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RBI CAN TRANSFER RS 1 TRILLION OF EXCESS RESERVES TO GOVERNMENT: REPORT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

MUMBAI: The Reserve Bank has "more than adequate" reserves and that it can transfer over Rs 1 trillion to the government after a specially constituted panel identifies the "excess capital", says a report.

An RBI board meeting had last Monday decided to form a committee, which is likely to be announced later this week.

"We expect the proposed committee on the RBI's economic capital framework (ECF) to identify Rs 1-3 trillion which is 0.5-1.6 per cent of GDP as excess capital," analysts at Bank of America Merrill Lynch said in a note Monday.

The brokerage report said as per its stress tests, the central bank can transfer Rs 1 trillion to the government if the transfer is limited to passing excess contingency reserve and can go up to Rs 3 trillion if the total capital is included.

Giving a break-up, the report said Rs 1.05 trillion can be transferred if the contingency reserve is capped at 3.5 percent of the RBI book. It further said this level will be 75 percent higher than the average of BRICS economies, excluding India.

Additional forms of transfers can include Rs 1.16 trillion from the contingency reserves if one restricts to yield rise of 4.5 percent as against 9 percent at present.

Limiting the appreciation cover in RBI's currency and gold revaluation account to 25 percent (Rs 53.25 per USD) will release about Rs 72,000 crore to the government, it said.

It also said capping the overall reserves at 20 percent of the RBI's book as against 28.3 percent now and higher than 18 percent recommended by the Usha Thorat panel will be able to release Rs 3.11 trillion.

The statutes do not prohibit transfer of excess capital to the government, it said, pointing out that the RBI Act places no bar as long as government maintains Rs 5 crore of reserve funds under Sec 46 of the RBI Act.

While Section 47 enjoins the RBI to credit its annual surplus to the national exchequer, after provisions, it does not place any restrictions on further transfers, it added.

The RBI's contingency reserves at 7 percent are higher than the BRICS (excluding India) average of 2 percent, it said, adding the revaluation reserves are also on the higher side relative to BRICS central banks.

As per a press statement after the nine-hour marathon board meeting, the government and RBI will be jointly deciding on the panel constitution and also its terms of reference.

Following widespread criticism from many quarters, finance minister Arun Jaitley had said over the weekend that government did not need any support from the RBI's reserves for the next six months. However, multiple reports had claimed that the government is eyeing the extra cash which will help it in the run-up to the elections.

This comes amidst falling GST collections and little borrowing window left for the government, as it has already used up close to 96 percent of borrowings as of end October. By taking the money from the RBI, the government will only increase its fiscal deficit, as it will have to issue bonds to the central bank.

The government for the second year in a row has pegged fiscal deficit at 3.3 per cent of GDP this fiscal year. Many analysts are expecting government to overshoot this by at least 20-30 bps by March.

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