



RBI- Jalan Committee Report

Highlights:

- ✓ RBI to transfer surplus of Rs 1.76 Cr to Government
- ✓ Dividend payment includes Rs 28,000 Cr already transferred as interim dividend in February, 2019
- ✓ It is highest-ever surplus amount transferred by RBI to Government

Central board of RBI, in its meeting held on November 19, 2018, in consultation with Government, constituted an Expert Committee to review the extant Economic Capital Framework of RBI. The Committee comprises of:

Dr. Bimal Jalan	Chairman
Dr. Rakesh Mohan	Vice Chairman
Shri. Bharat Doshi	Member
Shri. Sudhir Mankad	Member
Shri. Subhash Chandra Garg	Member
Shri. N.S. Vishwanathan	Member

Monisha Chawla
monisha@stcipc.com
 +91-22- 66202245

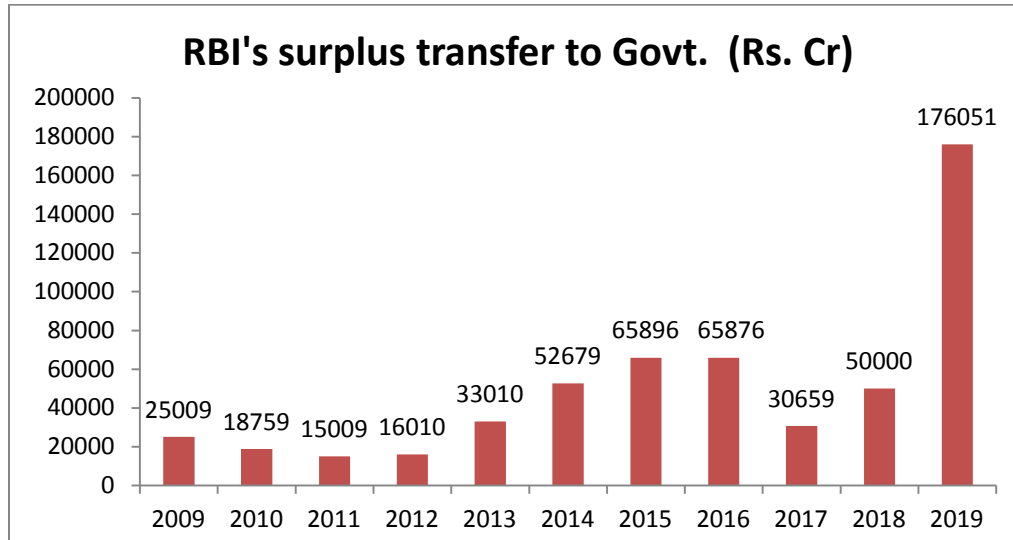
The terms of reference of Committee were:

- To review status, need and justification of various provisions, reserves, and buffers presently provided by the RBI
- To suggest an adequate level of risk provisioning that RBI needs to maintain
- To determine whether the RBI is holding provisions, reserves and buffers in surplus / deficit of the required level of such provisions, reserves and buffers
- To propose a suitable profits distribution policy taking into account all the likely situations of the RBI, including the situations of holding more provisions than required and the RBI holding less provisions than required

The Expert Committee was to submit its report within a period of 90 days from the date of its first meeting. However, it postponed it several times and finally submitted its report to Central Board of RBI on August 26, 2019.



RBI approved the transfer a sum of Rs 176,051 Cr to Government comprising of Rs 123,414 Cr of surplus for the year 2018-19 and Rs 52, 637 Cr of excess provisions identified as per the revised Economic Capital Framework adopted at the meeting.



This is the biggest-ever payout by the Central Government. The Central bank had transferred Rs 50,000 Cr in FY18.

