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# The math behind RBI's Rs 1.76 lakh crore surplus transfer to the Central Government

Radhika Merwin | August 27, 2019 BUSINESSLINE

The RBI earning a robust net income and write back of excess provisions in the contingency fund have led to the massive pay out. This may not recur

**BL Research Bureau**

The Bimal Jalan Committee-recommended surplus transfer by the Reserve Bank of India (RBI) has offered a much-needed respite to the Centre, in the current fiscal. Excluding the Rs 28,000 crore interim dividend already paid by the RBI to the Centre last fiscal, the Rs 1,48,051 crore of transfer in the current financial year, could make up for the shortfall in tax collections to a great extent.

True, the market had already pencilled in some windfall gains by way of RBI's higher than the usual dividend, but what has come as a surprise is the one-time bonanza, rather than a staggered pay out as was broadly expected.

While the Centre dipping into the RBI's coffers, to meet its fiscal deficit, has not gone down well with many economists and market players, what offers some comfort is the fact that the committee has decided to keep the RBI's revaluation reserves out of the funds that can be distributed. Also, given that much of the excess provisions under the RBI's contingency fund has been transferred in the current fiscal year, a similar pay out may not happen in the next financial year. This mitigates the concern over the Centre dipping into the central bank's coffers time and again for its needs.

On the flip side though, with the contingency fund now at the lower band of the desired 5.5-6.5 per cent of the balance sheet, the RBI is left with little wiggle room in future.

Read: Surplus bonanza: RBI to transfer ☐1.76-lakh crore to government

**What the committee recommends**

Before we delve into what the Jalan panel report recommended, let us break down the reserves of the RBI.

The RBI's reserves consist of currency and gold revaluation account (CGRA), the investment revaluation account, the asset development fund (ADF) and the contingency fund (CF). The CGRA makes up the chunk of the reserves and has gone up substantially since 2010---at a compounded annual growth rate (CAGR) of 25 per cent to Rs 6.91 lakh crore in 2017-18. It essentially reflects the unrealized gains or losses on the revaluation of forex and gold.

Next, the CF constitutes over a fourth of the RBI's reserves. The CF is a specific provision made for meeting unexpected contingencies from exchange rate operations and monetary policy decisions. The RBI contributes a notable portion of its profit to the CF.

The IRA is sub-divided into IRA-foreign securities (IRA-FS) and IRA-rupee securities (IRA-RS). The former reflects the unrealised gain or loss on the mark-to-market of foreign securities while the latter is on account of marking rupee securities. The ADF has been created to meet internal capital expenditure and make investments in subsidiaries and associated institutions.

## The IRA and ADF constitute a small portion of the RBI’s reserves.

### A peek into RBI's key reserves

| FY | Balance in CF (Rs cr) | Balance in CGRA (Rs cr) | CF % of total assets | Total reserves % of total assets |
|---|---|---|---|---|
| 2009 | 153,392 | 198,842 | 10.9 | 25 |
| 2010 | 158,561 | 119,134 | 10.2 | 17.9 |
| 2011 | 170,728 | 182,286 | 9.5 | 19.6 |
| 2012 | 195,405 | 473,172 | 8.8 | 30.3 |
| 2013 | 221,652 | 520,113 | 9.3 | 31 |
| 2014 | 221,652 | 572,163 | 8.4 | 30.2 |
| 2015 | 221,614 | 559,193 | 7.7 | 27 |
| 2016 | 220,183 | 637,478 | 6.8 | 26.4 |
| 2017 | 228,207 | 529,945 | 6.9 | 22.9 |
| 2018 | 232,108 | 691,641 | 6.4 | 25.5 |
| Jalan panel recommendation | | | 5.5-6.5 | 20-24.5 |

*CGRA: currency and gold revaluation account, CF: Contingency Fund*

**Arriving at the surplus transfer**

The amount of surplus that the RBI must transfer to the Centre is determined based on two things---realized equity and economic capital.

The ‘realized equity’ is the risk provisioning made primarily from retained earnings referred to as the Contingent Risk Buffer (CRB). This is essentially the existing amount in the RBI’s CF. The Jalan panel has recommended that the CF be maintained within a range of 6.5 per cent to 5.5 per cent of the RBI’s balance sheet.

