Edited Transcript of the Governor's Interaction with CNBC-TV18 at the World Economic Forum 2024 at Davos on January 18, 2024

Shereen Bhan:
Welcome to the CNBC-TV18 Special Lunch. We are coming to you live from Davos 2024. You have seen a slew of headlines here on CNBC-TV18 and joining me now is the RBI Governor Shaktikanta Das. Mr. Das, always a pleasure. Thank you so much for joining us here on CNBC-TV18. You are quite the envy here of everyone in Davos. Mr. Das, I was looking at a press conference that you were doing a few days ago when you arrived in Davos. Many were almost saying that they were feeling jealous of the position that you find yourself in.

Shaktikanta Das:
Well! Good morning and thank you for having me here. I cannot say how others are looking at India, but the journey has been quite challenging for almost every country, especially in the last four years, which I have described elsewhere as a period of great volatility. The volatility and the challenges on the global scale are still continuing.

Amidst all these challenges, India has navigated very well. The various authorities, agencies and in the case of the Reserve Bank, overall India has navigated well. In terms of macroeconomic stability, macroeconomic growth, in terms of financial stability, in terms of Monetary Policy actions and their outcome and bringing inflation under control, India is today well placed. It showed its resilience. India is well-placed to deal with emerging challenges.

Having raised this point, what is now the focus which should now be the focus and what is our continuing focus is to maintain that stability, maintain that resilience and work towards improving it and strengthening it further. India is, on the whole, doing well and we will continue to do well as per the current indications.

Shereen Bhan:
Let me pick up on that comment that you made. You have called it a period of great volatility between 2020 and 2023. On the back of the conversations that you had here in Davos as well as some of the emerging uncertainties, for instance, the attacks that we are seeing on the Red Sea, etc., what is the outlook now as far as 2024 is concerned? Domestic, of course, as you rightly pointed out, is much more stable, and relatively calmer, but what about the global factors that we will need to be watchful of?

Shaktikanta Das:
All these global geopolitical flashpoints are evolving. Around the Red Sea region, how it will evolve in the coming days, we have to wait and see. Only time will tell. As things stand today, India will be able to deal with the existing challenges, but we have to see how it all plays out in the future weeks or months. This kind of uncertainty makes policymaking really that much more complex.

Shereen Bhan:
Speaking of complex policy challenges, the central bankers' dilemma and the central bankers' challenge at this point is that there is a clamour from industry, from consumers, and perhaps even from the Government to cut rates, but there is a fear in the risk that if you move too prematurely or too early, you could in fact cause more disruption and upset things further. I know you have firmly said that there will be a change in stance or a cut only if you get to 4% on a sustainable basis. But, as a central banker and you have been talking to other central bankers here as well, isn't that a big challenge and a big dilemma for you?

Shaktikanta Das:
You have partly answered the question. The markets all over the world are running ahead of the thinking of the central banks. In India, you mentioned that there is an expectation from various quarters about a rate cut and all that. Frankly speaking, the serious players in India, whether it is the industry or the private sector or it is the analysts or the economists or the serious market players; I do not think anybody is expecting a rate cut now. In most of the advanced economies, the markets the stakeholders and the market players' assumptions are ahead and they are overrunning their central banks. So for as India is concerned, the thinking of the central bank and the thinking of market participants are much better aligned.

With regard to inflation, our policy has to remain actively disinflationary till we reach the target of 4% on a durable or sustainable basis and that is our current stance. Ultimately, why are we working towards this 4% inflation? Because a stable inflation, what we call price stability, provides support to the growth. It acts as a bedrock for sustainable growth. Otherwise, you will often have known data of growth doing well, then again slipping back. You are absolutely right in saying that any premature pivot in our policy can be very, very costly for the economy.

Shereen Bhan:
You talked about growth and the NSO advanced estimate has specked growth higher than the RBI's estimate. On the back of the data that we are looking at today, do you believe that there is an upside projection or growth that could do better than your own estimates?

Shaktikanta Das:
We said a 7% growth rate for the current year, i.e., 2023-24. Our earlier projection was 6.5% and the market was also around 6.5%. When I said 7% in one of the events in October 2023 and followed up by our Monetary Policy Statement. At that time 7% was seen as optimistic, but subsequently, the NSO came out with later period data about a month later. They had a later period data and the NSO has access to several other data to which we do not have access. In the Monetary Policy conference, the Deputy Governor had said that 7% is a conservative estimate and we were expecting that it could exceed 7%, but we wanted to be sure about our number. The growth momentum

of economic activity is well maintained and next year growth will be touching 7%. When that happens, India would have recorded a growth of 7% or more for four consecutive years.

