Infomerics Valuation And Rating Pvt. Ltd.
SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)
Dr. Manoranjan Sharma
(Chief Economist)

SHAKTIKANTA DAS, RBI GOVERNOR (2018-2024) - AN ASSESSMENT

09 December 2024

With Dr. Urjit Patel leaving before his tenure, Mr. Shaktikanta Das took over as the 25th Governor of the Reserve Bank of India for three years in trying circumstances in December 2018. This was a time of intense debate on the role of the RBI and its relationship with the Government of India, a relationship which is uneasy at the best of times.

As everywhere in the world, public memory in India is proverbially short. But the most well-informed watchers of the Indian BFSI (Banking, Financial Services, and Insurance) industry will recall the public spat between the then Finance Minister P. Chidambaram and the RBI Governor Dr. D. Subbarao**.** Chidambaram said in October 2012, "*If the government has to walk alone to face the challenge of growth then, 'we will walk alone'*". Strong words! To this offensive expression, Subbarao responded equally strongly, "*I do hope Finance Minister Chidambaram will one day say, 'I am often frustrated by the Reserve Bank, so frustrated that I want to go for a walk, even if I have to walk alone. But thank God, the Reserve Bank exists'*".

Similar turf wars between the Ministry of Finance, the Government of India, and the RBI were seen during the tenures of Governors YV Reddy, Raghuram Rajan, and Urjit Patel on a slew of issues, including the issue of cutting rates to foster growth in the conundrum of growth and inflation.

Now that the career bureaucrat-turned-central banker's term is ending on December 10, 2024, after the second three-year extension, making him the second-longest-serving RBI Governor after Benegal Rama Rau, who was the Governor for seven-and-a-half years from July 1, 1949, to January 1, 1957, it's time to assess the man and the milieu, the global overtones and macroeconomic setting, and the evolving role of the RBI in this overarching context.

During the crippling period of COVID-19, he hit the ground running and his agility and responsiveness to the disconcerting macroeconomic scenario were seen in contextually significant measures like slashing the Repo rate by 115 basis points to revive the economy and a loan moratorium to mitigate the adverse impact of the pandemic was remarkable. These and other measures prevented a freezing of the financial markets and the financial intermediaries continued to function in an untrammeled manner.

His innings at the RBI was rocked by the collapse of Infrastructure Leasing & Financial Services (IL&FS) and its impact on other non-banking financial companies (NBFCs). But he successfully ring-fenced the banking sector and prevented a contagion effect on the banking and larger financial systems.

During his stewardship, the gross non-performing assets (GNPAs) of banks plummeted from 10.8 per cent in September 2018 to 2.8 per cent as at end-March 2024.

He hiked the risk weight on the exposure of banks towards consumer credit, credit card receivables, and non-banking finance companies (NBFCs) by 25 per cent up to 150 per cent, to address the build-up of risks and tightened norms for NBFCs that were aggressively pursuing growth without building up sustainable business practices and risk management frameworks.

He also rightfully did not grant banking licences to big corporate houses amid fears over connected lending and self-dealing because as he stressed "*Experience world over has shown that when real sector companies enter into the banking space, there are potential conflicts of interest. The problem around related-party transactions is also a major issue*".

Considering a proper historical and comparative perspective, Mr. Shaktikanta Das acquitted himself well at the helm of affairs in the RBI. How do I arrive at this assessment?

First, he was recently named the top central banker by Global Finance for the second consecutive year in 2024, with an A+ rating for his leadership in guiding the RBI through challenging economic times. Secondly, and more importantly, his role in regulating the monetary policy, including adroitly managing the "*growth-inflation trade-off*" and ensuring macroeconomic and financial stability. He did pioneering work in strengthening the regulatory framework of Banks, NBFCs, UCBs, Payment Systems, and ARCs, deepening the supervisory framework, developing financial markets, and making the payment systems in India interoperable with cross-border linkages and innovation. His deft and dexterous maneuvering of various domestic and exogenous shocks was commendable.

To my mind, this provides the litmus test of his astute leadership in the context of shifting paradigms and the "*new normal"*, a normal, where there were no easy answers, a world moving through the unipolar moment that existed between the disintegration of the Soviet Union and 2016 to a multipolar homogenous system. In this grim scenario, the choices were tough and constrained, and a measured and calibrated response was needed as provided by Governor Das.

He may have made some errors of judgment - who doesn't? - in the cataclysmic events of COVID-19 and geo-economic strife marked by wars in Ukraine and the Middle East. But I expect that given his role in steering India in hard and turbulent times, history will be kind and generous to him.