The current CF outstanding stood at 6.8 per cent of the RBI’s balance sheet and hence, the excess from the pre-decided range of 5.5-6.5 per cent is written back. Here, the panel decided to go with the lower threshold of 5.5 per cent and hence the excess Rs 52,637 crore has been written back (to be transferred to the Centre).

Two, at the aggregate level, the panel suggests maintaining economic capital--- realized equity and revaluation balances (essentially CGRA)—at a range of 24.5 per cent to 20 per cent of balance sheet. Since it stood at 23.3 per cent as of June 2019---within the desired range, the entire net income of the RBI of Rs 1,23,414 crore for the fiscal (without transferring to the CF) has been transferred to the Centre as surplus.

Hence a total of Rs 1,76,051 crore has been paid out to the Centre.

**What's of concern?**

The RBI had been contributing a chunk of its profit to the contingency fund up to 2012-13. Between 2010-11 and 2012-13, the RBI had set aside 32-45 per cent of its gross income to this fund. Hence CF was a high 9-10 per cent of total assets.

Additions to this fund though had ceased since 2013-14. The entire surplus in the RBI's coffers was being transferred to the Centre. But from 2016-17, the RBI once again started transferring funds to the CF. The CF has been 6-7 per cent of assets over the past three to four years.

The Jalan panel has chosen to opt for a lower 5.5 per cent level for the CF (as against the upper end of 6.5 per cent). This is the lowest level that the RBI has maintained thus far under the fund. This lowers the RBI's flexibility to manoeuvre in future.

**May not repeat**

The current year's transfer from the CF has also lowered the buffer for excess transfer of provisions next year. A strong growth in balance sheet may in turn, require the RBI to transfer some portion of its earnings to the CF next year to maintain the 5.5 per cent threshold, eating into the surplus funds accruing to the Centre. Over the last eight years, the RBI's balance sheet has grown by 10-11 per cent annually.

Secondly, the net income of Rs 1,23,414 crore earned by the RBI 2018-19 (July - June), is quite large. In 2017-18, the RBI had earned a net income of Rs 50,000 crore. Such a robust growth may also not recur next year.

The strong net income in 2018-19 may have come about due to the net interest on LAF (liquidity adjustment facility) operations turning positive after being negative for two years.

In 2016-17, the net interest on LAF operations slipped to a negative of Rs 17,426 crore. Banks flush with funds post-demonetisation lent to the RBI through the reverse repo option under LAF. The interest paid by the RBI to the banks under reverse repo in 2016-17 had eaten into its income. In 2017-18, lower surplus liquidity in the banking system vis-a-vis the previous year led to a lower interest outgo for the RBI under reverse repo window. The RBI's net interest income from LAF operations, increased by about Rs 7,900 crore in 2017-18, though still a negative Rs 9,541 crore, owing to continuing interest outgo under reverse repo.

It is possible that in 2018-19, the net interest income was positive owing to tight liquidity, leading banks to borrow from the RBI, earning it a tidy income.

Such a steep growth in net income may not necessarily recur, hence limiting the funds transferred to the Centre next year.

**Spend prudently**

For the current year though, the huge amount handed over to the Centre may just do the trick on the fiscal deficit front. Over Rs 65,000 crore or so of additional non-tax revenues (than what was budgeted for FY20) on account of the RBI's dividend, can make up for the shortfall in the Centre's tax collections to a great extent.

Based on CGA provisional figures for FY19 (in which income tax grew by a modest 7 per cent), the estimated growth in income tax collections for FY20 works out to 23 per cent. For April-June, CGA data suggests that the net revenue growth from direct taxes was just 9.7 per cent. There is a lot of uncertainty over goods and services tax (GST) collections too. Hence the RBI's surplus could boost overall revenue for the Centre and help meet its fiscal deficit target.

However, the manner in which the funds are used will be critical. The share of capital expenditure as a per cent of GDP has been falling in recent years. In India, the bulk of government spending is mostly biased towards boosting consumption rather than investments. This time around, the Centre will need to put the RBI's surplus funds to productive use, that can have a sustainable multiplier impact on overall growth in the economy.

