31st May, 2024

STCI
Primary Dealer Ltd

RBI's Surplus Transfer to the Centre FY2023-24

Highlights:

- ***The RBI approved ₹ 2.11 lakh crore surplus or dividend transfer to the Central Government for FY2023-24.***
- ***The contingency risk buffer has also been raised to 6.5% from 6.0% previously.***
- ***The size of the RBI's balance sheet increased by 11.0% for the year ended March 31, 2024 as compared to the previous year.***
- ***The FY2023-24 ended with an increase of 141.2% in overall surplus as compared to the previous year.***
- ***While income for the FY2023-24 increased by 17.0%, expenditure decreased by 56.3% as compared to the previous year***

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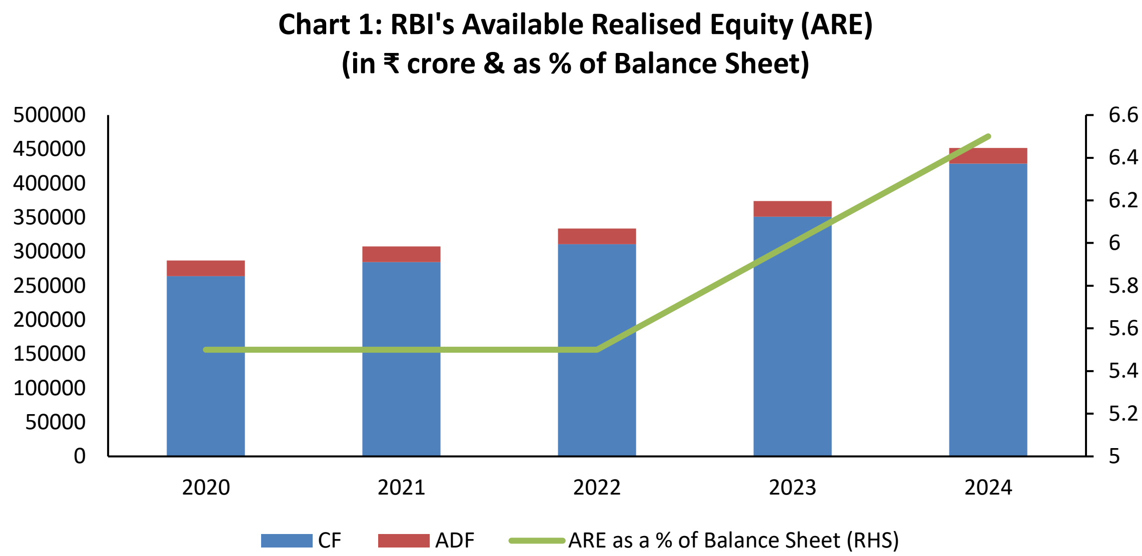
A brief introduction to the Economic Capital Framework (ECF):

The RBI had constituted an Expert Committee to review the Extant Economic Capital Framework of the RBI under the chairmanship of Dr. Bimal Jalan in 2019, the recommendations of which were accepted by the RBI Central Board in August 2019. Given the RBI's functions to ensure financial stability in the country, the central bank will need to keep savings for a 'rainy day', which constitutes the economic capital. In central banking terms, economic capital as defined in the report, is the total of the RBI's risk equity comprising of its capital, reserve fund, contingency fund (CF), asset development fund (ADF), and revaluation balances (currency and gold revaluation account (CGRA), foreign currency valuation account (FCVA), Investment revaluation account Rupee-Securities (IRA-RS), Investment revaluation account -Foreign Securities (IRA-FS).

The shift from targeting a static risk level via the contingency reserve and asset development reserve to a more dynamic risk provisioning under the new Economic Capital Framework needed a smoothing mechanism for surplus distribution, as the new definition of economic capital included the volatile revaluation buffers which could quickly reverse the transferable amount to the Centre and would also affect the dynamics of the coming financial year. With the adoption of the Jalan committee recommendations, the Staggered Surplus Distribution Policy (SSDP), was changed to a Surplus Distribution Policy (SDP), which targets the level of realized equity to be maintained by the RBI, within the overall level of its economic capital, as against the earlier policy which targeted total economic capital alone.

