

Edited Transcript of the Governor's Interview with NDTV Profit at the World Economic Forum 2024 at Davos on January 18, 2024

Shaktikanta Das:

India today deserves a very much more serious look because of all that is happening in India. The interest this time around in India is genuine. There is a lot of International confidence on the Indian growth story, on the technology story built around India, on the growth prospects of India, and the stability that is the macroeconomic and financial sector stability that India offers. So, my message if you see it in that sense is that we need to really step back and look at the business opportunities in India because this is the right time to get into the Indian business ecosystem.

NDTV Profit:

Coming back to my point in terms of the India growth story, how do you see India's growth with global inflation also rising? How do you see that panning out in the next 5 years, 10 years and as a matter of fact if you can give?

Shaktikanta Das:

The prospects of India's growth are very robust. Just imagine the last three years including the current year contrary to the contraction of 5.8% that we witnessed in 2021. The next 3 years' growth rate was 9.1%, 7.2% and the current year we expected is 7.3%. In fact, last year in October 2023, contrary to our projection of 6.5% growth which we had given in the previous monetary policy when I said in an event in Mumbai I would not be surprised if growth in the current year is 7%. There was a lot of cynicism around that perhaps RBI had been over-optimistic at that time when I said 7%, but subsequently, the National Statistical Office (NSO) has come out with a figure of 7.3%.

Growth prospects are very good mainly due to the structural reforms which have been undertaken in recent years, structural reforms in matters of taxation, in matters of banking, in matters of let us say giving a new feeling to the manufacturing sector in particularly in making a vast difference in the ease of doing business in India.

So, considering the structural reforms which have been done and the macroeconomic and financial stability which we as a central bank have been able to provide during the years of multiple overlapping shocks, unprecedented crises like the health crisis COVID, geopolitical crisis Ukraine war, new flashpoints in the global geopolitics are coming up.

Despite that, the Indian banking sector has made a remarkable recovery and the Indian banking sector is perhaps at one of its best in recent years, the financial sector is very stable. The external sector is also stable notwithstanding that the global growth is slowing down. India's services sectors are doing well and these are not one-off

developments. These are not temporary developments these are happening because of the structural reform measures that we have undertaken. For example, look at the regulatory architecture of the financial sector. We have given a lot of focus to the regulatory architecture. The entire governance system in both private and public sector banks today is a new financial architecture. We issued the regulatory guidelines along the NBFCs, we issued digital lending guidelines along the digital lending.

All these are the building blocks and they are providing the required foundations for the belief in the fact that India's growth momentum will be maintained in the future years. When I say that I see durable signs of India's growth momentum being maintained, it is not a one-off comment. It is based on a lot of in-house research and analysis.

NDTV Profit:

Thank you for the comprehensive answer. You mentioned in your earlier interviews that we live in a very volatile, uncertain, very complex and ambiguous world so what are the primary risks that you as an institution are overseeing on very critical length from a vertical length? What are the kind of risks right now you are foreseeing that will be out and might impact India's growth story?

Shaktikanta Das:

This is from the external side, the headwinds emanating from outside the country, the geopolitics, the geo-economic fragmentation, their impact on the global supply chains which have not yet normalized, and I just mentioned that new flashpoints in global geopolitics are coming up and putting further restrictions on supply chains.

There are new restrictions being put by some countries on the flow of capital, on the flow of technology, and the flow of goods and services. There is geoeconomic fragmentation and what shape it will take again is linked to the emerging geopolitical scenario. The financial conditions which we see in the advanced countries notwithstanding, the fact that this time around the global economy one year ago or two years ago everybody thought that there would be a hard landing in all the advanced economies has not happened. Countries this time have responded to the challenges far better. So, a hard landing is looking unlikely at this point of time. Individual economies have run and responded far better to the global crisis, but the point remains that global growth is slowing down. So from the external side, how the geopolitical dynamics are likely to play out, the slowing global growth will have an impact on external demand for every country and the geoeconomic fragmentation and persisting supply chain issues and the financial conditions how they will evolve.

Internally so far as the financial sector and the macroeconomic scenario is concerned, we are very proactive in dealing with them. We closely supervise the financial sector

whether it is banks, or it is nonbanking finance companies or various segments of the financial sector which is regulated by us other than capital markets and the insurance sector. We have substantially improved our supervision. I am not going into one improvement, it is already in the public domain. Last week I have spoken at length about it so I am not going into that. But today our emphasis and the focus of our supervision and our forward-looking approach is to identify the crisis, identify a possible risk before it actually materialises and then take preventive measures to prevent any risk build-up. There are examples of it.

Internally there will be problems, but let me mention one area which is always on top of our agenda at the moment, the dynamics of food inflation which is subject to leading to global supply chain issues and also which is linked to unexpected weather events. Food inflation can be very volatile depending on some weather events. We saw it last year, there were heavy rains and floods and then we had the vegetable prices going on and that impacted the headline inflation. That is something which is not under our control, but we have to respond to it and that is a matter which is on top of our table whenever we try to sort of analyse the situation.

NDTV Profit:

In Davos one of the lines of thinking or rather buzz is around emerging technologies and you have been heading an institution that is looking at the financial sector in India, so what is the future of cryptocurrencies in India?

Shaktikanta Das:

Very bad!

