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Main takeaways from RBI Annual Report

RBI's balance sheet expanded by 8.2% to Rs 76 lakh crore in FY25 compared to Rs 70 lakh crore in FY24. On the assets side, RBI gold holding has contributed to a significant increase, as safe-haven demand rose in a volatile global policy environment. The remaining increase was seen in the domestic investment portfolio of RBI led by conduct of OMO purchase for liquidity management. The income and expenditure statement showed that the record high dividend transfer to the government was possible on account of higher gains from foreign currency assets (FCA). The earnings from FCA as percent of average FCA rose to its decade high level. Going forward with normalization of domestic liquidity and notwithstanding any untoward pressure on DXY, we expect this stability on this front. Another interesting part of the RBI's balance sheet has been the higher ratio of Available Realized Equity as percentage of Balance sheet which went up to 7.5% in FY25 from 5.5% seen in FY21. This also is a buffer mechanism in line with the Bimal Jalan Committee recommendation to act in a prudent manner in a volatile financial landscape.

Highlights of Macro economy:

- The global economy is expected to grow at a much slower pace in 2025 on the back of growing policy uncertainty, global trade protectionism and lingering geopolitical tensions. Policymakers must use a balanced approach as they swiftly navigate between monetary and fiscal policy to support growth continuing to safeguard financial and macroeconomic stability.
- India's economy is expected to continue to grow at robust pace and retaining the title of fastest growing economy. This will be supported by pick-up in private consumption, easing financial conditions, healthy balance sheets of corporates and banks along with government's thrust on capex. *Based on various factors, real GDP is projected to grow at 6.5% for 2025-26 with risks evenly balanced.*
- Moreover, lower global commodity prices, easing of supply chain pressure and uptick in agriculture production supported by better monsoon bodes well for inflation outlook in 2025-26. On the other hand, there are some concerns that the financial market might showcase some erratic episodes of volatility amidst heightened uncertainty due to evolving trade policies.
- The export sector is also expected to note some headwinds against growing geopolitical tensions, the escalation of potential tariff war amongst major economies and inward-looking policies. *However, India is expected to be part of 14 free trade agreement and 6 preferential trade agreement and other trade deal with EU and US, which is expected to support growth in trade. CAD is expected to be manageable during this period, on the back of strong service exports and inward remittance.*

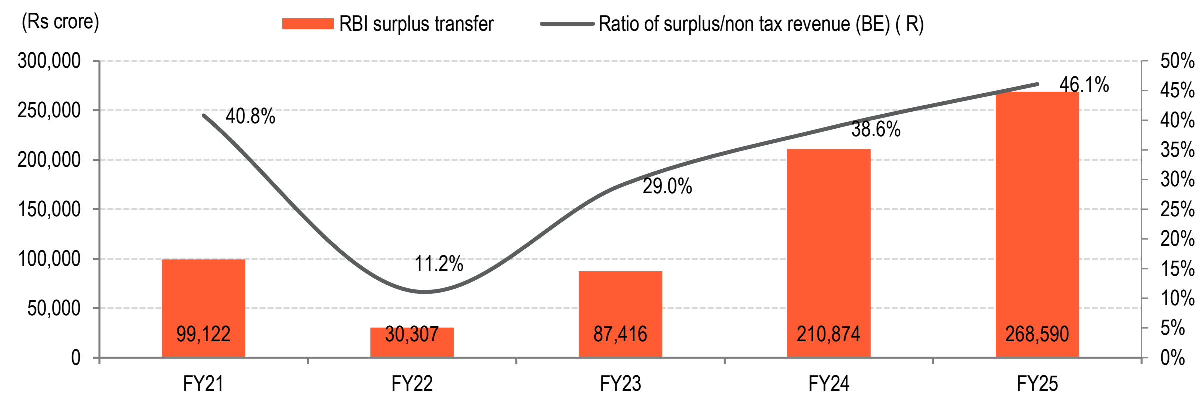
- Also, expansion is expected in exports sector especially for pharma, engineering goods, electronics, supported by innovations in e-commerce and digital trade. This will be beneficial for export growth.
- *On the price front, RBI expects global inflation to ease to 4.3% in 2025 and 3.6% in 2026.* Despite this, price stability will be challenging and remain stubborn on account of higher tariffs that will push inflation higher in the US with possible risk of desynchronization of monetary policy response.
- On the domestic front, the above-normal monsoon along with a higher reservoir level bodes well for inflation. Though, growing occurrences of climate shocks in the past years require careful monitoring for food price outlook. Additionally, there is an upside risk to inflation trajectory due to growing financial market volatilities, geopolitical uncertainties, trade fragmentation, along with restrictive trade policies. *Based on this, inflation is expected at 4% in 2025-26 with risks evenly balanced.*
- Overall, markets will monitor the implication of tariff policies and reciprocal measures by other countries. However, given the uncertain environment, it will add volatility in global financial markets.

