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RBI dividend to boost growth

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RBI will be transferring a record amount of Rs 1.76tn to government (Rs 500bn last year). The increase is led by 1) 55% rise in interest income from domestic securities (24% of balance sheet), 2) 33% increase in interest from foreign securities. The remaining increase can be attributed to implementation of Jalan Committee report (Rs 526bn) and Malegam Report (Rs 291bn). Government's recently announced reforms along with front loading of this spending will aid in a cyclical recovery in H2.

RBI's surplus at record high: RBI's surplus increased significantly in FY19 to Rs 1.76tn from Rs 500bn in FY18 on the back of 1) 44.6% increase in interest income, 2) provision write-back of Rs 526.2bn and 3) exchange gain from forex transactions of Rs 291.4bn. Interest income from domestic securities increased by 55% on the back of 21.6% increase in holding of domestic securities (OMOs). Interest income from international sources rose by 33% led by higher global interest rates (170bps). Provision write-back is due to implementation of Jalan Committee Report on ECF and exchange gain is on account of implementation of Malegam Committee Report.

OMO and currency drove balance sheet: RBI's balance sheet increased by 13.4% (Rs 41tn) in FY19 compared with 9.5% (Rs 36tn) in FY18. On the asset side, expansion was led by Rs 3.6tn (57% YoY) of OMO purchases. Foreign investments also rose by Rs 1.5tn in FY19 (6% YoY vs 11% in FY18). On the liabilities side, CIC rose by Rs 2.6tn vs Rs 4tn in FY18. Notably, deposits also increased by 17% in FY19 vs decline of (-) 27% in FY18, driven by RBI's frequent conduct of short term reverse repos. Other liabilities and provisions also increased by 11% in FY19 compared to 17% in FY18, driven by increase in balance in investment revaluation account-rupee securities.

Higher surplus to boost economy: The surplus of Rs 1.76tn includes interim dividend of Rs 280bn. The net transfer this year excluding any interim dividend is Rs 1.48tn (0.8% of GDP). This will give government room to front load expenditure and provide positive fiscal impulse. However, global growth conditions are not conducive given uncertainty over US-China trade war and inversion of US yield curve indicating an impending recession.

FIG 1 – RBI SURPLUS RISES TO RS 1.76TN

(Rs mn)	FY17	FY18	FY19
Income			
Interest, discount, exchange, commission, etc.	618,180	782,810	1,930,360
Total	**618,180**	**782,810**	**1,930,360**
Expenditure			
Security printing (cheques, note forms, etc.)	79,650	49,120	48,110
Others			
Total	311,550	282,770	170,450
Available balance	**306,630**	**500,040**	**1,759,910**
Surplus payable to the central government	306,590	400,000	1,759,870

Source: RBI, Bank of Baroda Research

FIG 2 – RBI BALANCE SHEET EXPANDS BY 13% VS. 9% LAST YEAR

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

Source: RBI, Bank of Baroda Research

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