

Governor's interaction with audience after his 17th K P Hormis Commemorative Lecture on March 17, 2023 (Edited Excerpts)

Governor, Shri Shaktikanta Das delivered the 17th K P Hormis Commemorative Lecture on ['G20 for a Better Global Economic Order during India's Presidency'](#) at Kochi on March 17, 2023. After the lecture, the Governor interacted with the audience. The edited excerpts of the interaction are placed below.

Moderator:

Thank you, sir. The forum is open to questions. If you have any, kindly raise your hand.

Gayathri Suresh, FISAT Business School:

Good afternoon, sir. My name is Gayathri Suresh. I am an MBA student from FISAT Business School, Angamaly. Sir, my question is that your signature is one of the most recognised ones as it is on every single currency note. How does it feel aside from the power and authority that comes with it to have your signature on every note, sir? Since digital transactions are rising and increasing by the hour, is the Governor's signature under threat, sir?

Shaktikanta Das:

I do not see the signature on the note as a sign of power. I see it as a sign of responsibility. If you take out any note other than one rupee note, what does it say? It says I promise to pay the bearer of this note a sum of rupees so much. This sovereign has given that power to the Reserve Bank of India and on behalf of the Reserve Bank of India, I am assuring every citizen or every person who holds a particular piece of a currency note, let's say Rs.10 or Rs.100 or Rs.500, I promise on behalf of the Reserve Bank to pay him that much money. In other words, if tomorrow he comes to the Reserve Bank or he goes anywhere, he will get that much value of goods and services. So, it is a tremendous responsibility cast upon the Governor of the Reserve Bank and the Reserve Bank as an institution.

The underlying behind this is a huge responsibility to ensure financial stability and monetary stability in the country, because only when you have financial stability and monetary stability in the country, then the value of the rupee remains where it is. So as I said, the signature is not a sign of power. It is a sign of responsibility.

Gayathri Suresh:

Thank you, sir.

Suchitra Menon, Irish Linen:

Good evening, sir. I am Suchitra Menon. I am the CEO of an Irish Linen Manufacturing Company. My question is on demonetisation. Demonetisation was a major policy decision that impacted profoundly our economy, and you were the face of the Government during this massive drive that involved 1 billion people. How do you think this has affected or shaped RBI's approach to policy matters and its role in promoting economic growth and stability in India?

Shaktikanta Das:

So far as RBI's role and responsibility are concerned, over a period of time, the RBI is confronted with various challenges. I do not want to go into the details of demonetisation, demonetisation was an exercise, as it was explained at that time, against counterfeit currency that is against fake currency notes. It was a measure against unaccounted money and unaccounted wealth. It was a measure, which also had the objective of promoting digital payments. It had multiple objectives.

The Reserve Bank, as the issuer of the currency notes, naturally, had the responsibility of printing and supplying these notes to the market and the Reserve Bank did its job at that time admirably. In fact, there is nothing called demonetisation in the official lingo. It was the withdrawal of the legal tender character of those notes.

So, that was an issue which the Reserve Bank had to deal with. From time to time, the Reserve Bank deals with various issues. We had COVID, which had its fallout, and the Reserve Bank had to deal with it. We had the war in Ukraine and its spillover and the fallout, which we had to deal with.

So, in a country as complex as India, in a world that is so dynamic and fast-changing, the underlying theme of all Reserve Bank's policies, as I mentioned earlier, is always to ensure financial stability. When we are increasing interest rates or reducing interest rates, or we are taking any other measure, the overarching theme is to maintain financial stability. With regard to the growth, the Reserve Bank is at the forefront of ensuring greater financial inclusion, greater digital payments, making credit available to the last person in the queue. When we take our interest rate decisions and other decisions, we are always mindful of the growth aspects. So, it is a kind of all-encompassing function.

Demonetisation, what you call as demonetisation, is one of the sorts of challenges which the Reserve Bank dealt with, as it had dealt with several challenges before that, and as it is continuing with several challenges after that, and as it will continue to deal with future challenges. I can assure you, the Reserve Bank will deal with it to the best of its capability, and our job is to ensure financial stability. We remain committed to that.

Ravi Rajagopalan, Boson Systems:

Good afternoon, sir. This is Ravi Rajagopalan. I am the MD and CEO of Boson Systems. We run one of the national payment systems that the Reserve Bank of India has authorised and regulates. So, that was a fascinating talk and I wanted to pick up on something with respect to the contagion that is spreading from the United States to other parts of the world. So, anyone who is remotely familiar with how Indian banking has progressed in the last 10 years would note that we have not had such occurrences, and where there has been contagion that defence with which the Reserve Bank of India has been able to contain it and manage it without hurting depositors, without hurting credit is remarkable. Given India's presidency of the G20, can you throw some light on whether in addition to legal convergence whether there is any move for the

Reserve Bank of India to make available its substantial supervisory expertise to your fellow counterparts in the Central Banks in the United States and elsewhere? Someone just gave me an interesting statistic, since you took over as a Governor of the Reserve Bank, and I am sure it has nothing to do with it, 10 banks failed in the United States. So, while you can not comment on what happens there, but can you throw some light on whether or not any moves are there to tap India's substantial regulatory expertise in this area where stress is a common factor that all these economies face in terms of transferring this expertise to other Central Banks?