Some pertinent issues in Balance sheet:

1. **Higher surplus will boost government's non-tax revenue**

In FY25, RBI's surplus transfer was at a record of Rs 2.7 lakh crore to the central government. This was 27.4% higher than pay-out last year at Rs 2.1 lakh crore and even higher from Rs 87,416 crore in FY23. The transfer was higher despite the increase in contingent risk buffer to 7.5% in FY25 from 6.5% in the previous year. This will support the non-tax revenue of the government together with better financial metrics of financial institutions.

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

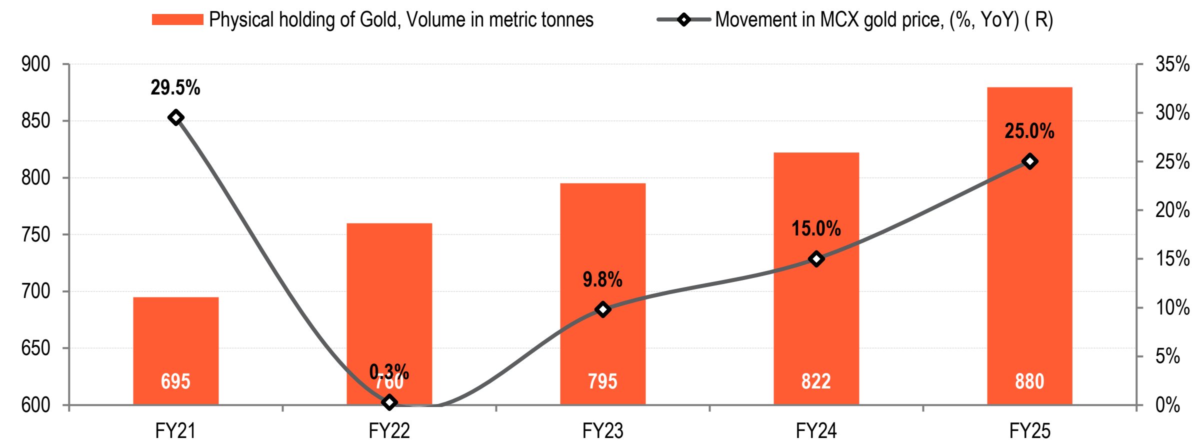


Source: CEIC, RBI, Bank of Baroda Research, Note: The ratio of surplus/total non-tax revenue uses surplus for of RBI in say FY25 which will be used as part of non-tax income for FY26

2. **Gold holding increasing:**

The holding of gold by the RBI has been continuously increasing. As per World Gold Council report, RBI's net purchase of Gold had been the third highest in CY24, only next to Poland and Turkey. One of the reasons could be diversification in forex holdings and building buffers in anticipation of a volatile financial landscape. A similar trend is likely to continue this fiscal as well.

Figure 2: Holdings of Gold increasing

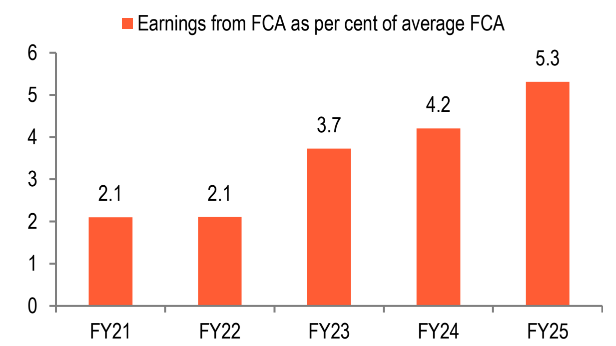


Source: RBI, Bank of Baroda Research, Note: Average change in gold prices taken for the fiscal to compute YoY

