Edited Transcript of the Governor's interaction at the World Economic Forum Annual Meetings 2024 at Davos January 18, 2024

Stephan Mergenthaler:
Well, good morning and a warm welcome to this horizon scan session on growth engines for emerging markets. Thank you for joining us here in the Ideas Hub at Davos and thank you to our communities joining us online from around the world. My name is Stephan Mergenthaler from the World Economic Forum and I have the pleasure to facilitate this session.

In this Hub, we bring together over the course of this week experts, stakeholders, and leaders engaged in the various different discussions here in Davos, trying to connect the dots, paint a picture of where we are heading and identifying clear areas for collective action and that is really what our ambition is with this work we do at the World Economic Forum on Strategic Intelligence trying to build an appreciation that these issues cannot be addressed in isolation. We have to look at them in their complex interconnection, whether we think about the financial and monetary systems, whether we think about the future of work or indeed considerations of social protection. They have to be part of an integrated picture, an integrated policy response, and integrated business strategies.

We, so, undertake this mapping effort across hundreds of different issues with universities, think tanks, and international organisations around the world and provide open access to the world to contribute to more informed discussions around these critical global issues and at moments like this here in Davos we asked some of the key experts that are with us to map out what they see as the most important issues on the horizon and in this regard I am honoured to introduce Shaktikanta Das, Governor of the Reserve Bank of India, to share his horizon scan, his outlook on the most important issues. Governor! Over to you. We look forward to the discussion.

Shaktikanta Das:
Good morning. Thank you for having me here. I will speak briefly and thereafter we can take a few questions or comments. The first point I would like to say is that the last four years, starting with the onset of COVID, have been a period of what I call a period of great volatility. I think the volatility that we have seen in the last four years has been unprecedented. Much has already been spoken and talked about. We started with COVID, followed by the war in Ukraine.

The synchronised inflation problem is rearing its head almost in every country. The synchronised tightening of monetary policy, the tightening of financial market conditions and everything was happening together. Amidst all this, there were new flashpoints on geopolitics in Geoeconomics also coming up that have added further to the volatility.

This time around, although the problems were much larger, the world has also shown a great amount of resilience. When COVID started, everybody talked of contraction and contraction to continue for years. COVID was controlled. The contraction was also, the economic growth was also sought to be revived. When the Ukraine war started and when the policy tightening started, there was the apprehension that many countries would go into recession, particularly advanced economies. Whenever they have tightened, they have ended up in a kind of recession. Emerging market economies also face the problem of spillovers adding to their domestic problems and volatilities.

But this time around, the world has proved itself to be much more resilient. The kind of hard landing that was apprehended has not happened. Economies have broadly revived, but global growth has definitely slowed down and that is a cause of worry. The world has proved to be resilient, but there are certain hard facts which have to be kept in mind.

Number one, as I mentioned global growth has slowed down, geopolitical flashpoints are continuing, new flashpoints are coming up, supply chain bottlenecks have not really fully normalised and inflation has also been brought under control, but individual countries still have not reached their target and the last mile is proving to be very difficult.

So far as India is concerned, in this kind of environment, the economy has emerged and has come out of the recent period of crisis much stronger. The GDP growth has been in the last three years including the current year over 7%. In the year of the pandemic, we had a contraction of 5.8%, thereafter in 2021-22, the economy recorded a growth of 9.1%. The next year that is last year it was 7.2%. Current year the expectation is that GDP growth in real terms will be 7.3% and that is the data given out by the National Statistical Office.

Yesterday, in another forum, I have mentioned that my sense is that in the next financial year, *i.e.,* April-March 2024-25, India's GDP growth will touch 7% and when that happens for 4 consecutive years, India would have recorded a growth of 7% or above. Inflation has also moderated from its peak of 7.8% and now it is well within the target band. But its journey towards 4% is continuing.

Our policy remains actively disinflationary, and we hope that this pace will continue. The main uncertainty in inflation has been food inflation because it is subject to supply-side factors on which the Central Bank has little control. There are weather-related events which also add some time to spike in vegetable prices, create bottlenecks with regard to transportation and add to headline inflation. But the interesting thing is that amidst all this core inflation, which is non-oil, non-gold, has moderated to 3.8%. Our target inflation headline target is 4%, and core inflation at 3.8% gives us the confidence that the Monetary Policy has worked and is working through the system.