Committee Recommendations:

Before we delve into what Jalan Panel report recommended, let's know about some of the major reserves and provisions of RBI:

Particulars (As on 30th June 2018)	Amount (Rs. Cr)
Contingency Fund (CF)	2,32,108
Asset Development Fund (ADF)	22,811
Currency and Gold Revaluation Account (CGRA)	6,91,641
Investment Revaluation Account- Foreign Securities (IRA-FS)	0
Investment Revaluation Account- Rupee Securities (IRA-RS)	13,285

The RBI's reserves consist of currency and gold revaluation account (CGRA), the investment revaluation account, the asset development fund (ADF) and the contingency fund (CF). The CGRA makes up the chunk of the reserves and has gone up substantially since 2010, at a compounded annual growth rate (CAGR) of 25 per cent to Rs 6.91 Lac Cr in 2017-18. It essentially reflects the unrealized gains or losses on the revaluation of forex and gold.



Further, CF is a specific provision made for meeting unexpected contingencies from exchange rate operations and monetary policy decisions. The RBI contributes a notable portion of its profit to the CF. The IRA is sub-divided into IRA-foreign securities (IRA-FS) and IRA-rupee securities (IRA-RS). The former reflects the unrealised gain or loss on the mark-to-market of foreign securities while the latter is on account of marking rupee securities. The ADF has been created to meet internal capital expenditure and make investments in subsidiaries and associated institutions.

The amount of surplus that the RBI decided to transfer to the Centre is determined based on two things- realized equity and economic capital. The 'realized equity' is the risk provisioning made primarily from retained earnings referred to as the Contingent Risk Buffer (CRB). This is essentially the existing amount in the RBI's CF. The Jalan panel has recommended that the CRB be maintained within a range of 6.5% to 5.5% of the RBI's balance sheet.

The current realised equity stood at 6.8% of the RBI's balance sheet and hence, the excess from the pre-decided range of 5.5-6.5% is written back. Here, the panel decided to go with the lower threshold of 5.5% and hence the excess Rs 52,637 Cr is transferred to the Centre.

Secondly, at the aggregate level, the panel suggested to maintain economic capital-realized equity and revaluation balances (essentially CGRA) – within the range of 24.5% to 20% of balance sheet. Since it stood at 23.3% as on June 30, 2019, the entire net income of the RBI of Rs 1,23,414 Cr for the fiscal year 2018-19 to be transferred to the Centre as surplus out of which Rs 28,000 Cr has already been paid as interim dividend in February 2019. Hence a total of Rs 1,76,051 Cr to be paid out to the Government.

Conclusion:

The transfer of Rs 1.76 Lac Cr surplus to the Government as dividend is the highest ever dividend doled out by the central bank in its history. As per budget, dividend to be transferred by RBI to Centre was projected at Rs 90,000 Cr and excluding Rs 28,000 Cr already paid, Government is yet to receive Rs 1.48 Lac Cr as per decision of Jalan Committee.

This receipt from RBI will give a fillip to Government's efforts to boost the economy from the five-year lows. Finance Minister Nirmala Sitharaman recently announced a slew of measures to prop up growth while sticking to its target of fiscal deficit to 3.3% of GDP.



With this, concerns over fiscal position eases as shortfall in tax revenue will be compensated by these funds and will help the Government to maintain its fiscal deficit target for the current financial year without disturbing annual borrowing programme. In our assessment, the 10 Yr benchmark is likely to trade in the range of 6.35% -6.55% in near term.

STCI Primary Dealer Ltd.

CIN: U67110MH2006PLC165306

A/B1- 801, A Wing, 8th floor, Marathon Innova, Marathon Next Gen Compound,
Off. Ganpatrao Kadam Marg, Lower Parel (w), Mumbai 400013.

Dealing Room: (022) 66202217-20 • Settlements: (022)66202262-64, Fax (022) 66202288

Delhi Office: (011) 47676557-58 • Kolkata Office: (033) 40611435-36 • Bengaluru Office: (080) 42183166/1021

Please mail your feedback to stcipd@stcipd.com • Website: <http://www.stcipd.com>

THIS COMMUNICATION IS FOR PRIVATE CIRCULATION ONLY. IT IS BASED UPON THE INFORMATION GENERALLY AVAILABLE TO PUBLIC AND CONSIDERED RELIABLE. THIS REPORT DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SUBSCRIBE FOR OR PURCHASE OR SALE OF ANY SECURITY AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER WITH STCI PRIMARY DEALER LTD.