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RBI'S RECORD DIVIDEND - GOING BEYOND THE NUMBERS

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The issue of dividend transfer by the Reserve Bank of India (RBI) to the Government of India is customarily seen as a routine measure. But given the wide range of the dividend amount ranging from ₹33,110 crore in FY 13 to ₹2,10,874 crore in FY 24 (see Table 1), this issue evoked extensive debates and discussion across the development spectrum not just because of the customary concerns about the health and robustness of the RBI's balance sheet *per se* but also more importantly because of their monetary and fiscal implications.

While this record dividend provided distinct tailwinds to stock and bond markets and the government's fisc, it was not entirely unexpected provided the RBI's balance sheet and market activities were duly factored in an objective assessment of the evolving situation characterized by surging foreign exchange reserves, loans to commercial banks and effective contingent management.

Given the impact of this huge dividend on the fiscal deficit, borrowings estimated at ₹14,13,000 crore in FY25 in February's vote on account and public expenditure, this issue assumes greater significance in the context of the forthcoming Union Budget in July 2024.

Table 1: RBI's Dividend Transfer to Government

Year	Amount ₹ Crore
FY 2012-13	33,110
FY 2013-14	52,679
FY 2014-15	65,896
FY 2015-16	65,876
FY 2016-17	30,659
FY 2017-18	50,000
FY 2018-19	176,051
FY 2019-20	57,128
FY 2020-21	99,122
FY 2021-22	30,307
FY 2022-23	87,416
FY 2023-24	2,10,874

The dividend payout decision was taken at the 608th meeting of the RBI's Central Board of Directors held under the chairmanship of Governor Shaktikanta Das. The RBI said "*as the economy remains robust and resilient, the Board has decided to increase the CRB to 6.50 per cent for FY 2023-24. The Board thereafter approved the transfer of Rs 2,10,874 crore as surplus to the Central Government for the accounting year 2023-24*".

The Board reviewed the global and domestic economic scenario, including risks to the outlook. It also discussed the working of the RBI during the FY 24 and approved the Annual Report and financial statements for the year 2023-24.

The RBI said "*the transferable surplus for the year (2023-24) has been arrived at on the basis of the Economic Capital Framework (ECF) adopted by the Reserve Bank on August 26, 2019 as per recommendations of the Expert Committee to Review the extant Economic Capital Framework of the Reserve Bank of India (Chairman: Dr. Bimal Jalan). The Committee had recommended that the risk provisioning under the Contingent Risk Buffer (CRB) be maintained within a range of 6.5 to 5.5 per cent of the RBI's balance sheet*".

Dissecting the Balance sheet-Reading between the lines

The RBI has a unique operational nature, which distinguishes it from typical banks or financial entities.

Sources of Earnings of RBI	Expenditures of RBI
Profits derived from foreign currency assets like bonds, treasury bills and central bank deposits.	Operating Expenses
Earnings from local, rupee-based government securities.	Currency Printing
Short-term based lending	Staff remunerations
Borrowing management for both central and state governments	Transaction commissions for Banks
Regulation of banks and non-banking financial bodies.	Dealer Compensations
Commission from overseeing government transactions and specific underwriting endeavours.	Interest Paid on Deposits and Borrowings