India has emerged stronger from this recent period of crisis. The economy has shown its resilience, growth has revived. We are recording 7% or above growth. Inflation has been brought under control. Financial stability has been maintained. The banking sector in particular has shown remarkable recovery from the overall health of the banking system which prevailed let's say about a decade ago. All the performance parameters of banks whether it is with regard to capital adequacy, or it is with regard to the size of the non-performing or stressed assets or with regard to profitability the banks are performing well.

In the Reserve Bank, we have done the stress test under very serious conditions and various scenarios and our stress tests show that the Indian banking sector will be able to, not only at the systemic level but also at the individual entity level, withstand severe crisis situations and all banks will be able to meet the minimum regulatory requirements.

So, the economy has revived well, and inflation has been brought under control and is moderating. Financial sector stability has been maintained. The external sector has also been quite stable. The current account deficit has come down. Our foreign exchange buffers have also gone up and we hold about US$620 billion of foreign exchange reserves which is sufficient and gives a lot of confidence to international investors who put their money into India, that India will be able to service its external payment obligations.

On the whole, all this has happened, and the Indian economy has revived well. Now how has this happened? This has happened because of very coordinated fiscal and monetary policy actions. During the period of COVID, our policies were targeted and calibrated, we acted proactively, and our approach was multi-dimensional.

While we injected a lot of liquidity, the liquidity was targeted and was injected for definite periods. It was not open-ended which becomes very difficult to pull it back. We gave out liquidity for definite periods of 1 year, 3 years, and 6 months like that. So, this money automatically came back after 1 year or 3 years and the banks, to whom we gave this liquidity, knew that this had to be returned after 1 year or 3 years. So, they also planned their activities accordingly.

Our liquidity injections were also targeted; targeted to small and medium enterprises; targeted to certain specified sectors like, for example, micro-enterprises; it was targeted to small non-bank lenders. So, it was targeted and calibrated. The amount of liquidity that we gave, we were able to pull it back. We also cut down our policy repo rates and interest rates. But we have again after the inflation increased them.

When I say our approach was multidimensional it was not just on the monetary side because we are the regulator of almost the entire financial sector, excepting the capital markets and the insurance sector. So, we also focused on strengthening the health of the financial institutions and banks. It was during the COVID period that we impressed upon banks that they have to build additional capital buffers. Liquidity conditions, the world over were very good and we kept on nudging them, prodding them to raise capital, almost every bank raised additional capital and built up additional buffers and all of them exceeded the minimum capital adequacy requirements.

Simultaneously, we were also able to do a lot of cleaning up of the bad assets which were thereby putting them into the resolution mechanism which was put up. We also tightened our supervision over banks and non-bank lenders. We substantially improved our regulatory architecture for the financial sector during this period. Another area completely different area where we brought about great changes was the focus on technology, on fintech, on payment systems. UPI the unified payment interface was already picking up before COVID started, but the period of COVID helped us to give a greater push to UPI. We launched several new products under UPI so that people can use this mode of payment even where internet facilities are not available. New products have been launched. The number of transactions has gone up exponentially. We issued regulatory guidelines for digital lenders because digital lending was really coming up by the fintech companies and while it was providing a lot of reach among the people, we found that there were issues which needed to be addressed by the regulator. So, we were perhaps one of the first countries to issue a digital lending guideline.

Now, where do we go from here? Very briefly, our current focus is to preserve the macroeconomic and financial stability that we have so carefully built up. Not just preserve it, but also improve upon it to strengthen it further. Our emphasis will also continue to remain very agile with regard to our supervision and regulation of the banks. Our greater and continuing emphasis will be on the entire fintech ecosystem.

We have given a lot of encouragement to the fintech companies which are coming up into the financial services sector, and startup companies which are coming into the financial sector. Digital lending will get a lot of support and very recently we have announced the setting up of a self-regulatory organisation for the fintech companies. We do understand that between the fintech companies, between innovators who are operating in the financial services sector, and the regulator there has to be some agency, a self-regulatory body, which acts as a bridge between the entities and the regulator so that we are up to date on the industry-related issues. A good part of our regulation or compliance expectations, and a good part of business ethics and business conduct all that can be designed and delivered by a self-regulatory organisation under the overarching supervision of the regulator. I will conclude here because I can see the time and so on the whole if I summarise, this time around the world has recovered far better, but challenges continue, new geopolitical flashpoints are coming up almost every day, supply chains are yet to be normalised.

