
GUEST COLUMN

V. VAIDYANATHAN

Shaktikanta Das is Central Bank Governor of the Year



Photograph by Umesh Goswami

MR Shaktikanta Das, Governor of the Reserve Bank of India (RBI) since December 2018, was honoured with the Governor of the Year award at London's Central Banking Awards 2023. This recognition provides an opportunity to reflect on the complex situations that unfolded over the last four years and the steps taken by the RBI in response to them.

In 2018 when he took over, following an AQR by the RBI, banks recognised losses on troubled corporate loans, following which many lenders couldn't lend as they were low on capital, and many corporate borrowers couldn't borrow as cash-flows were weak; a situation known as the "Twin Balance-Sheet Problem". Fast forward to 2023, India enjoys a "Twin Balance Sheet Advantage", with banks having healthy adequacy levels surpassing 16 per cent, and borrowers benefiting from robust cash flows due to a strong economy. Between 2018 and 2023, the Gross NPA of the banking system decreased from 10.8 per cent to 4.41 per cent, and the net NPA decreased from 5.3 per cent to 1.3 per cent.

In the early days of the Covid-19 crisis in H1 2021, financial markets experienced turmoil, bond markets froze, and interbank lending seized up. The RBI swiftly took about 20 innovative and targeted measures in quick succession, all within a year, to stabilise the system. These measures included relaxing asset classification norms, providing targeted

liquidity through OMO, TLTRO-1, TLTRO-2, reducing CRR, MSF, and Repo rates, Moratorium 1.0, Moratorium 2.0, Restructuring 1.0 Restructuring 2.0, extending resolution periods for stressed assets, and implementing sector-specific liquidity support for various sectors. Subsequently, the RBI phased out these measures in a timely manner.

The Indian government, on its part, exercised prudent fiscal control during the pandemic, focusing its benefits primarily on the poor. Countries like the United States splurged cash of \$2.3 trillion through direct monetary assistance to the broader population, including

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"cheque in mail" of \$1200 per person and \$500 per child for most US families! They spent \$500 billion in government lending to companies and \$349 billion loans and grants to small businesses. In contrast, India, under advice from experienced bureaucrats and fiscally prudent government, focused its benefits only for the poor.

India, for instance, directed its financial aid to Jan-Dhan accounts, provided free food, which was self-targeting to

BPL families. India supported small businesses only through credit guarantees, not direct cash credits. This approach drew criticism from global experts and economists at the time, but proved prescient, as post-Covid India was quickest off the block with high GDP growth (7.2 per cent, FY 2023) with low inflation (4.25 per cent, May 2023). Many developed Western nations, including UK and the US are grappling with high interest rates and low growth to date.

The RBI played a crucial role in shaping innovative ecosystems like digitised banking transactions and statements, UPI, ONDC, AA, e-KYC, video KYC, e-mandate, e-agreement, and credit bureaus, enabling safer lending based on cash flows. The RBI emphasised that banks simultaneously achieve financial inclusion and strong asset quality in banks, a concept previously considered paradoxical. The RBI enabled this by providing a conducive regulatory environment and enabling the above ecosystems. The RBI also demonstrated leadership by launching a CBDC and taking a decisive stance on cryptocurrencies, which influenced other central banks' approaches.

I once asked Mr Das, how he manages to be independent and also avoid altercations with the government. He said "Look, when I have to say 'No', I just politely say 'No', and explain the reason for it. Why fight?" The approach is so simple, I learned from it. **BW**

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