come to an end. Thank you for being so candid and not taking any offence to seemingly critical questions and observations. What I overheard in the corridors of bankers, etc., I took the liberty of asking you in the presence of everybody. Mr. Das has completed his 4 years. Last week, he started his 5th year. As and when he completes his 6 years, presuming that he is not getting another extension, in the Reserve Bank of India's 87-year history, he will be the second Governor to have 6 years. So, give him a big hand.

Thank you, sir.