# Surplus bonanza: RBI to transfer Rs 1.76-lakh crore to government

Our Bureau Mumbai | August 26, 2019

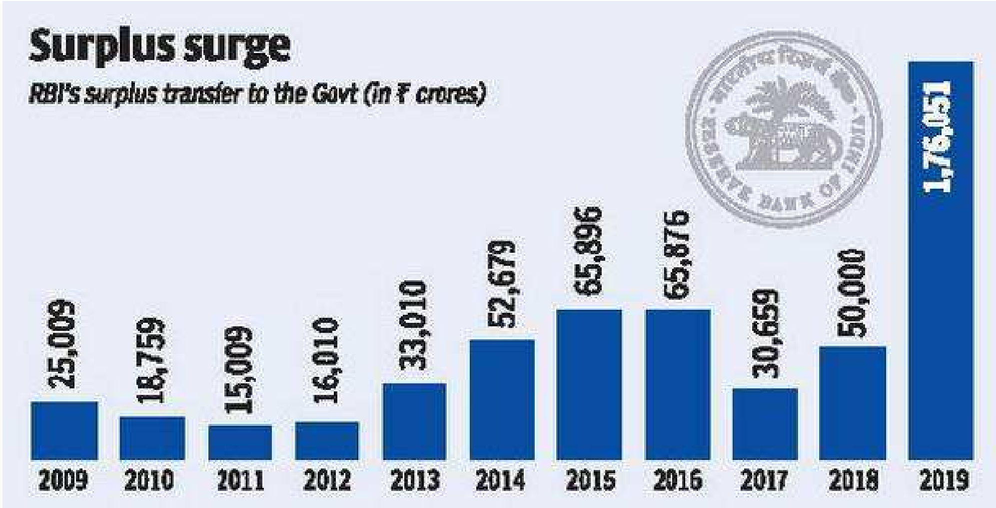
Jalan panel moots transfer of RBI's surplus in tranches over 3-5 years

RBI board accepts Jalan committee recommendations

In a move that will help the Centre bridge its fiscal deficit, the Central Board of the Reserve Bank of India on Monday decided to transfer a staggering ☐1,76,051 crore as surplus transfer to the government for 2018-19.

This amount is also much more than what the government is expecting (Rs 1,05,000 crore) via disinvestment in FY20.

This is the biggest-ever payout by the central bank. The central bank had transferred Rs 50,000 crore in 2017-18. The RBI's balance sheet size as at June-end 2019 stood at Rs 9,57,036 crore.




The surplus transfer includes Rs 52,637 crore of excess provisions identified as per the revised Economic Capital Framework (ECF), which was recommended by the Bimal Jalan Committee and adopted at the Central Board's meeting.

The move will buoy the government's non-tax revenues at a time when tax collections have been subdued due to an economic slowdown. Top RBI officials had recently raised concerns about transferring such a huge amount from the reserves to the national exchequer. Former Deputy Governor Viral Acharya, in a speech in October 2018, had flagged as thorny the issue of transfer of excess reserves to the government.

Acharya had warned: "Governments that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution……"

Former RBI Governor D Subbarao too had said recently that "raiding" the reserves of the central bank showed the "desperation" of a government.

Using the revised ECF to determine risk provisioning and surplus transfer (premised on maintaining the realised equity level at 5.5 per cent of the balance sheet), the excess risk provisions worked out to Rs 52,637 crore, which was written back.

**Contingent Risk Buffer**

The realised equity could be used for meeting all risks/losses as it is primarily built up from retained earnings. It is also required to cover credit risk and operational risk. This risk provisioning made primarily from retained earnings is cumulatively referred to as the Contingent Risk Buffer (CRB). This has been recommended to be maintained within a range of 6.5 per cent to 5.5 per cent of the RBI's balance sheet.