Shaktikanta Das:

The first line of defence for any bank or any financial institution is the management of that bank, then you have the auditors who are the second line of defence. At the third or fourth level, the supervision, that is the Reserve Bank of India or the supervisory authority in the respective countries that would come.

Our job is to keep on supervising and keep on highlighting the risks, highlighting the challenges which are emerging. We continuously do stress tests. We identify any potential buildup of risk in every institution, and we constantly engage with the management of the banks through our supervisors.

As I mentioned in my speech that we monitor the root causes of vulnerabilities. We are now doing a much deeper dive into the business models of the banks which may not be sometimes to the liking of the banks. They may be feeling that we are interfering in their commercial operations. We are not. We do not tell them you do this, you do that. We don't tell them.

We sensitise them that we have analysed your bank. We find that this problem is developing in your bank. Has this problem been considered by you? If it has not been considered, please examine this matter and take it to your Board. Let the Board take a decision. If a risk is building up, we sensitise the bank. The bank's Risk Management Committee is supposed to focus on that. We do not tell what the banks need to do because the banks know better what they have to do with their interest and the interest of their stability.

Now so far as sharing experiences is concerned, we learn from each other. It is not as if we do not learn from others. We engage with several other banks, and we learn from each other in matters of regulation, supervision, etc. There is a constant sharing of information and we take this forward.

We have the arrangement of the Financial Stability Board which again reports to the G20. India is a part of the Financial Stability Board also. Lot of deliberation goes on in this Financial Stability Board.

We have the Bank for International Settlements (BIS), of which India is a member. Every two months at BIS, all the Governors meet and discuss the global situation. We discuss what is happening in each of the countries, and there is a lot of experience sharing. So, there is a constant sharing of information, which goes on.

We do not have the full details of what exactly has happened in the US, we are assessing the situation from the outside but some trends are now emerging as to what

is likely to have happened. I am sure the US authorities will deal with this issue and the US Fed and the Treasury have come out very strongly. They are dealing with the situation and they will deal with it.

So far as India is concerned, the stress tests are done by the RBI on a continuous basis. Stress tests are done not only about the individual entities but also to the overall system like, what are the systemic stresses which are building up. We keep on doing these stress tests using various parameters. In several scenarios, like in a baseline case, severe stress situation and a very severe stress situation. We draw various parameters and do stress testing for each of these situations, what is likely to happen if these, these, these things deteriorate and accordingly advance action has to be taken proactively. So, the Reserve Bank is constantly engaged with all the banks and a lot of improvement has happened over the last few years. It is a continuous exercise. There is no room for complacency. We will continue our exercise.

Moderator:

We will take one final question.

Sreekanth, ESAF Small Finance Bank:

Good evening, sir. Sir, I am Sreekanth here. I head the marketing for ESAF Small Finance Bank. Sir, my question is, now everybody is talking about sustainability and ESG. So, what is the role RBI is looking at in encouraging sustainable banking practices in India?

Shaktikanta Das:

I will give a very short answer to that. I would encourage you to have a look at the discussion paper, which we released last year in July or August on climate change and ESG. We received a large number of feedback, and comments from various stakeholders and based on that, we have started issuing instructions. In the last monetary policy, in the first week of February, we have given out certain directions and instructions, and advice to the banks. So, we will take this forward.

Basically, as a regulator, it is our responsibility to ensure that the provision of finance is done in a sustainable manner. The risks arising out of climate change are properly understood and are factored into the lending practices of the banks and NBFCs. The banks also themselves must build, must be aware of the risks involved in every lending and provide adequate risk management or mitigation measures in all their actions, whether in individual loans or sectoral loans. So, we are taking this forward. We have just commenced our activities last year. We have become a member of what is called the NGFS, that is the Network of Central Banks and Supervisors for Greening the Financial System. So, we have become a member of that and we are now taking it forward.

Going forward, we will have to focus on this and banks should be sensitive to the risks arising out of climate change and what impact it will have on their balance sheet accordingly, the banks need to take appropriate mitigation measures.

Moderator:

Thank you, sir. I would now like to request Mr. Shyam Srinivasan – MD and CEO, Federal Bank to deliver the vote of thanks.

Shyam Srinivasan:

So, I will bring this to a close. I know I am running short on time. I just want to reassure the audience, the Governor, and our friends from RBI, first, thank you for being here this evening. It is such a privilege and also to ensure that we will follow both RBI and also the three R's of the Governor, resilient, we will reassure you, and we will be resolute. Thank you very much. Thank you, Governor.