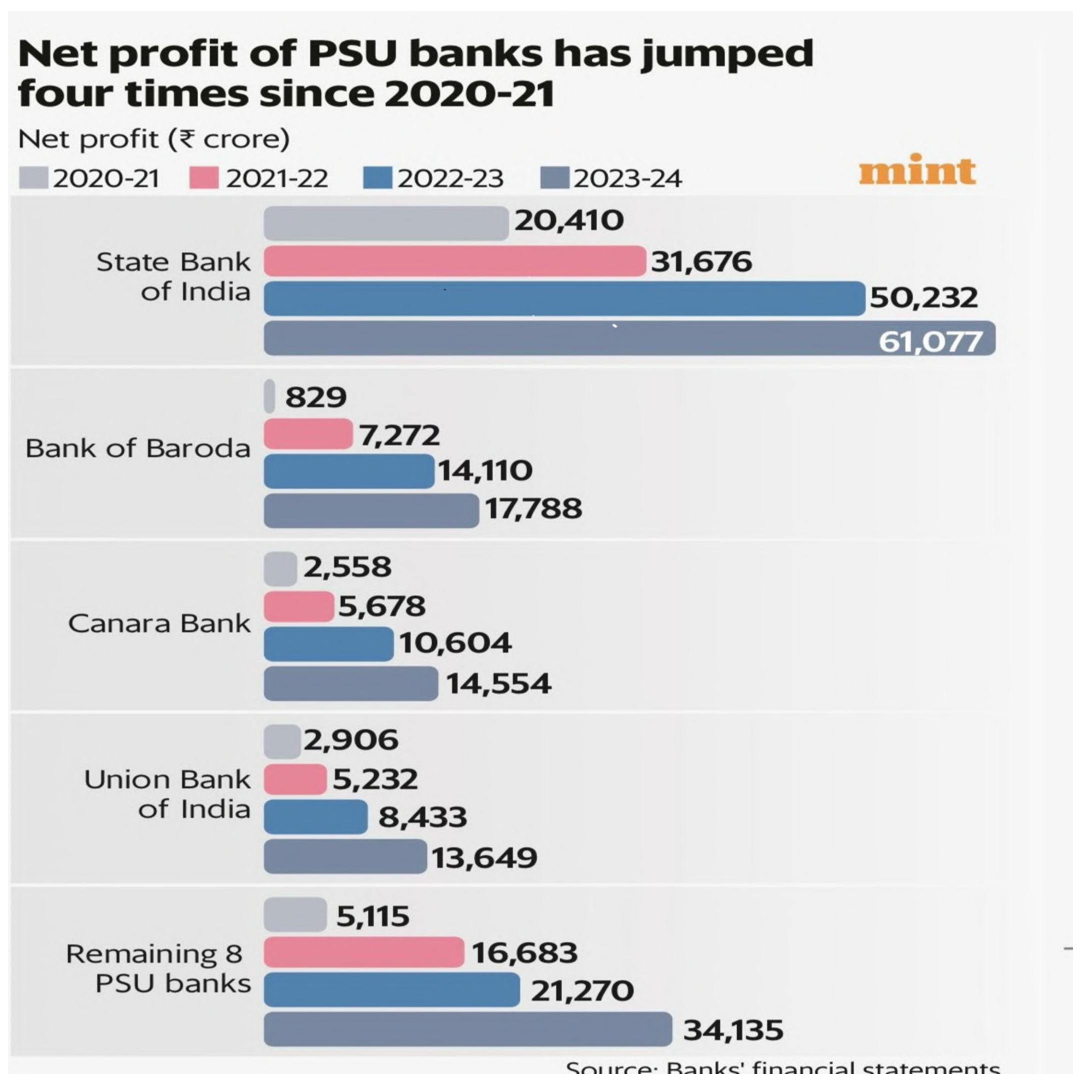
The surplus is the net income derived from the total income (sources of income) minus total expenditure (expenses). Out of the surplus of RBI, risk provisioning is made for monetary and financial stability risks, and credit and operational risks. The RBI transfers its surplus to the government in terms of Section 47 of the RBI Act, 1934.

An examination of the structure and dynamics of the RBI's balance sheet reveals that higher interest rates both on domestic and foreign securities were welcome contributors to the surge in income. A major component of the RBI's income stemmed from its foreign currency holdings held in US bonds and treasuries, with a small portion in Euro, Swiss and Yen bonds. Since the average US Fed funds rate doubled from about 2.5% in FY23 to 5% in FY24, the RBI gained an incremental 2 percentage points on all its foreign bond holdings in FY24 vis-à-vis FY23. According to the US Department of the Treasury, the RBI has invested $240.6 billion in US Treasuries (March 31, 2024). The RBI's $469 investments in risk-free sovereign securities of developed countries, particularly the $250 billion in US treasury bills, yielded returns of nearly 4%, significantly higher than the previous year and thus hugely enhanced foreign assets interest income. No rocket science this; one may even be tempted to say *a la* Sherlock Holmes "*elementary my dear Watson*"!

The RBI's foreign currency reserves rose by $61 billion (the highest in five years) from $509 billion to $570 billion as of March 31, 2024. In rupee terms, its foreign currency investments rose from a stock of ₹41.9 trillion in March 2023-end to ₹47.2 trillion in FY24-end. With 3% average return on a bond portfolio of ₹47.2 trillion, the RBI's interest earned works to ₹1.42 trillion. This interest amount of ₹1.42 trillion has, however, to be adjusted for a fall in bond prices.

Secondly, the RBI's intervention in the forex market and the sale of dollars also constituted another major source of earning. The RBI gross sold $153 billion in FY24 (it net bought more because its reserves rose by $61 billion in FY 24). There is an asymmetry here because when the RBI sells dollars it calculates its purchase price as the average price of all dollars bought historically (presently estimated at around ₹75–76/$) whereas the sale price would have been higher by ₹8 at ₹83/$ leading to a neat sum of ₹1.2 trillion.

