

RBI ANNUAL REPORT

25 August 2020

RBI expects gradual recovery

RBI's balance sheet expanded by 30% in FY20 to Rs 53tn led by FX intervention, higher gold prices and OMOs. On the liabilities side, notes in circulation increased by 22%. We expect balance sheet to increase by 11% in FY21 in the context of negative GDP growth. This will support transmission through OMO purchases. On growth, RBI believes growth will turn positive in Q4FY21 (Page 24). The negative impact of lockdowns on inflation will also be neutral by then. However, it would keep a vigil on price movements.

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RBI's surplus falls: RBI's surplus fell to Rs 571bn in FY20 (Jul-Jun) from Rs 1,760bn last year. This can be explained by Rs 434bn decline in income and Rs 755bn increase in expenditure. In FY19, RBI had written back Rs 526bn from contingency fund (CF) for transfer to Centre as part of Bimal Jalan Committee report and this formed part of its income. This year, RBI has transferred Rs 736bn to CF because of which its expenditure is up by 443%.

Forex accretion drove balance sheet: RBI's balance sheet increased by 30% (Rs 53tn) in FY20 versus 13% (Rs 41tn) in FY19. The increase on the asset side was led by FX intervention which drove investment in foreign securities to Rs 35.45tn (27% YoY). With OMOs (net purchase) of Rs 1.8tn (Rs 3.6tn in FY19), domestic securities increased to Rs 11.7tn (18.4 % YoY). On the liabilities side, notes in circulation have increased by 22% to Rs 26.35tn followed by Currency and Gold Revaluation Account which is up by Rs 3.1tn to Rs 9.77tn. This is on account of unrealized gains on gold prices. Apart from this, the surplus liquidity with SCBs deposited with RBI under reverse repo increased to Rs 7tn from Rs 2.15tn last year.

Inflation and growth outlook: RBI's inflation outlook is best summarized in Page 48 of Annual Report "Disruptions in food and manufactured items' supply chains could amplify sectoral price pressures thus posing an upside risk to headline inflation. Monetary policy has to be on constant vigil on price movements". On the growth front, RBI believes discretionary demand will pick up with a lag. Rural will do better. Investment spending will remain anemic. Further, ability of government to support demand is not the same as 2008-09. Hence, it recommends monetisation of assets to crowd in private investment, strengthening of non-bank credit, improvement in Ease of Doing Business, and higher exports as part of India integrating in global value chains.

KEY HIGHLIGHTS

- Net financial savings of households at 7.6% versus 6.4% last year led by decline in financial liabilities at 2.4% versus 4.0% last year.
- Rural demand a positive as seen in tractor sales and two wheeler demand.
- Structural reforms and monetisation of assets way forward for growth revival.



FIG 1 – RBI SURPLUS FALLS TO RS 571BN

(Rs bn)	FY17	FY18	FY19	FY20
Income				
Interest	661	739	1,068	1,093
Other income	(42)	44	862	403
Total	618	783	1,930	1,497
Expenditure				
Security printing (cheques, note forms, etc.)	80	49	48	44
Others	232	234	122	882
Total	312	283	170	925
Available balance	307	500	1,760	571
Surplus payable to the central government	307	500	1,760	571

Source: RBI, Bank of Baroda Research

FIG 2 – RBI BALANCE SHEET EXPANDS BY 30% VS. 13% LAST YEAR

Liabilities (Rs bn)	2016-17	2017-18	2018-19	2019-20	Assets (Rs bn)	2016-17	2017-18	2018-19	2019-20
Notes held in banking department	-	-	-	-	Gold coin and bullion	1,317	1,440	1,675	2,560
Notes in circulation	15,063	19,120	21,688	26,356	Rupee coin	6	9	8	8
Total notes issued	15,063	19,120	21,688	26,356	Investments - Foreign	23,687	26,351	27,852	35,450
Capital	0	0	0	0	Investment - Domestic	7,558	6,297	9,899	11,720
Reserve fund	65	65	65	65	Loans and advances	173	1,639	932	3222
Other reserves	2	2	2	2	of which: a. centre and state government	50	569	292	46
of which: a. National industrial credit	0	0	0	0	SCBs	80	1,007	572	2,856
b. National housing credit	2	2	2	2	Other scheduled coop. banks	0	0	0	0
Deposits	8,963	6,526	7,649	11,759	Others	43	62	68	320
of which: a. government	948	1	1	1	Investment in subsidiaries	34	34	20	20
b. Bank	5,042	5,071	5,494	4,709	Other assets	267	406	643	367
c. Others	2,974	1,454	2,154	7,049	a. Fixed assets (net of accumulated depreciation)	4	4	7	8
Other liabilities and provisions	8,947	10,463	11,625	15,166	b. Accrued income	232	233	331	345
					c. Swap amortization account	18	23	0	0
					d. Revaluation of forward contracts account	0	33	13	0
					e. Miscellaneous	12	113	293	14
Total liabilities	33,041	36,176	41,029	53,348	Total assets	33,041	36,176	41,029	53,348

Source: RBI, Bank of Baroda Research

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