"Given that the available realised equity stood at 6.8 per cent of balance sheet, while the requirement recommended by the Committee was 6.5 per cent to 5.5 per cent of the balance sheet, there was excess of risk provisioning to the extent of Rs 11,608 crore at the upper bound of the CRB and ☐52,637 crore at the lower bound of the CRB. The Central Board decided to maintain the realised equity level at 5.5 per cent of the balance sheet and the resultant excess risk provisions of Rs 52,637 crore were written back," the board said. While the revised framework technically would allow the RBI's economic capital levels as on June 30, 2019, to lie within the range of 24.5 per cent to 20.0 per cent of the balance sheet, the economic capital as on June 30, 2019 stood at 23.3 per cent of the balance sheet.

# LIC's bad loans rise with exposure to stressed firms

Radhika Merwin BL Research Bureau | August 26, 2019

The exposure of insurance behemoth LIC to stressed firms such as DHFL, IL&FS, ADAG companies and YES Bank has not only meant downgraded investments, but also the need to make additional provisions. Its bad loans, too, have been on the rise.

According to IRDAI regulations, life insurers need to invest at least 75 per cent of their investment in debt instruments in sovereign debt, AAA or equivalent rating for long-term and sovereign debt, A1+ or equivalent for short-term instruments.

There are no prescribed guidelines for the extent of provisions to be made in case of downgrades, according to insurance players, though they prudently make provisions immediately upon the downgrade of the debt instruments.

## Downgrades in LIC's debt portfolio during the June quarter

| | Amount As Per Balance Sheet (in Rs cr) | Original Grade | Current Grade |
|---|---|---|---|
| **Life portfolio** | | | |
| Reliance Infrastructure Ltd | 600 | AA- | C |
| IFCI LTD | 87.72 | A | BBB |
| IFCI LTD | 14.95 | A+ | BBB |
| IFCI LTD | 25 | AA | BBB |
| Dewan Housing Finance Corpn Ltd | 925 | AA+ | D |
| Dewan Housing Finance Corpn Ltd | 2,455 | AAA | D |
| Reliance Capital Ltd | 424.99 | AAA | BBB |
| Reliance Capital Ltd | 1,900 | AA+ | BBB |
| YES Bank Limted | 399.42 | AA- | A+ |
| YES Bank Limted | 79 | AA | AA- |
| YES Bank Limted | 2,300 | AA+ | AA- |
| YES Bank Limted | 1,000 | AAA | AA- |
| ECL Finance ltd | 800 | AA | AA- |
| Reliance Home Finance Limited | 800 | AA+ | C |
| SREI Equipment Finance limited | 300 | AA | AA- |
| **Pension portfolio** | | | |
| Sintex Prefab and Infra ltd | 250 | AA+ | D |
| IFCI Ltd | 17.93 | A | BBB |
| Dewan Housing Finance Corpn Ltd | 2345 | AAA | D |
| Dewan Housing Finance Corpn Ltd | 395 | AA+ | D |
| Reliance Capital Ltd | 574.99 | AAA | BBB |
| Reliance Capital Ltd | 500 | AA+ | BBB |
| YES Bank Limted | 230 | AA+ | AA |
| YES Bank Limted | 521 | AA | AA- |
| YES Bank Limted | 1,500.00 | AA+ | AA- |
| YES Bank Limted | 2,000.00 | AAA | AA- |
| IDFC First Bank ltd | 500.46 | AAA | AA |
| Sintex Prefab and Infra ltd | 250 | BB+ | D |

According to IRDAI regulations, approved investments, which are downgraded below the minimum rating prescribed or not continuing to satisfy dividend criteria, should be automatically re-classified under 'other investments' and identified under a category, which shall be valued at marked-to-market on a quarterly basis. Investments in debt instruments rated AA- or below for the long-term and below A1 or equivalent for the short-term form 'other investments'.

As of June, the balance-sheet value of investments in the 'other investments' category for LIC stood at ☐1.24-lakh crore (market value Rs 1.06-lakh crore), out of its total ☐23-lakh-crore investments in the non-linked portfolio.

**NPAs rise, too**

LIC has seen its bad loans rise over the past three to four years.

As of June, its gross non-performing assets (NPAs) stood at 6.4 per cent of its debt portfolio, up from about 3 per cent five years ago.

Aside from its investments in debentures and bonds, LIC also extends loans to the Centre and State governments, banks and financial institutions and companies.

