RBI board approves transfer of ₹2,10,874 crore surplus to Centre for FY24

Union government nets windfall gain from central bank's record surplus transfer that is more than double the ₹87,416 crore transferred in FY23; transfer to aid fiscal consolidation, say economists

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In a windfall gain for the Centre, the Central Board of Directors of the Reserve Bank of India (RBI) on Wednesday approved the transfer of a record ₹2,10,874 crore as surplus to the Union government for the accounting year 2023-24.

The latest transfer by the central bank is more than double the ₹87,416 crore that the RBI had transferred in FY23.

The Board, which met under the chairmanship of Governor Shaktikanta Das, also decided to increase the Contingent Risk Buffer (CRB) to 6.50% for 2023-24, from 6% in the previous year.

"The Board reviewed the global and domestic economic scenario, including risks to the outlook," the RBI said. "The Board also discussed the working of the Reserve Bank during the year April 2023 – March 2024 and approved the Reserve Bank's Annual Report and Financial Statements for the year 2023-24," it added.

"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 RBI said in a statement. "The Committee had recommended that the risk provisioning under the CRB be maintained within a range of 6.5-5.5% of the RBI's balance sheet," it added.

"During accounting years 2018-19 to 2021-22, owing to the prevailing macroeconomic conditions and the onslaught of COVID-19 pandemic, the Board had decided to maintain the CRB at 5.50% of the Reserve Bank's Balance Sheet size to support growth and overall economic activity. With the revival in economic growth in FY 2022-23, the CRB was increased to 6.00%. As the economy remains robust and resilient, the Board has decided to increase the CRB to 6.50% for 2023-24," it further said.

"We see the fiscal consolidation program on track, and await the final budget in July," said Shreya Sodhani, Regional Economist, Barclays. "The announced dividend was higher than market expectations but relatively closer to the upper-end (₹1,70,000 crore) of our forecast range. We had noted that risks were tilted towards a higher dividend payout," she added.

"The larger dividend was realised owing to higher RBI income in FY23-24, from both domestic and foreign assets, thus raising the quantum of profits booked. The dividend payout is not just a function of RBI's profits, but also of capital provisions, as per the ECF adopted in 2019," Ms. Sodhani observed.

The RBI has been transferring 'surplus' funds based on the ECF formula since 2018-19. In that year ₹1,76,015 crore was transferred to the Central Government including dividend of ₹1,23,414 crore. In 2019-20 the RBI had transferred ₹57,128 crore. For 2020-21 and 2021-22 it had transferred ₹99,126 crore and ₹30,307 crore, respectively.

"The amount of ₹2,10,874 crore is well above the budgeted figure of ₹1,50,000 crore in the Interim Budget for 2004-25 under dividends and profits, which includes dividends from PSUs," noted Aditi Nayar, Chief Economist, Head Research and Outreach, ICRA Ltd.

"The higher-than-budgeted RBI surplus transfer would help to boost the Government of India's resource envelope in 2024-25, allowing for enhanced expenditures or a sharper fiscal consolidation than what was pencilled into the Interim Budget for FY2024-25," she said.

“Increasing the funds available for capex would certainly boost the quality of the fiscal deficit. However, the additional spending may be difficult to be incurred within the eight-odd months left after the Final Budget is presented and approved by Parliament,” Ms. Nayar added.