Shereen Bhan:
So confident as far as growth is concerned!

Shaktikanta Das:
We are confident. Unless I am confident, I will not say anything. I do not speak about it.

Shereen Bhan:
I am sure about that but let us talk about what is happening as far as the markets are concerned. Yesterday, we saw a significant impact on the banking sector, on the banking stocks, in specific, HDFC Bank came out with its numbers. There is a concern now as far as deposit as well as credit growth is concerned and deposit growth is not keeping pace with credit growth. Are you concerned about that?

Shaktikanta Das:
Our deposit growth, during the last one or two years, has been around 12 to 13%. The credit growth has been about 15%. Now, it is not that you get X amount of deposit, and you extend that X amount as a loan. It is not like that. With each loan that you extend, money creates money. The money multiplier happens in the market. So, the credit will always be a little higher. Now the question is whether it is unduly higher, or it has a correlation with your deposit base. At the systemic level, at the individual entity level, at the moment, we do not see any risks. Our supervision has become much more intense. Our supervision is now an ongoing process. It is not once in a year annual supervision of banks. So, at the moment, the Indian banking sector, at the systemic level, is very robust. Even at the individual entity level, it is very robust.

With regard to the stock market prices, stock markets have their own dynamics. The share prices in the stock market do not necessarily reflect the fundamentals of a company. I am talking in general terms, not with reference to a particular bank. The stock prices are determined by so many other factors and do not necessarily reflect the fundamentals of a company. You have examples in every sector. Whether it is financial services or banking or any other sector you look at. There are companies with very strong fundamentals, but their share prices should be low, and the converse also happens. So, it would not be correct to judge the health of a particular sector, like banking in particular, in terms of share prices, movement of share prices and that too on a single day.

Shereen Bhan:
There is a concern or perhaps confusion as far as the credit deposit ratio is concerned and whether the RBI is likely to mandate a number or not. Could you clarify this for us?

Shaktikanta Das:
We have not mandated any number that this shall be the credit deposit ratio. We have not. At the moment, we do not propose, because the credit deposit ratio is just one of the parameters used to assess the health of a bank. There are several other parameters. You have to look at it all in totality. All that I can say is that there should not be exuberance in lending, number one. Number two, there should be some correlation between your deposit base and your credit growth. There should be some correlation. But in terms of hard coding it, in terms of a particular number, there is no such proposal in our minds, and we have not prescribed any such number.

Shereen Bhan:
Are there signs or evidence of exuberance that you just spoke of or misalignment in any particular cases, individual cases at this point in time?

Shaktikanta Das:
Not at the systemic level, not with regard to overall credit. We saw some signs of it with regard to personal loans, especially unsecured loans. We saw also with regard to the interconnectedness between the banks and the NBFCs. So, at the sector, not even at sectoral, sub-sectoral level, in places where we saw a possible buildup of exuberance or a possible buildup of stress, we had already acted.

In November, we increased the risk weights and we have acted. But the numbers as they prevail today are not bad. The numbers are okay. But we have acted preemptively. We felt that if we allowed this to continue and if left unattended, this could create a potential situation of stress. So, we were dealing with a build-up of stress, a possible stress from actually materialising. So, it was a kind of preemptive action to prevent the kind of fear of missing out or a kind of what could have become a possible exuberance.

Shereen Bhan:
Yes, you said that you did not want to wait for the house to catch fire and hence you acted preemptively. Any other areas where you feel that you may be forced to take preemptive action? Usurious rates, for instance, for MFIs. Is that a toll or concern for you at this point in time?

Shaktikanta Das:
We are monitoring almost every aspect of the banking and the credit space of the entire credit ecosystem. As and when something becomes necessary, we will definitely act. Our endeavour is always to take preemptive and proactive actions.

Shereen Bhan:
On the back of the measures that you have already taken and one involving the AIF. So there are representations being made by that industry, by the AIF, etc., to the Finance Ministry as well as to the Reserve Banks saying that perhaps there needs to be a review of that decision or at least more time could be given. You obviously, I would imagine, have heard from them. How do you respond to that?

Shaktikanta Das:
This decision of the result is the culmination of more than one year of keeping track of developments in the AIF sector. It is not as if something suddenly came to our notice, and we acted. We have been tracking these developments for more than a year now. Initially, when we saw some signs here and there, we tried to deal with it on an entity-based approach. Our supervisors take it up with that particular entity and try to deal with it on a bilateral basis. But when we see something showing signs of getting widespread, we have to act.

