बैंक ऑफ़ बड़ौदा
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RBI Annual Report

Highlights of Macro economy:

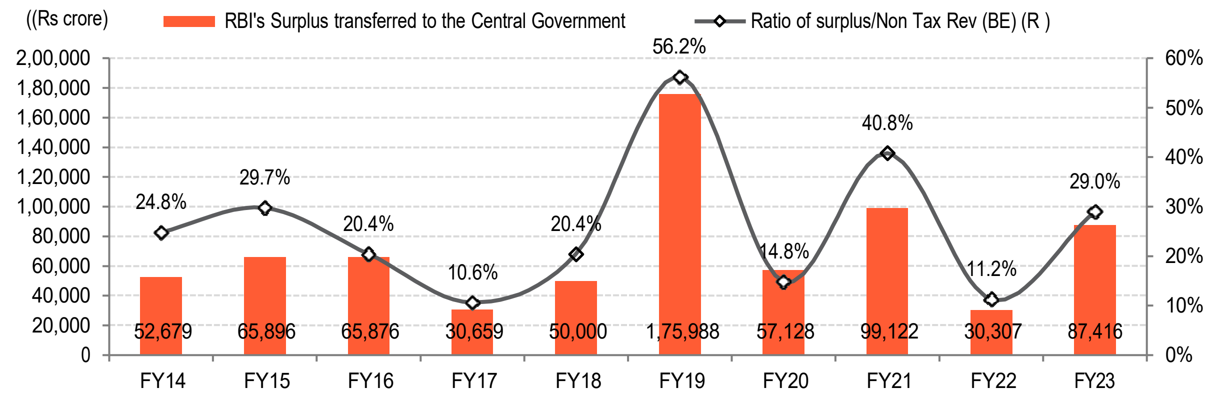
- Global economic outlook both for CY23 and CY24 looks benign on account of lagged impact of tighter financial conditions, subdued private investment, and geo economic shifts impacting capital flows and persistent elevated inflation.
- The report pointed out that 'the pace of global disinflation, however, remains less than desirable', reflecting some upside risks to global inflation as is still visible in US, UK.
- The RBI is confident on India's macro stability, sound policy environment and strong and healthy balance sheet of banks. Further it has pointed out that demographic dividend, digital revolution and service sector competitiveness will boost India's growth prospects in the medium term.
- Taking into account softer global commodity and food prices, good rabi crop prospects, sustained buoyancy in contact-intensive services, the government's continued thrust on capex, higher capacity utilization in manufacturing, double digit credit growth, receding drag on purchasing power from high inflation and rising optimism among businesses and consumers, real GDP growth for 2023-24 is projected at 6.5% with risks evenly balanced.
- The cumulative increase in policy repo rate by 250 bps last year would steer the disinflationary process, along with supply side measures to address transient demand-supply mismatch due to food and energy shocks.
- The inflation trajectory is expected to move down over 2023-24, with headline inflation edging down to 5.2% from the average level of 6.7% recorded last year.
- Robust balance sheets of corporates and banks, coupled with high capacity utilization, would aid in strengthening the momentum in private investment.
- Traction in construction activity is likely to be sustained as reflected in steady expansion in its proximate indicators: steel consumption and cement production.
- The crowding-in effects of sustained increase in government capex over recent years is expected to spur higher private investment in 2023-24.
- The outlook for services sector remains positive in 2023-24. Real estate and construction have witnessed a revival post-pandemic and are expected to perform well in this year also as both demand for and supply of housing remain buoyant.
- In the external sector, the current account deficit (CAD) is expected to remain moderate, drawing strength from robust services exports and the salubrious impact of moderation in commodity prices of imports. With global uncertainties persisting, foreign portfolio investment (FPI) flows may remain volatile. The favourable domestic growth outlook, lower inflation, and business friendly policy reforms could, however, help sustain buoyant FDI inflows.

Some pertinent issues in today's context:

In the current year, RBI's surplus transfer was more than the budgeted amount of Rs 48,000 crore for banking sector. This along with healthier balance sheet of banks will result in higher dividend payout. Hence this will significantly increase the government's non tax revenue providing support on the fiscal front.

As can be seen in Figure 1, the ratio of RBI transfers to non-tax revenue has varied over time. At 29% for FY23, this is on par with the levels attained in FY14-15. FY20 was the time when reserves were transferred to the government as per the recommendations made by an expert Committee. In absolute terms surplus transferred in FY23 is lower than the transfer made in FY21.

Fig 1: Historical trend of RBI's surplus transfer to the government



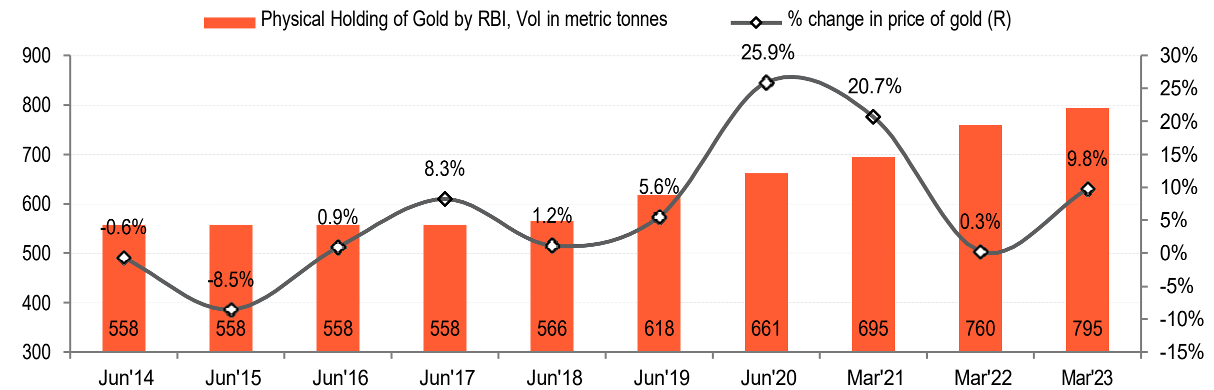
Source: CEIC, RBI Annual Report, Bank of Baroda Research, BE: Budget Estimate

**: The ratio of surplus/total non-tax revenue uses surplus for of RBI in say FY23 which will be used as part of non-tax income for FY24.*

Gold holding increasing:

The holding of gold by RBI has increased sharply from 566 metric tonnes in June 18 to 795 metric tonnes in Mar'23. This is on account of higher purchases of gold since 2019. Apart from this, inflation also came into play and demand for gold increased as safe haven asset. Such continuous increases will also allow for diversification of holdings of forex reserves.

