

Interview with The Hindu on December 23, 2019 – Shri Shaktikanta Das, Governor, Reserve Bank of India

It is over three years now from when the Monetary Policy Committee (MPC) was first constituted. The term of the present MPC will end in 2021. How has been the experience with the MPC?

On the whole, the inflation targeting has worked well, in many senses. Number one, it is a committee-based approach, so more minds are going into decision-making. There are three external experts which bring in outside perspective. This definitely improves the quality of decision-making and the outcome or final decision itself.

Since then the MPC is in place, by and large inflation has remained within the target. Of course, one can argue that headline inflation is impacted by so many factors to which RBI has no influence. But at the end of the day, inflation has remained around 4% over the last three years so that the targets have been maintained. Without a target, we had a situation about five or six years ago when CPI [consumer price index] inflation was 10%.

Also the minutes of the MPC meeting are also published which brings in a greater transparency to the process of decision-making. The minutes also reflect the thinking of each member. That brings in lot of transparency. So looking back, I think the inflation targeting framework has worked well.

But has inflation targeting turned out to be detrimental for growth?

The provision in the RBI Act is very clear. It is to maintain price stability, keeping in mind the objective of growth. Therefore, the prime target is inflation. You have to suitably factor in the growth aspect also. Therefore, there is scope to give due weightage to growth also.

Do you think the target should be core inflation rather than the headline CPI inflation?

We are still about little less than two years away from the five year of current inflation targeting regime. I think it is too early to comment on that. The present scheme is going very well. As we go closer to the date, the government will take a view on the inflation target for next five years. Of course, the RBI will be suitably consulted by the government. So far it looks to have worked quite well.

What matters more for the common man of our country is the food inflation. Therefore, you cannot keep it away; the weightage of which is 47-48% in the overall CPI basket. The headline inflation is something that everybody understands. If you say, core inflation, that is excluding food and fuel, you are entering into complications which will not have the kind of clarity and the straightforwardness of the headline number.

Are you concerned where inflation is going currently, in the immediate short term, especially food inflation?

Broadly, we have articulated that it is a matter which needs to be closely monitored, that is, the food inflation. We have to be watchful of the evolving situation and evolving numbers. But at this point in time, it also looks transient. And going forward, it should come down. But we need some time to watch that it is indeed transient.

Despite all that the RBI has done, monetary transmission has been unsatisfactory. What are the options before you now?

First thing is transmission does take time. Two, the system liquidity which was in deficit till the end of May, is in surplus from June 1 onwards and hugely surplus. Every day, we are absorbing [₹] two-and-a-half lakh crore. So we have kept the system in comfortable and surplus liquidity. The third thing is that the external benchmark [for loan pricing] which we had introduced from October 1. Going forward, the impact of external benchmark will be felt more and more.

Do you think there are structural issues also behind the growth slowdown?

We have said in our annual report that it would appear that the slowdown is cyclical. However, there are structural factors also. Without getting into categorisation of the current slowdown, the focus should be on what steps need to be taken by the fiscal and monetary authorities. There has to be some countercyclical steps. There will have to be structural reforms which have been undertaken and the process needs to be continued.

RBI has identified 50 large NBFCs which are closely monitored. Out of the 50, how many are stressed. Are you going to increase the number?

Actually 100 are being monitored. Fifty are being intensively done by the central office. From 51 to 100 are monitored by regional offices [of the RBI]. Wherever there are vulnerabilities, we have identified them and our officers are constantly engaged with the promoters and management, and nudging them to take necessary, market-related measures like to mobilise additional capital and to deleverage, to show better recoveries, etc. They [the number of such NBFCs] are not too many.

Post the PMC Bank failure and the PNB scam, the question that arises is how did they happen when the regulator does regular inspections and also has a representative on the board? How did these escape the attention of the regulators?

In this case of the urban cooperative bank, there was no RBI representative on the board. Secondly, it is a fraud. What RBI does is supervision. RBI does not do any audit, RBI does not do any investigation. If there is a fraud, that is investigated by the law enforcement agencies. Supervision is done on the basis of certified records by the bank's management. When that is produced before the RBI supervision team, there is no reason why the RBI should doubt its correctness.

Having said that, and not related to the PMC Bank crisis, even well before the PMC Bank crisis, in our central board meeting it was decided to set up a separate department of supervision and a department of regulation. That was because there was lot of interconnectedness between banks, NBFCs, HFCs.

Along with that, we have said we will also have a college of supervision to provide better skill to our officers. We are creating a separate cadre for supervision officers. We are also going to use technology, data analytics, in a big way. Plus we are also internally setting up a research and analysis wing within the department of supervision which will collate and correlate all the data, see the interconnectedness and will be able to comprehensively look at the banking structure.

What is the road ahead for PMC Bank? Is RBI open for merging it with another bank?

There is a forensic audit which is under way. We will get the report may be in another fortnight. PMC Bank, with the help of outside valuers, they are assessing the realisable value of the assets which are securitised by the borrower group. The other assets, including land assets, the realisable value of that asset is also been assessed. So with the permission of the court, the effort is to monetise those assets and put that money into the bank.

For that we have formed a coordination mechanism consisting of senior officer from Economic Offences Wing, the Enforcement Directorate, RBI and the administrator of the PMC Bank to quicken the process of the monetisation. So only when we have clarity with regard to the actual realisable value of all these assets which I have referred to, we will be able to decide on a next step.

What are the regulatory changes proposed for the regulation of cooperative banks?

One aspect is changes to regulation which are within RBI, which we are going ahead and doing it. The other is making legislative changes to the law. There we have given our suggestions to the government which is under consideration. We have tried to strengthen the regulation.

What will be your immediate priority as you enter the second year?

For a central bank, it is a constantly evolving situation. At this point in time our priority would be growth and financial sector issues — financial sector issues like the NPA resolution in the banks, and our expectation is that the resolution process become even faster. That is one; second is the NBFC sector which we are monitoring. Third is carrying out necessary changes in the regulation of urban cooperative banks.

In the recent past, couple of times, the RBI has had to publicly state that the health of the banking system is fine post the PMC Bank crisis. Do you find a case to revisit the deposit insurance limit?

We issued those statements because of unnecessary rumours floating in the market, various names were floating saying this bank is in problem. It was creating unnecessary, unjustified uncertainties in the market. So as the regulator of banks, we thought it was necessary that we give a clear message that the banking system is safe.

Deposit insurance is a matter which the Deposit Insurance and Credit Guarantee Corporation will decide. The matter is under review in DICGC.