Amtek Auto, Jaiprakash Power Ventures, Videocon Telecommunications, IL&FS Tamilnadu Power, Jaypee Infratech and Essel Infraprojects are some of LIC's borrowers that turned into NPAs. Based on the classification of the account — substandard, doubtful, or loss — the provisions on these accounts have varied between 20 and 100 per cent.

# IMF report flags several delays in India's data reporting

Vignesh Radhakrishnan

CHENNAI , AUGUST 26, 2019 THE HINDU

International Monetary Fund logo is seen in Washington D.C. on April 9, 2019. | Photo Credit: AFP

**In 2018, India failed to comply with multiple requirements prescribed in the Special Data Dissemination Standard (SDDS) mandatory for all IMF members**

Even as questions have been raised about the delays in data dissemination from various government agencies — the most recent data from the National **Crime** Records Bureau dates back to 2016 and accident statistics have not been updated since 2015 — a recent report published by the International Monetary Fund (IMF), shows that inconsistencies have crept into into the dissemination of fiscal datasets as well.

According to the IMF's **"Annual Observance Report of the Special Data Dissemination Standard for 2018"**, India failed to comply with multiple requirements prescribed in the Special Data Dissemination Standard (SDDS) — a practice mandatory for all IMF members — whereas comparable economies comprising the BRICS grouping of Brazil, China, South Africa and Russia, have maintained a near impeccable record in the same period. Also, India's non-compliance in multiple categories in 2018 and to an extent in 2017 breaks with an otherwise near perfect dissemination record.

When contacted, the IMF acknowledged India's deviations but termed them "non-serious". However, independent observers see these deficiencies as a result of indifference to data dissemination procedures.

**Importance of SDDS**

The IMF launched the SDDS initiative in 1996 to guide members to enhance data transparency and help financial market participants with adequate information to assess the economic situations of individual countries. India subscribed to the SDDS on December 27, 1996.

The yearly observance report for each member country lists the compliances and deviations from the SDDS under each data category for that year. There are over 20 data categories which IMF considers for this report to capture a nation's economic health including national accounts (GDP, GNI), production indices, employment, and central government operations.

The report lists three types of deviations from SDDS. The first deals with delays in data dissemination from the periodicity prescribed in the SDDS. The second occurs when member countries do not list a data category in their Advance Release Calendars (ARC) despite the category being mandated by the SDDS. The third deviation occurs when data is not disseminated at all for a particular period.

India, in 2018, has deviated from the SDDS in at least one instance in all the data categories listed. (Page 6: **https:// dsbb.imf.org/ content/ pdfs/ AnnualReports/ 2018/IND_SDDS_AR2018.pdf**).

| Year | Xs | Os | Biggest delay (days) |
|---|---|---|---|
| 2006 | 4 | 0 | 64 |
| 2007 | 9 | 0 | 16 |
| 2008 | 0 | 0 | 44 |
| 2009 | 5 | 13 | 52 |
| 2010 | 11 | 11 | 50 |
| 2011 | 1 | 1 | 31 |
| 2012 | 1 | 0 | 31 |
| 2013 | 0 | 4 | 4 |
| 2014 | 1 | 0 | 30 |
| 2015 | 0 | 0 | 14 |
| 2016 | 0 | 0 | 32 |
| 2017 | 3 | 21 | 43 |
| 2018 | 49 | 8 | 120 |

A negative entry corresponds to “number of days dissemination was later than timeliness requirement”. In 2018, in eight data categories, India delayed dissemination by varying degrees. For instance, in quarter 1, the “national accounts” data dissemination occurred almost two months (118 days) later than prescribed.

In comparison, **Brazil did not delay dissemination** in any category. **China**, **South Africa** and **Russia** lagged in some categories but the delay did not exceed a month (31 days) for any category. In India's case, the delay has exceeded 100 days in multiple instances.

An “X” entry reflects “data not being disseminated”. In 2018, in at least nine data categories, India has not disseminated data. None of the other BRICS countries’ reports records missing data for the period.

An “O” entry corresponds to “no mention in ARC”. In at least three data categories, India has not mentioned a prescribed entry in its advanced data release calendar — again the odd one out among the BRICS nations.