3. Bountiful gains from Foreign Currency Assets (FCA)

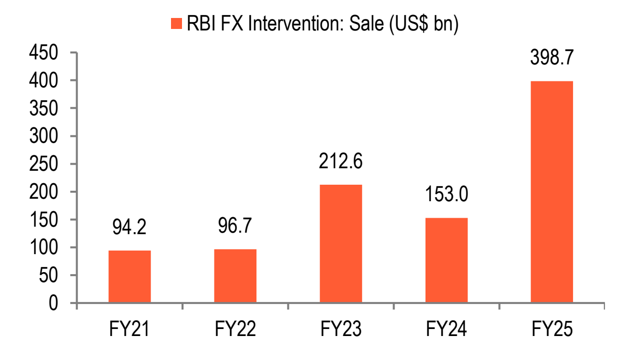
Earnings on FCA improved significantly on account of better returns on dollar. This becomes critical given that our forex reserves held by RBI have been increasing and being invested in various avenues. Figure 3 gives average returns on forex assets of the RBI over the years. It has been the highest in over a decade. This is complemented by RBI's dollar sales which went up significantly in FY25 to withstand pressure on domestic liquidity. It is important to mention that in FY25 the INR/USD spot price is higher at 84.57, than the historical average historical average of 50.41.

Figure 3: Gains from FCA



Source: RBI, Bank of Baroda Research

Figure 4: RBI's dollar sales

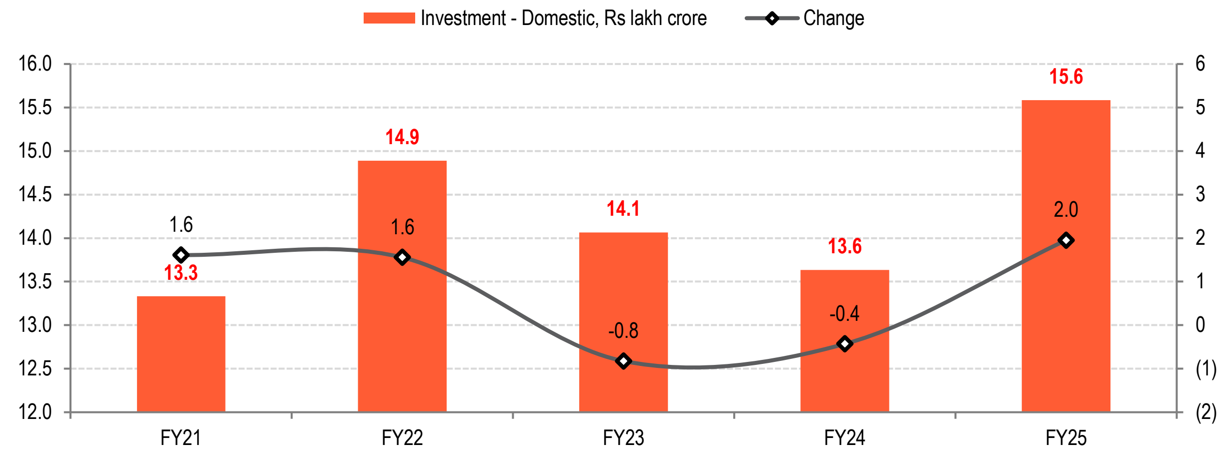


Source: CEIC, Bank of Baroda Research

4. Liquidity management operation drove RBI's domestic investment portfolio

OMOs have contributed to a significant increase in the domestic investment portfolio of RBI. In FY25, through primary market Rs 2.5 lakh crore OMO was announced, and secondary market activity was about Rs 2.8 lakh crore. (The numbers do not add up as the RBI balance sheet number is net of redemptions).

Figure 5: Change in domestic investment portfolio of RBI



Source: RBI, Bank of Baroda Research

5. Issue of Counterfeit currency:

Another important data which has been given in the Annual Report in this context is that the number of counterfeit currencies in FY25 stood at Rs 3.03 lakh crore compared to Rs 2.43 lakh crore in FY24. Thus, there has been a pickup in the same with concentration visible in 200 and 500 denominations.

(Pieces in lakh)

Denom-ination (₹)	2022-23		2023-24		2024-25	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
5	-	-	-	-	-	-
10	6,000	6,000	8,000	8,000	18,000	18,000
20	20,000	19,999	20,000	20,000	15,000	15,000
50	20,000	20,000	25,000	25,000	30,000	30,000
100	60,000	60,000	70,000	70,000	80,000	80,000
200	20,000	20,000	30,000	30,000	40,000	40,000
500	1,00,000	1,00,004	90,000	90,000	1,20,000	1,20,000
2000	-	-	-	-	-	-
Total	**2,26,000**	**2,26,002**	**2,43,000**	**2,43,000**	**3,03,000**	**3,03,000**

-: Nil
BRBNMPL: Bharatiya Reserve Bank Note Mudran Pvt. Ltd.
SPMCIL: Security Printing and Minting Corporation of India Ltd.
Note: Figures may not add up to total due to rounding off of numbers.
Source: RBI.

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