Shereen Bhan:
How widespread is the problem today?

Shaktikanta Das:
I cannot again quantify it, but there was this whole issue of evergreening that was taking place. So, that had to be prevented. We have not stopped any lending. We have only said that if you want to continue, you treat it in a particular way.

Shereen Bhan:
Provide for it!

Shaktikanta Das:
You provide for it in your accounts. So, that is what we have said, and some representations have come. They are being examined.

Shereen Bhan:
But could there be any kind of review as far as the decision is concerned?

Shaktikanta Das:
I cannot say. It is being examined. We have got a number of representations. They are being examined. It is a well-thought-out decision to prevent a kind of new source of stress for the Indian banking sector.

Please remember what was the health of the Indian banking sector 10 years ago and where it is today. In fact, the gross non-performing asset has reached an all-time low of 3.2%. The profitability of banks is very good. The capital adequacy of banks is about 16.8%. Our stress tests also show that even under severe stress scenarios, banks will be able to maintain their minimum regulatory capital.

We have to be, therefore, very careful. The banks have to be careful. The banks are careful. I see a clear improvement in the risk management practices and the governance practices of the banks. But more needs to be done and we are working on that.

Shereen Bhan:
Would you extend the same view as far as NBFCs are concerned?

Shaktikanta Das:
The NBFC sector is definitely far better. The numbers in the NBFC sector are also very positive and quite robust, particularly, the bigger ones after the scale-based regulation. We have different regulations depending on the size and complexity of NBFCs. So, the NBFC sector parameters are also looking good and they have recovered in the last 4 years in the post-ILFS scenario. They have recovered very well. In 2019, when I joined the Reserve Bank about 2-3 months after the ILFS crisis, the end of 2018 and the whole of 2019, there was a crisis of confidence. There was a lack of trust in the functioning of NBFCs. I am happy to mention here that we work very constructively with the various financial sector entities and with the sector as a whole. As a result of the efforts of the Reserve Bank and the efforts of the individuals, particularly the large and the medium-sized NBFCs, that sector is today much healthier than it was earlier.

Shereen Bhan:
Let us talk about another emerging sector the fintech sector, which is, of course, on an accelerated growth trajectory over the last few years. What is your take there as far as regulation is concerned, SROs and especially given the kind of explosive growth that we have seen?

Shaktikanta Das:
There are three things I would like to mention. Firstly, there are NBFCs and also banks which do lending through digital means. So, there are NBFCs which are primarily focused on digital lending. That was a growing sector that needed to be properly regulated and the regulatory architecture had to be defined. We, therefore, appointed a committee. The committee gave its recommendations and a discussion paper was put out. We got comments. We had wide-ranging consultations and we have issued detailed guidelines for digital lenders in the digital lending space.

When we did that, there was some amount of criticism that the RBI was trying to stifle activity in this sector. But let me tell you, the fact that it is now regulated by the Reserve Bank and there are clear regulatory guidelines, it has increased the trust of the investors. So, there is greater investor confidence in digital lending. That is the first thing we have done.

With regard to the fintech companies, they are not lenders themselves, but they provide technology solutions to lenders. They come out with products, and they act as third-party service providers to regulated entities of the Reserve Bank, like banks and NBFCs. There also we have issued instructions to NBFCs and banks with regard to the code of conduct and the practices that should be followed by their third-party service providers. The regulated entity of the Reserve Bank, whether it is a bank or an NBFC, so far as we are concerned, will be accountable and to that extent, it has to regulate fintech companies. The fintech companies are growing exponentially. They should grow. After all modern times belong to technology.

RBI is focusing on supporting technology and encouraging technology. At the same time, we want to have well-defined parameters where it evolve in the right direction, without creating any potential stress and keeping in mind the interest of consumers in terms of interest rates, in terms of safety of their money.

We have thought about the SRO, the self-regulatory organisation, which will be an intermediary body. There could be more than one SRO. Whether we should have a single one or multiple ones, if multiple, then how many should be, is part of a discussion paper, which we have released recently, on the SRO in the fintech sector.

Our idea is that this self-regulatory body will have the fintech companies themselves as its members and they will act as an interface between the Reserve Bank and the fintech companies. Certain amounts of Code of Conduct, business ethics, and certain business practices, certain minor details can be left to the SRO to deal with under the overarching principle-based regulation which we will prescribe. The SRO will also be closer to the fintech players. He will be in a position to have a better sense of how technology is evolving, and he will also be able to keep us appraised that this is the direction in which things are happening.