The RBI would, however, have lost some revenue on its domestic market operations since it absorbed money for 259 of the 365 days in FY24. But the RBI would have made ₹0.8-1 trillion on the interest earned on its Indian government bond holdings of ₹13.5-14 trillion in FY24 while making allowance for any loss due to a fall in prices.



Further, interest from liquidity operations supported RBI earnings as the banking system switched back into deficit mode from September 2023, after three years of surplus. The increase in the price of gold also led to the burgeoning of the RBI balance sheet. Total expenditure fell 56.3% on year to ₹64,694.33 crore in FY24, down from ₹1.48 trillion at the end of March 2023, largely due to lower provisions.

Clearly, then, the RBI's adroit funds management skills and Interactive and mutually reinforcing strategies made a killing variously estimated at between ₹3 trillion to ₹3.5 trillion on foreign currency sales, with interest of foreign bond holdings and also gold reserves revaluation. Despite the hefty dividend of ₹2.1 trillion, the contingent risk buffer was bolstered from 6% to 6.5% to strengthen financial stability by providing adequate headroom by higher risk provisioning. This prudent measure will help to meet operational, monetary and credit risks caused by contagion risk from sudden financial market volatility and emergence of sectoral and macro-economic vulnerabilities stemming from real and worrisome fault-lines.

Macroeconomic Implications

The government had budgeted a receipt of ₹1.02 lakh crore as dividends from the RBI, public sector banks and financial institutions in the interim budget for the FY 25 presented in February 2024. Hence this bonanza would shore up revenues for the government, will help in meeting any shortfall in disinvestment receipts and facilitate funding welfare programs. While the use of this money will be carefully watched, sizable dividend, together with a high cash surplus may allow the Finance Ministry to reduce its bond sales, aiding lower borrowing costs.

The Finance Secretary (FS) TV Somanathan justifiably maintained "*this dividend is good for the revenue of the government, for the fiscal position of the government*". The FS noted that while cash inflows can be transient, revenues in any form, including dividends, increases the government's financial strength. He also explained that any decision to initiate buyback programs depends on the attractiveness of yields. In the event of tight liquidity conditions, the government would receive favorable offers for its bonds. He said, "*We will only buy those bonds back which come with yields which we like. We will keep doing things pragmatically to manage our cash*".

While similar profits and dividends may not occur in the coming years because of the rising average cost of reserves, this could be offset by US yields persisting above 4% and effective use of generic and country-specific strategies in banking and finance. Variables like potential declines in earnings from alternative sources, market volatility, and higher reserves could, however, make things uncertain.

Looking Ahead: Challenges and Expectations

This money is likely to provide an impetus to the move for prudent fiscal consolidation (reducing fiscal deficit by 0.4% in FY25) and enhancing the capex funds. This would ensure fiscal deficit reduction remains in accordance with the committed glide path of 4.5% by FY26. Should this resource pool be dissipated in additional spending, a higher money supply would strengthen the inflationary impulses. There is a distinct possibility that while maintaining the fiscal deficit at 5.1

% of GDP, spending, for capital expenditure- roads, railways, and defence projects- could rise.

The stock markets benefit because of higher government expenditure and hence increased economic growth. Higher capex will benefit construction and infrastructure stocks. The bond market has already indicated its bullishness with the yield of the 10-year bond moving towards 7%. This implies higher treasury profits for banks. Hence, the RBI dividend is positive for bank stocks.

Conclusion

While the fiscal calculus gets smoothened, the RBI needs to provide undivided focus on the basic objectives of central banking in India. There has to be an accent on absorption of excessive liquidity by the RBI by undertaking open market operation sales and foreign exchange interventions, enhancing the government's tax-to-GDP ratio, rationalizing GST rates and fast tracking disinvestment in the public sector to discernibly improve the ground-realities.

There is little doubt that over the years, despite the ebb and flow of monetary conditions, the vicissitudes and the travails of transition, the RBI has effectively discharged the mandate it has been charged with and secured the safety of its balance sheet in conformity with international best practices. The RBI has always passed the *litmus test* and there is no reason to believe that it will not do so now. This thesis can be substantiated by the fact that the RBI's balance sheet grew by 11.08%, reaching ₹70.48 trillion, reflecting the RBI's robust financial health and its ability to support substantial dividend payouts.