On a serious note, let me say it and I have said time and again. I will not shape the policies for all times to come, but as far as I can see in the foreseeable future and the way cryptocurrency is evolving all over the world it has huge risks. Some people are celebrating it as the party has just begun. It began 4, 5 years ago then it collapsed. Now again the party has started, but there are huge risks particularly for emerging market economies, for developing economies because it can impact your financial stability, it can impact your currency stability and your monetary system. It has issues of money laundering and terror financing and all that. It has the potential of a currency-like product, so, there are huge risks around it as there is no underlying. It is not a currency first of all, but it has the potential to become a currency in which event it can occupy a part of your payment system. People say that it is too farfetched, but please take my word, it can happen. It can happen sooner than people are expecting and also have a later impact on our banking system.

There are various risks built around it. It has no underlying. Every asset, if you call it an asset, has a corresponding liability. Cryptocurrencies, whose liability it is, nobody

knows. Having said that let me say that the underlying technology, blockchain has many applications. They can be put to excellent use and already it is being used in the logistics companies, in the financial sector, our CBDC (the Central Bank Digital Currency) the e-Rupee; which we have launched, in fact, just two lawns further down on a pilot basis at the moment. It is on displays of the demonstration along with the UPI. We are using blockchain technology, which has a lot of applications. The application built around technology has got lot of potential and that needs to be capitalised and utilised. But cryptocurrency as a product is highly speculative and my opinion is that and the Reserve Bank's opinion is that considering the big risks around it countries like India should be very, very careful. I said it in one event in Mumbai last week that we should not have a situation like the Tulip Mania. We should not again have something called a Cryptomania kind of crisis. I will stop here.

NDTV Profit:

I take on the word UPI that you just mentioned. So, UPI is something that has revolutionised the digital payment ecosystem in India and it is something that the Honorable Prime Minister has offered it towards the Global South. The kind of transactions India has seen it is more than the US and China put together. So, what is the RBI doing in terms of promoting its adoption externally?

Shaktikanta Das:

UPI has been a game-changer. It has now become kind of an international model and there is a lot of interest from many countries. We have signed the MOUs with several countries, but I cannot mention their names, to facilitate the setting up of similar systems in their countries. In some countries, we are also providing the required assistance to develop their own internal UPI-like fast payment systems and the idea is to link up the fast payment system of India with the fast payment system of other countries. We have done it in the case of Singapore, the UPI of India and the PayNow of Singapore. The transactions across the countries can happen on a real-time basis and a similar exercise is already underway with many other countries. It can be a game changer because cross-border payments can become much easier, more cost-effective and faster. So, that is our endeavour.

The NPCI has set up a subsidiary, which is specifically dedicated to take UPI International, called NPCI International Limited. This company is specifically focusing on taking UPI International. There is a lot of enthusiasm built around UPI. Some of the use cases are those who have travelled in India or those who are from India. Today, if you go to a small shop or a vegetable vendor or a roadside chaiwallah that is a tea stall or something like that they all are on UPI because it is so much easier and everybody has a QR code. We have made it interoperable across banks irrespective of in which bank you have your account and the person on the merchant to whom you

are making payment in which bank he has a bank account, they would be different banks, but it is interoperable across banks.

UPI has complete interoperability within the financial system in India, which is the best use case that we have and many new products also which we are launching from time to time. When you travel to India you can use the 'UPI One World'. You can create a UPI wallet and pay in dollars or pounds or whatever currency you have and get that wallet, spend in India and then on your return at the airport you exchange it and take back your foreign currency.

The ease of using UPI is its Interoperability. Another thing that UPI has is that we have streamlined the QR codes. Earlier each merchant would have multiple QR codes. Now there are just two QR codes, one is the UPI QR code which is hugely popular and then there is another QR code which is the BharatPe QR code that has also been there. You will have only two QR codes, but mostly it is a single UPI code which is used by everybody and now that has been made interoperable with our Central Bank Digital Currency, e-₹.

NDTV Profit:

When you took over the crisis was panning out and by the end of your tenure, you are probably the longest-serving Governor of the RBI in several decades. What do you see as your single biggest achievement? It has been a crisis firefighting kind of tenure at least initially and especially during COVID. What do you see as your biggest achievement during the year that you have been at the hub?

Shaktikanta Das:

I joined just about a couple of months after the IL&FS crisis that happened around August-September 2018 and I joined in December 2018. So, the financial market was already in a kind of major turmoil, a crisis of confidence, activities in the market financial markets had frozen; then we had in 2020 the COVID crisis and then we have the Ukraine war and its fall off and then all these make sense of recent multiple shocks. It is not my achievement and I would like to put in that it is RBI's achievement because whatever we have done I would like to give the credit to the entire team RBI. I am not saying just because I am speaking from such a platform I genuinely mean it. It is the achievement of the RBI and the major achievement is to bring stability into the financial sector, stability of the currency, stability in the external sector, and public confidence, the investor confidence not only investor confidence in India but investor confidence outside. Bringing that stability to the financial sector has been the major achievement of the Reserve Bank of India in the last five years. It carries a lot of weight and in one event in which I was participating in Kochi last year, there were a lot of College students present. So, one college student, a girl stood up and asked me Governor,

how does it feel you sign the Indian currency. So how does it feel? Does it give you a sense of power? I told her, look, it is not a sense of power it is a sense of responsibility, because what does the Governor say that I promise to pay the bearer so much. When I say I promise to pay the bearer the responsibility of the Reserve Bank is to maintain price stability. The value of the rupee does not go down because of high inflation. So, there is a commitment behind that signature on behalf of this sovereign that we will ensure price stability and stability with regard to inflation. So, it is a huge responsibility.

NDTV Profit:

Thank you very much sir for taking out time for us.