To sum up a long answer, our effort is mainly to see that the fintech ecosystem grows and grows in a robust manner in India, but it should grow in a properly regulated environment so that the interest of customers is well protected. It is a kind of sustainable growth which is achieved. Not that one-off kind of growth which happens and then suddenly crashes. The growth of that sector has to be sustainable.

Shereen Bhan:
You talked about modern times in technology and the Reserve Bank, and you particularly have emphatically said no as far as cryptocurrency is concerned. Globally, we have just seen an ETF being given the go-ahead but no change in position as far as cryptos are concerned.

Shaktikanta Das:
Let us differentiate clearly. There is a clear difference between the underlying technology of the so-called crypto as cryptocurrencies and the cryptocurrency as a product which is a speculative product. The underlying technology has been there. The underlying technology will be there.

We are using blockchain, for example, in our CBDC trial project. Blockchain has many applications. It will grow. It needs to grow. We are using it. There are many users who are also using it. Tokenisation also needs to grow. Tokenisation will facilitate what you call a large-value asset. Any ordinary individual who does not have the affordability can become a part owner of a high-value asset. That is what blockchain will facilitate. That is what tokenisation will facilitate. That is the technology part of it. The technology part of it needs to grow, but the product, which is bought and sold in the market, which is traded is a highly speculative activity. It has several downsides which can pose risks to financial stability. We need to clearly differentiate. Technology has to grow. That is what I say. We have problems with regard to the product or what is called cryptocurrency which is a speculative product, and it is being sort of marketed as an asset. Let us leave it at that.

Shereen Bhan:
One of the other issues that I want to take up with you is your comment saying that institutions like the IMF, etc., need to take a much more balanced and nuanced view of emerging markets like India. You said this in the context of currency management and the IMF's change as far as classification is concerned. What is it that you believe they are failing to perhaps recognise or understand the nuance that they are failing to recognise or understand?

Shaktikanta Das:
It should be recognised that it is not an India problem. It is an emerging market issue. They should keep in mind the fact that emerging markets have to ultimately protect their economies. You have volatility in the international markets and in the financial market. You have volatility in the most powerful currency. The dollar index at one stage went up to about 114. Then it came down to about 101. Now it is holding around 103 and all this has happened in the last 2 years. So, see the volatility there. If that volatility translates and causes an equal amount of volatility in emerging market currencies, where will they go? What is the safety net that emerging market economies have? So, emerging market economies have to build up their strength and build up their buffers.

In the Reserve Bank, we have embarked on strengthening and building up higher reserves. Our reserves are around US$620 billion at the moment. Individual emerging market economies have to insulate and protect their economies from the spillovers of global currency movements and fluctuations. They have to ensure the stability of their currencies. By stability, what I mean is that undue volatility has to be prevented. The Reserve Bank's intervention in the currency market is only to prevent excessive volatility. This has been the stated policy of the Reserve Bank for so many years and I would like to reiterate that that continues to be the policy of the RBI.

The stability of the Indian rupee, if you are trying to measure the stability, the question is what time period you are looking at. You pick up 11 months and say that during this period, the Indian rupee has remained stable. Yes, it has remained stable. Why has the Rupee remained stable? Please do a deep dive and do the analysis. The Indian rupee has remained stable because of India's strong macroeconomic fundamentals, because of the stability of the Indian financial sector, and because of the return of Forex, foreign capital inflows. The FPI inflows have increased. It is about US$32.5 billion this year on a net basis. FDI is about US$10 billion. India is one of the largest recipients of the FDI.

The Indian currency and our external sector are also very robust. With a foreign exchange reserves buffer, the investors have greater confidence in India's ability to service its external obligations. With all these confluences of factors, naturally, the Rupee has remained stable. You have to recognise it as the ground reality. You cannot just pick up 11 months and say that the Rupee has remained stable. You look at the two-year horizon. After the Ukraine war in 2022, the Rupee depreciated by about 10%. If you look at the two-year horizon, the Rupee depreciation is about 4 to 5%. If you look at the last 5 years or 10 years, the annual average depreciation of the rupee has been about 4-4.5%. Even now the annual depreciation is 4-4.5%. We have said it in our reply which is already published as a part of the RBI, our response to the IMF report.

What we are doing is that we would like to impress upon the IMF or for that matter any agency to look at these ground realities and appreciate the challenges which emerging market economies, on the whole, face and prioritise them to protect their domestic economies. You cannot take away that right from these countries.

Shereen Bhan:
Speaking of ground realities, let me talk to you about private CAPEX and you did say that there are signs indicating that we are seeing an uptick as far as private CAPEX is concerned. Where do you see that? And where are we in that cycle at this point?