India has recovered far better, in terms of macroeconomic stability, resilience, financial stability and growth potential. The inherent growth momentum of India is well sustained and that gives us the confidence to say that the growth in India will be sustainable. And finally, our focus on technology in fintech is on bringing in entirely new business processes and methods that emphasis will also continue. I will stop here. Thank you.

Stephan Mergenthaler:
Excellent. Thank you sir. I will just pass the microphone to Mr. Prasad.

Prasad:
Thank you Governor Das for that very nice overview. You spoke about the supply shocks petering out and then you also alluded to the geopolitical risk. Do you think there is a prospect of these geopolitical risks flaring up again in a way that they affect supply chains and create supply shocks that once again create an inflation problem for us? In other words, despite core inflation being under 4%, is it premature to declare victory? But as we think about these geopolitical issues in the long term there is a notion that India is very well positioned right in the middle of these geopolitical fractures. So, India could benefit from the repositioning of trade and global flows, but do you see any risks for India from these geopolitical shifts? It sounds very good that India can benefit from these realignments but are there risks as well to India?

Shaktikanta Das:
If there are geopolitical conflicts, and there are geopolitical conflicts, every country will definitely be affected, and India cannot be left completely insulated. New flashpoints almost periodically you are hearing. Some new developments in some parts of the world, which cause a great amount of concern and going forward, may create problems with regard to the supply chain.

To that extent, every country will be impacted and India cannot be an exception. Now let's say food prices. We are self-sufficient with regard to the major food items, cereals, rice, wheat, etc., because our domestic production is very high. But the challenge is when global prices go up, our domestic prices also respond to that and India is an exporter of rice and wheat. So, our local prices will also go up.

If there are international developments or for example a lot of sunflower oil comes from the Caspian Sea region. If there are continuing conflicts, if there are bottlenecks and impediments imposed on the movement of goods, then there will be a problem. It will have an impact on international edible oil prices. India has a population of 1.4 billion and we have to look after them. So, what India has done like every other country, there has been a lot of friends shoring, nearshoring, new supply chains, and new systems being built up. So, there will be an impact on India, but overall, India is better placed in terms of dealing with this crisis and that is why we have been focusing on continuing with our financial sector reforms and also the structural reforms which the government has undertaken in the last few years and that momentum also we do expect will be sustained.

So, the inherent strength of the economy and the fundamentals of the economy today are much stronger. Every country will have problems, but amidst all this, India is far better placed to deal with the global challenges.

Stephan Mergenthaler:

Thank you Sir. There is another question over here.

Participant 1:

Governor, thank you very much for the presentation. Your comment regarding self-regulation on fintech is very interesting. So, I was wondering if that is a model you created or something that you modelled from somewhere else and adapted because there is a lot of conversation. So, for fintech, given that it is upcoming in the emerging markets I would be interested to know a little bit more.

Shaktikanta Das:

Thank you. There are two aspects to it. One is the digital lenders which are various non-banking lenders, what you call NBFIs. We, in India, call them NBFCs, non-banking financial companies. They are lenders, but they are not banks. Most of them cannot collect deposits. They raise their money by floating bonds or by investors who put their money. Now these people started lending through digital processes, and we saw that this was a kind of new thing which was developed. It had advantages, but it also had inbuilt deficiencies in terms of customer protection, in terms of business ethics and in terms of regulatory compliance. So, we formed a committee headed by one of our senior officers with experts from outside and they had wide-ranging consultations with the industry, and with the public. They came out with a discussion paper which was put in the public domain. We got hundreds of comments. We examined them and we issued what we call digital lending guidelines. That is the first aspect.

The second thing is with regard to pure technology companies, which are not lending themselves, but which are offering fintech solutions, and technology solutions to the companies. Many of these lenders have partnerships with them. Banks also have partnerships with them because these are the guys who are providing technology models like, for example, there are now a lot of algorithms, now a lot of model-based lending also which is happening to identify customers to originate loans to disburse loans. So, we have to regulate these fintech companies because they are not directly regulated by us, but our regulated entities like banks and non-banking lenders are utilising them. We have issued guidelines for the banks and the non-bank lenders and made them responsible with regard to their conduct, with regard to ethics, and with regard to the overall guidelines that their third-party service providers are required to provide.

So, it was a lot to answer your question directly. It was internal work but with a lot of external consultation.