### A recent phenomenon

India’s non-compliance with IMF standards is a recent phenomenon. The “X”s for non-dissemination of data and “O”s for data categories missing from the ARC were few and far between in India’s reports in the 2006-2016 period. The graphic lists such instances since 2006.

When asked for the reason for the delays in 2018, Deputy Director in the Department of Economic Affairs Aakanksha Arora termed it as a “one off event due to technical glitches”.

“In 2018, various changes were carried out for the improvement of website of Ministry of Finance which hosts the National Summary Data Page (NSDP) web page. In this process, due to some technical glitches related to the Ministry’s website, data in the NSDP was not recorded in the SDDS of IMF in 2018 despite updating the data on regular frequency,” Ms. Arora said.

The IMF’s **“Guide for Subscribers and Users:** The **Special Data Dissemination Standard; 2013”**, a reference manual for the SDDS subscribers mentions that “monthly reports are sent to individual subscribing countries about their observance”. Thus India would have received such intimations about its deviations at the end of every month in 2018 from the IMF as at least one deviation from SDDS were observed in all the months.

The IMF document also states that “monitoring observance of the SDDS is central to maintaining the credibility of the IMF’s data standards initiatives and its usefulness to policymakers.” It further states that if the IMF staff considers a non-observance as a “serious deviation” then procedures would be initiated against the member country.

When asked to explain the significance of India's recent non-observance, the IMF's statistics department acknowledged that "there have been some deviations from SDDS requirements mainly on timeliness…. some data points were posted on the NSDP with delay." However, the IMF staff did not consider these as "serious deviations".

IMF came to this conclusion as,"although some data points were posted on NSDP with delays. They were made available on other (Indian) government websites on a timely basis through links on the NSDP to these websites".

When asked about the "X's and "O"s mentioned in the report, IMF said, "similar to deviations in timeliness, these too were duly noted in the Annual Observance Reports to indicate the need for improvements".

However this is in contradiction to the IMF's SDDS guide document, which states that "Coordination among statistical agencies in providing data to the host agency for the NSDP is critical to meeting this SDDS requirement". The document further states that "The NSDP is to disseminate, at a minimum, the latest observation and the observation immediately preceding it for all prescribed data categories and related components." The document mentions the option to link to government websites for detailed data only as an "obligation".

When the IMF was asked to explain why India's non-observance was deemed as non-serious , their statistical department persisted that this was due to "information availability in other government websites". It added that "the forthcoming harmonisation of the NSDPs for all SDDS countries with those for SDDS Plus and e-GDDS countries (other similar standards)" will solve this issue.

### 'Lack of attention'

However, independent data experts have raised concerns about the delays. Former acting chairman of the National Statistical Commission, P.C. Mohanan said India's deviations are a "result of inadequate care paid to (data) dissemination related issues which leads to a lack of openness and transparency."

He also said metadata and reference links given in the NSDP "have not been updated for quite some time." Mr. Mohanan also rued the fact these issues are not new. "They (IMF) had then (in 2004) suggested to have a single comprehensive NSDP containing all data categories. We still have different agencies providing the data and the links all lead to different home pages of their websites. The references are circular that you end up where you started."

He said data collection efforts are more towards large schemes like Economic Census and not towards improving the data quality.

Mr. Mohanan cited another part of the same IMF report to prove this point. "Information provided under the Data Quality Assurance Framework (DQAF) under various heads are also very patchy and poorly edited. For example the link to the employment data refers to the 68th round of NSS (2011-12) with all the survey instructions. Even the contact person's details are not updated."

Pointing out that the statistical system has behaved more like an adjunct to the government, Mr. Mohanan said the legal framework had to be updated for the statistical system to regain its high standards and credibility.

"The strength of the professional cadre also needs to be augmented and the internal architecture of both CSO and NSSO thoroughly reviewed to bring in professional competency and specialisation. In the present context this does not appear to be a priority for the Government," he added.

ALL INDIA BANK EMPLOYEES' ASSOCIATION
Central Office: PRABHAT NIVAS
Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001
Phone: 2535 1522 Fax: 2535 8853, 4500 2191
e mail ~ chv.aibea@gmail.com
Web: www.aibea.in