Shaktikanta Das:
Capacity utilisation in the manufacturing sector has now reached 75% and CAPEX is happening in several key sectors. First thing is the government capital expenditure has been quite strong in the last five years. That is continuing to drive growth. That is also generating private investment. Credit growth in India has been very robust. Of course, a large part of it is going into the retail part of lending. But if you talk to leading banks in India, they are also seeing a lot of business interest and a lot of active proposals for lending for CAPEX. But CAPEX is actually happening in certain core sectors like steel, cement, petroleum and agricultural products and a lot of CAPEX is also happening in startups and in fintech companies. So, that cycle has started.

Shereen Bhan:
The action that you took as far as unsecured loans are concerned, are there any other pockets where you believe that there are signs of overheating where you may not have intervened yet but you may have to intervene?

Shaktikanta Das:
We are very actively supervising the system. In the entire supervisory process of the Reserve Bank over the last four to five years, there has been a paradigm shift and as and when we see any stress anywhere or any risk anywhere, we will act.

Shereen Bhan:
So, nothing at this point in time that you believe may lead to some preemptive action?

Shaktikanta Das:
It is a moving situation. Let us see.

Shereen Bhan:
Let us talk about the last five years. As the RBI Governor, it has been a challenging time. You yourself in your phrase said a period of great volatility. What do you believe have been the hardest points to navigate through? What has been the most challenging aspect of manoeuvring the RBI, manoeuvring the economy, and manoeuvring the financial sector through the last five years?

Shaktikanta Das:
Every new challenge looks bigger than the previous one. Let me put it that way. In 2019, the scenario which prevailed in the NBFC sector with a crisis of confidence in that sector, activities had come to a standstill. That appeared to be a very big problem, but then you had COVID and its fallout. Then you had the Ukraine war. Then synchronised Monetary Policy tightening. Now the new flashpoints in geopolitics, in supply chains. So, every new challenge looks bigger than the previous one and we have to remain prepared to deal with such challenges. For a Central Bank, it has never been a dull moment and our endeavour is to live up to the expectations that the country has on us, and the expectations that people have from us. Our effort and endeavour is always to live up to that. One thing which I can say with confidence is what the Reserve Bank has been able to achieve over the last five years is to bring about financial sector stability and contribute to the macroeconomic stability of the country.

Shereen Bhan:
You talked about never being a dull moment as far as the RBI is concerned. I would imagine that is the case. But let me ask you about growth priorities. I know that your mandate is inflation, but let us talk about growth priorities in the context of the fact that we now have a vote on account and then, of course, the full budget is coming up. So, what would you like to see as far as growth priorities are concerned?

Shaktikanta Das:
No, I think it is not appropriate for me to…

Shereen Bhan:
I am not asking you to comment on the budget but in general.

Shaktikanta Das:
At the moment, the momentum continues. The overall economic activities are maintaining their momentum and that's why we have said that we expect a growth of 7% in the next financial year. So, the growth has to be sustainable. The rate of growth also has to improve, and it is happening.

The potential growth of the Indian economy is also steadily rising. Our potential growth was about 6% or so in the year of COVID. Then some research papers published by the RBI researchers talked about the potential growth of India being 6.5%. But, now the growth for the last three years including the current year and next year hopefully, and we do believe that it should be at 7%. If that happens, 4 years of 7% growth.

Actual growth is, therefore, running ahead of the growth potential. So, we expect India's growth potential also to move towards 7%.

Shereen Bhan:
Let me end by asking you, what is the one thing that you are excited about today? Here people are talking about AI, talking about the impact of that and so on and so forth. But on a wide canvas, what are the one or two things that you are most excited about from India's perspective?

Shaktikanta Das:
I will not say I am excited about, but I can say that I see some very positive signs of growing confidence in India, growing expectations from India that India will be a country which will perhaps play a bigger role in global growth, expectations that India will provide the necessary momentum to world growth also. The IMF has projected that India's share in global growth will go from the current 16% to 18% by 2028. So, what I see here, I cannot say that I get excited. I am not excited of everything. One has to maintain that amount of equanimity more so in a Central Bank. But there is a growing interest in India. There is a growing confidence in India. There is a growing expectation that India will play a bigger role in global economic growth.

Shereen Bhan:
RBI Governor Shaktikanta Das, always a pleasure. Many thanks for joining us here on CNBC-TV18. Appreciate your time and we look forward to seeing you back in India.

Shaktikanta Das:
Thank you.