The Extant Economic Capital Framework states that there will be no transfer of unrealized valuation buffers. This means that all the revaluation gains of the gold, and foreign currency transactions of the central bank and the buffers thereof are non-transferrable to the Central Government.

In the past five years, the available realized equity has increased as indicated in the chart below:



Source: RBI's Annual Accounts FY2023-24

A break-up of the RBI Surplus Transfer FY2023-24:

The surplus transfer by the RBI to the Central Government is a function of the RBI's net income, i.e. Gross income net of total expenditure. The central bank's income is consequently an outcome of the various monetary and foreign currency functions, that the central bank dispenses over the course of the year as a part of its mandate to perform monetary policy and foreign exchange operations. The sources of income can be classified as domestic, foreign, currency, and gold, or the sources of the four revaluation heads listed above. For FY2023-24, the RBI's balance sheet indicates on expected lines, the major increase in income has been via the foreign currency/assets channel as interest rates on foreign assets have been higher, especially in the US where treasury yields and deposit rates also remain on the higher side as compared to the previous year.

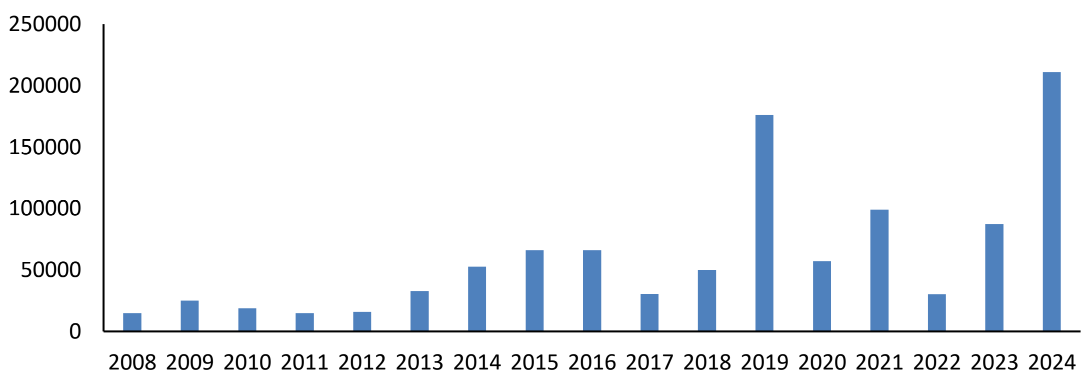
The income and expenditure trends of RBI indicates that 77 per cent of the assets in RBI's balance sheet are gold, foreign currency assets and loans and advances to financial institutions outside India as on March 31, 2024. Further, it can be seen that the increment in income has been due to the increase in gold holdings quantum and value, both, as gold prices have been rallying and the RBI has bought gold 27.5 metric tonnes during the year, foreign investments which have grown at the rate of 14 per cent in FY2023-24, and lending to foreign entities which indicates a growth rate of 60 per cent.

Table 1 : Major Assets/Earnings for RBI FY2023-24			
	FY2022-23	**FY2023-24**	**Growth (%)**
Gold	**371500**	**439319**	**18%**
Investments	**5622617**	**6165426**	**10%**
Investments-Foreign	4216195	4802057	14%
Investments-Domestic	1406423	1363369	-3%
Loans &Advances	**288814**	**375593**	**30%**
Central Government	48677	0	-
State Governments	792	6600	734%
Others	24485	12398	-49%
Reverse Repo Lending-Foreign	101969	162823	60%
Other Assets	**59475**	**64832**	**9%**
Interest	**143073**	**188606**	**32%**
Domestic Sources	82776	85428	3%
Foreign Sources	60297	103178	71%
Other Income	**92384**	**86967**	**-6%**
Domestic Sources	553	2673	384%
Foreign Sources	91831	84294	-8%

Source: RBI Annual Accounts FY2023-24

The surplus transfer by RBI worth ₹ 2.11 lakh crore has come as a positive surprise to the markets, as it augurs well for the Central Government's finances for the ongoing financial year. Over the years, since the Jalan committee (2019) recommendations on the Economic Capital Framework have been implemented, there have been years when the RBI dividend payout has been heftier at times, relative to what has been the norm. The highest surplus transfer so far was for the year FY2019-20, worth ₹ 1.76 lakh crore.

