RBI's transfer to help the Government in combating economic slowdown and conform to fiscal targets, says Brickwork Ratings

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The acceptance of the report of the "Expert Committee Reviewing the Extant Economic Capital Framework" chaired by Dr. Bimal Jalan by the RBI Board brings in the much-needed relief to the government in adhering to its fiscal targets. Based on the Capital framework recommended by the Committee, the Board decided to transfer Rs 1,76,051 crore comprising of Rs 1,23,414 crore surplus and an additional Rs. 52,637 excess contingency provisions. With this, the RBI is set to transfer Rs 86,051 crores over and above the Rs 90,000 crore taken in the budget estimate for the current fiscal. While the government had hoped to get more, the revised capital framework unanimously approved by all the members of the Committee including the Union Finance Secretary has helped to overcome the impasse. Although the report of the Committee is yet to be released, it is reported that in making the recommendations it took into consideration', "….the role of central banks' financial resilience, cross-country practices, statutory provisions and the impact of the RBI's public policy mandate and operating environment on its balance sheet and the risks involved". The additional transfer provides substantial cushion to the fiscal without compromising on financial stability and market risks.

The Expert Committee, while arriving at the decision, made a clear distinction between the 'economic capital' comprising mainly of revaluation reserves and 'realised equity' which is mainly the contingency fund. It recommended the economic capital to be kept in the range of 24.5% to 20% of the balance sheet and as on June 30, 2019 it was well within the range at 23.3%, and therefore, the RBI's Board decided to transfer the entire surplus of Rs 1,23,414 crore. On realised equity, the Committee's recommendation was to keep it in the range of 6.5 to 5.5% of the balance sheet. Since the current ratio is 6.8%, and the Board decided to maintain it at the lower bound figure of 5.5%, the additional funds available for transfer is Rs 52,637 crore. Thus, the government will receive an additional dividend of Rs 86,051 crore over and above the Rs 90,000 already budgeted.

This will bring some degree of manoeuvrability to the Finance Minister. It is believed that the budgeted tax revenue estimate is quite optimistic and the additional funds can provide cushion against the shortfall in revenue collections. If the progress in revenue collections is satisfactory, then the government can use the additional money to clear the dues of Food Corporation of India and fertilizer companies to minimise spillover of deficits to the next year. The additional funds can also be used to undertake capital expenditures or provide stimulus and this may be particularly helpful in a slowing economy. The decision of the RBI Board must be welcomed as it has not come a day soon and should help the government in combating the economic slowdown and conform to the fiscal targets.

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