Participant 2:

Thank you Governor for the insightful talk earlier. Quickly, if you could briefly talk about the path that you see from here on for the digital rupee and what kind of timelines you see with regard to that; vis-a-vis and also briefly in regard to what other countries are doing and how does that compared to what India is doing in this regard?

Shaktikanta Das:

The digital rupee is the Central Bank Digital Currency (CBDC). We have launched a pilot project both in the wholesale mode as well as in the retail mode. We launched the CBDC 'e-Rupee', as we call it, in November, December 2022. It is a pilot project.

Countrywide launching will depend on the success, learnings and fine-tuning of the CBDC itself. That is the distance which we have to cover. But we have no target date that we will implement by such and such date. We are also in no undue hurry or rush to implement it full scale because after all, it is a currency, and its safety, integrity and efficiency have to be ensured.

So, under this pilot, which is basically a learning process, we have about 4 million users under retail mode who have been on board and there are 0.4 million merchants, who have also been onboarded. The QR code which is used for the e-Rupee which is our digital currency is the same QR code which is used in UPI. In other words, the CBDC, the e-Rupee and the UPI payment systems have been made interoperable and so in the retail mode a lot of transactions are happening.

In the wholesale mode, the transactions with regard to the Government securities market, primary auctions as well as the Government's secondary market operations plus overnight money market transactions are in the wholesale mode. Now, there are a lot of learnings and challenges coming up and our experts within the RBI are dealing with this process, because we want to make it truly robust.

The advantage of CBDC *vis-a-vis* the UPI is that it is not one versus the other. Many people ask this question everywhere. UPI is a payment system, the CBDC is a currency. CBDC can operate in completely dark zones, *i.e.,* where there is no Internet is available. Offline payments will become much easier because, from my CBDC wallet I can pay money to your wallet.

In UPI we are now trying to facilitate that. But the CBDC payments will be very efficient and the greatest advantage of CBDC will be cross-border payments internationally. International cross-border payments will become far more efficient, faster and cost-effective as and when other countries adopt this digital currency. International payment systems will really gain in efficiency, speed, and cost, and ultimately it is a new technology which is developing, and it is going to be the future of money.

Participant 3:

Excellent Governor. I am from United Biscuits, London. We are a global baker, and we have a factory at Kala Amb in India. My question is I am a believer of diversity and it is well observed, it is a major risk depending on one single country as a major hub that was China in the past. I do see a big chance for India as well in that respect to become one of the global hubs in terms of supply. Supply of many things ingredients, commodities and technical stuff. Are you planning to invest further into logistics infrastructure, etc., in India and how are you going to fund this?

Shaktikanta Das:

The first thing I want to say is that it is not a game of competition between India versus somebody else. Where there are opportunities every country tries to capitalise and naturally India is also capitalising on it. India is now, in many areas, emerging as a major part of the global supply chain, particularly with regard to information technology (IT). It is no longer the traditional IT services which the companies were outsourcing from India.

Today a lot of business processes, product developments, accounting services, legal services, this global capability centers, all those activities are now happening in India and India is becoming a hub for that.

Coming specifically to your question with regard to the supply of inputs and other materials for manufacturing the domestic logistics facilities in terms of the development of ports, airports to handle cargo, the road network, and the railways network, there is a huge amount of investment which is taking place. That has happened because, in the last four years or five years, the Government has given a big thrust on capital expenditure.

It is not only the Central Government in Delhi, but also many State governments are investing heavily in capital expenditure, mostly going into physical infrastructure, roads, railways, airports, and ports, but also digital infrastructure. So, that is continuing and there is a lot of private investment also entering into the space of logistics with regard to cold chain storage facilities and other things.

With regard to funding, yes, that is a very good question. On the infrastructure side, the entire spending at the moment is primarily by the Government and the government agencies. There are several government agencies like the Indian Railway Finance Corporation, and the National Highways Authority, the majority owned by the government, and they access a lot of funding from the market through the bonds route, not only from the domestic market but also the international market.

So, a lot of investment is happening in that way. But the Government is very mindful of remaining on the path of fiscal consolidation. We also interact regularly with the Government. We also impress upon the Government the need to remain fiscally prudent. The Government have been fiscally very prudent for the last several years and they will continue to be so.

Stephan Mergenthaler:

Excellent. We are out of time. Governor, thank you very much for your thoughts.