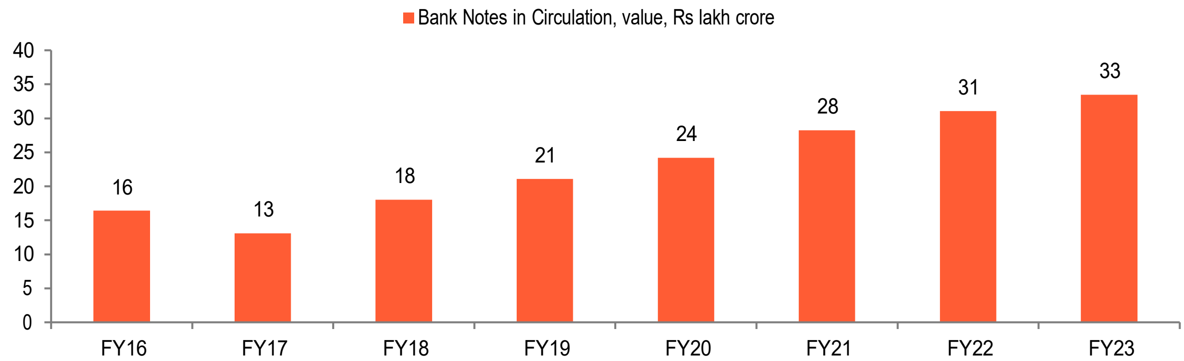
Fig 2: Holdings of gold has increased over time



Source: Bloomberg, RBI Annual Report, Bank of Baroda Research, Note: Change in price of MCX gold has been taken

Bank notes in circulation gained pace: *Post demonetization, there has been more than 2.5 fold increase in currency in circulation*. From Rs 13 lakh crore in FY17, the year of demonetization, the value of bank notes in circulation rose to Rs 33 lakh crore. Another important data which has been given in the Annual Report in this context is that the number of counterfeit currency in FY23 stood at 2,25,769 compared to 2,30,971 in FY22 and 2,08,625 in FY21. Thus, gradual reduction is taking place is such activity.

Fig 3. Value of Bank notes in circulation



Source: RBI Annual Report, Bank of Baroda Research

Holdings of Currency in different denominations

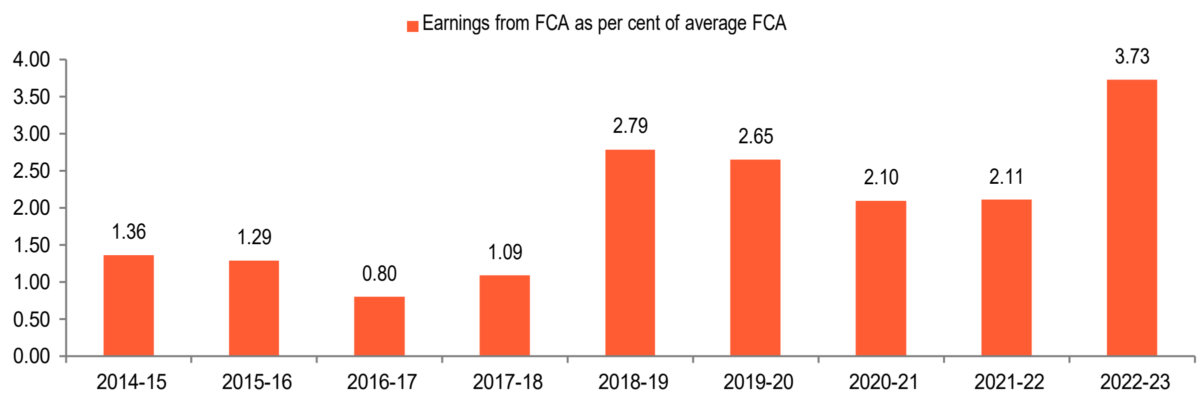
Shares in total

Denomination	March 2016	March 2023
100 and lower	13.6	8.4
200	n.a.	3.7
500	47.8	77.1
1000	38.6	n.a.
2000	n.a.	10.8
All	100.0	100.0

An interesting observation here is that post demonetization there has still been a preference to hold currency in higher denomination. In 2016 for example 86.4% of total was in notes of Rs 500 and Rs 1000. In 2023 it was 87.9%. Besides convenience in holding currency is also a reflection of the diminishing value of currency on account of high cumulative inflation which was around 30% for the 6-years period.

Earnings on FCA improved on account of better returns on forex investments in US Treasury and on account of better return on dollar. This becomes critical given that our forex reserves held by RBI and have been increasing and being invested in various avenues. Figure 4 gives average returns on forex assets of the RBI over the years. As can be seen the returns in FY23 have been the highest since FY15.

Fig 4. FCA earnings



Source: RBI Annual Report, Bank of Baroda Research, FCA: Foreign currency assets, Note till 2019 RBI Balance sheet year as on Jun'19, post that RBI Balance sheet year as of Mar have been taken

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