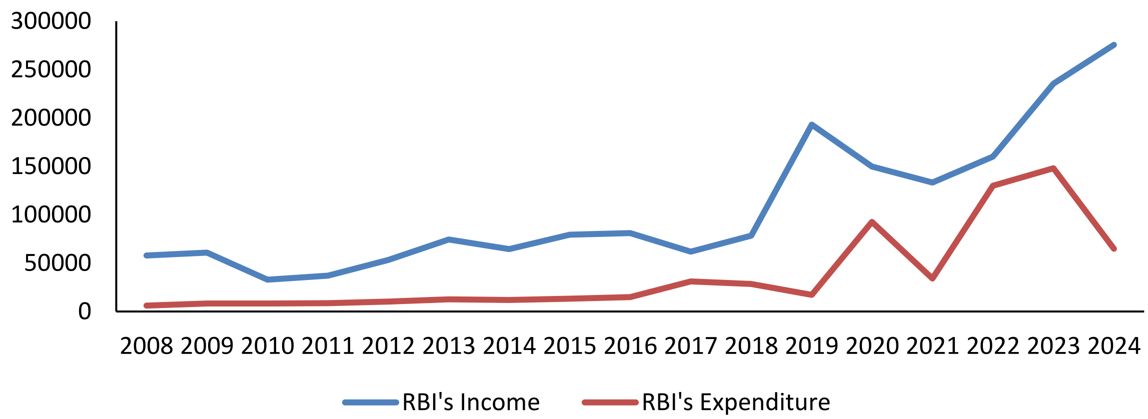
Chart 2: RBI's Surplus Transfer to the Centre (in ₹ Crore)



Source: RBI Annual Report FY2023-24

The dividend or surplus transfer has increased by 141.23 per cent, while RBI's balance sheet has grown by ~11.1 per cent for FY2023-24. The record surplus transfer to the Central Government has been made possible due to the growth of 17 per cent in income and a significant 56 per cent reduction in expenditure. This reduction in expenditure can be directly attributed to a reduction in provision for the Contingency Fund (CF) from ₹ 1.31 lakh crore in FY2022-23 to ₹ 0.43 lakh crore in FY2023-24. So, in essence, RBI has reduced its risk provisioning to give the net income to the Central Government in line with the recommendations of the Jalan Committee 2019. The reduction in risk provision has been by way of no provisioning for the Asset Development Fund (ADF) in FY2023-24.

Chart 3: RBI's Income & Expenditure (in ₹ Crore)



Source: RBI Annual Report FY2023-24

RBI's surplus transfer and the effect on Public finances: The Central Government had reckoned a total dividend from RBI, Nationalized banks and other Financial institutions at ₹ 1.02 lakh crore, of which nationalized banks are expected to pay an aggregated dividend amount of ₹ 18,000 crore, and hence the Central Government was expecting a surplus transfer of ₹ 84,000 crore from the RBI. However, the actual dividend payout as mentioned above is ₹ 2.11 lakh crore, which opens up fiscal space for the government equivalent of 0.4 per cent in FY25. Depending on the election outcome, the government will have the choice to either prune the fiscal deficit to 4.7 per cent by a reduction in the planned gross borrowings, or to increase its discretionary spending via an increase in the capital expenditure in the budget that the newly elected government shall present to the parliament in July 2024. This also assumes importance since the attempts to buyback existing government stocks from the market are proving to be consistently undersubscribed.

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