Surplus fell with sharp increase in risk provisions

- **Surplus falls due to higher risk provisions and increase in interest outgo on liquidity parked by banks with RBI**
- **Rising global interest rates meant provision of INR 942bn. Domestic revaluation balance also fell by INR 381bn. However, RBI's FX and gold revaluation gains continued to be buoyant at INR 545bn**
- **Balance sheet expanded by 8.5%, equally spread between foreign and domestic securities in INR terms**
- **With CRR hikes and decline in system liquidity, RBI's interest income to go up. Higher global and domestic rates also point towards that direction.**
- **However, balance sheet expansion to be limited given global tightening and BoP deficit. CRR hikes and FX intervention open room for OMO purchases later in the year**

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Interest income up by 20%, still surplus fell: Despite a 20% increase in RBI's interest income, surplus transfer to Government fell to INR 303bn from INR 991bn last year. The increase in income is a result of 1) longer accounting period of 12 months compared with 9 months last year, and 2) sharp jump in income from domestic interest income. Over a 2-year CAGR, domestic interest income is up by 17% versus a 2% drop in foreign interest income. What explains this divergence? Yield earned on domestic securities by RBI has increased to 6.8% in FY22 from 6.5% in FY20. On the other hand, yield on foreign securities has been muted. Going forward, we expect global yield also to increase on the back of interest rate reversal seen in global yields this year.

RBI's interest outgo on LAF operations was significantly higher this year at INR 355bn compared with INR 179bn last year. This is explained by increase in accounting period to 12 months from 9 months last year as also elevated surplus liquidity. With increase in CRR to 4.5% now and reduction in systemic liquidity to INR 4.23tn during FYTD23 from INR 7.18tn in FY22, we expect sharp reduction in interest outgo on LAF operations.

Other income remains buoyant: Income earned as a result of exchange gain has increased to INR 689bn from INR 506bn last year. Over a 2-year CAGR, this is up by 52%. This is a result of gain from RBI's sale and purchase of foreign currencies. Notably, this has been accelerating since the last four years beginning from FY19. Exchange gain increased to 1.1% of average balance sheet size and now stands at 1.4%. Given the extent of volatility, we see RBI continuing with these operations.

Risk provisions see a sharp increase: In FY20, RBI carried a surplus of INR 538bn in its foreign securities revaluation account. This came down to INR 89bn last year. This year, RBI had a debit balance of INR 942bn which had to be charged to contingency fund (CF) as per accounting norms. Overall, INR 1.14tn had to be provided to CF to ensure it remains in-line with Economic Capital Framework of RBI. Revaluation account was stable at INR 9.34tn as of 31 March 2022 (15.1% of assets). This can be explained by rising global yields. While the balance under Currency and Gold Revaluation Account (CGRA) increased by INR 545bn, as a result of rise in gold prices (which pushes it up) and depreciation of INR (which also pushes it higher), balance under domestic securities fell by INR 381bn, a reflection of rising rates.

Balance sheet expanded by 8.5%: While RBI expanded its balance sheet by 8.5% over last year, since June 2019, its balance sheet has expanded by 15% CAGR. Over the last year, the increase is more or less equally spread between domestic and foreign securities at INR 1.6tn and INR 1.7tn respectively. However, over a three-year horizon, the increase is led by foreign securities which have increased by INR 13.4tn compared with INR 5tn accretion to domestic securities. In percentage terms, the increase is more or less equally spread out. Notably, RBI has also added 65.1 tons to its gold assets, 9.4% jump over previous year.

Global tightening and balance sheets: US Fed is envisaging a USD 1.6tn contraction in its balance sheet over remainder of 2022 and 2023 from a balance sheet size of USD 9tn. In India's case, RBI's balance sheet has expanded by 12% over FY12-20 (pre-covid). Post the pandemic, the expansion is 15%. Going forward, balance sheet expansion will be limited. For one, RBI's foreign security assets are likely to be lower given India is running a BoP deficit next year (our estimate is USD 25bn with an upward bias given oil prices remain in USD115-120/ barrel range). This will be counter-balanced by domestic asset purchase to maintain durable liquidity at adequate levels. This may also entail mopping liquidity through another CRR hike and injecting durable liquidity at a later date. At the same time, RBI may also look at unwinding its forward book. This implies it may not need to reduce its foreign security portfolio to that extent. On its own, domestic liquidity will fall on the back of CRR hikes, currency demand and FX intervention.

ICICI Bank Global Markets

Table:1 Dividend transfer declined to INR 303bn vs. INR 991 year ago

INR bn	FY17	FY18	FY19	FY20	FY21	FY22
Interest	661	739	1068	1093	691	951
Other	-42	44	862	403	642	650
Income	**618**	**783**	**1930**	**1497**	**1333**	**1601**
Printing of notes	80	49	48	44	40	50
Employee cost	46	38	69	89	48	39
Provisions	132	142	1	736	207	1147
Other	54	53	53	56	46	63
Expenditure	**312**	**283**	**170**	**925**	**341**	**1298**
Available Balance	307	500	1760	571	991	303
Surplus payable to Centre	**307**	**500**	**1760**	**571**	**991**	**303**

Table 2: RBI liabilities grew on account of growth in deposit and other liabilities

Liabilities (INR bn)	FY17	FY18	FY19	FY20	FY21	FY22
Capital	**0.05**	**0.05**	**0.05**	**0.05**	**0.05**	**0.05**
Reserve fund	**65**	**65**	**65**	**65**	**65**	**65**
Other reserves	**2**	**2**	**2**	**2**	**2**	**2**
Deposit	**8964**	**6526**	**7649**	**11759**	**14915**	**17338**
Govt	948	1	1	1	50	50
Bank	5042	5071	5494	4708	6989	8767
Others	2974	1454	2154	7049	7876	8520
Other liabilities and provisions	**8947**	**10463**	**11625**	**15166**	**13825**	**13441**
Contingency fund	2282	2321	1963	2640	2845	3110
Asset fevelopment fund	228	228	229	229	229	230
Revaluation accounts	5870	7082	7310	11244	9245	9345
Other liabilities	566	832	2122	1053	1507	755
Note issued	**15063**	**19120**	**21688**	**26356**	**28269**	**31057**
Total liabilities	**33042**	**36176**	**41029**	**53348**	**57077**	**61903**

Table 3: Foreign and domestic securities accretion increased, but at a slower pace

Assets (INR bn)	FY17	FY18	FY19	FY20	FY21	FY22
Gold coin and bullion	**1317**	**1440**	**1675**	**2560**	**2477**	**3222**
Notes and Rupee coins	**6**	**9**	**8**	**8**	**8**	**5**
Investments - Domestic	**7558**	**6297**	**9899**	**11720**	**13332**	**14888**
Investments - Foreign	**23687**	**26351**	**27852**	**35450**	**39519**	**41210**
Loans and advances	**173**	**1639**	**932**	**3222**	**1351**	**2088**
Centre + States govt	50	569	292	46	34	17
SCBs	80	1007	572	2856	903	944
Others	43	62	68	320	415	1128
Investment in subsidiary	**34**	**34**	**20**	**20**	**20**	**21**
Other assets	**267**	**406**	**643**	**367**	**370**	**469**
Fixed Assets	4	4	7	8	9	9
Accrued income	232	233	331	345	346	418
Swap Amortisation Account	18	23	0	0	0	0
Revaluation of Forward Contracts Account	0	33	13	0	0	26
Miscellaneous	12	113	293	14	14	17
Total assets	**33041**	**36176**	**41029**	**53348**	**57077**	**61903**

Source: RBI & ICICI Bank Research

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