

RBI reserves: Bimal Jalan panel dashes govt hopes of one-time transfer

By: FE Bureau

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The six-member Bimal Jalan panel, which was expected to submit its report on Monday after its last meeting, will huddle again in July to iron out persisting differences.(File photo)

The deferment of the submission of a report on the transfer of excess reserves from the central bank to the government, purportedly due to dissent by finance secretary Subhash Chandra Garg, suggests the resource-hungry Centre is unlikely to get the commitment of a sizeable chunk of the Reserve Bank of India's (RBI) 'surplus' anytime soon to appropriately base its Budget calculations.

The six-member Bimal Jalan panel, which was expected to submit its report on Monday after its last meeting, will huddle again in July to iron out persisting differences.

Garg, a member of the panel, is learnt to have dissented and wanted the review of the RBI's economic capital framework (ECF) to result in substantially higher transfers to the government

than what some other members in the panel converged on.

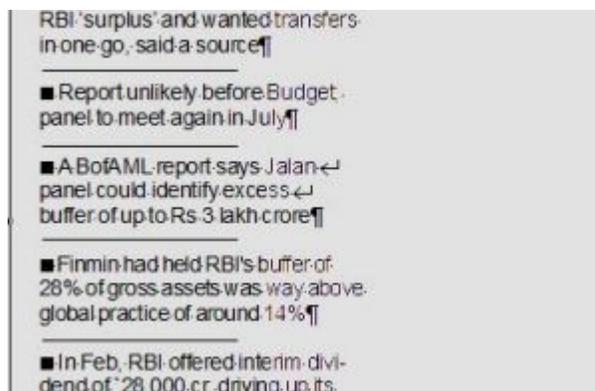
The finance secretary couldn't take part in the panel's last meeting, said a source. Apart from making certain observations on the methodology to be adopted for calculating the extra reserves, Garg also wanted the transfers in one go, rather than in phases, the source added.

The report is now unlikely to be submitted before the presentation of the 2019-20 Budget on July 5.

The finance ministry — staring at a huge shortfall in FY20 revenue from the level envisaged in the Interim Budget, as the ask rate for gross tax revenue is as high as 23% against 13.5% budgeted — wants the review of the ECF by the Jalan committee to yield rich dividends for the government.

Its reliance on the RBI's transfer has only risen in recent weeks, given the need to allocate more than the budgeted levels to certain welfare schemes, thanks to the expansion of the PM Kisan scheme and the pension scheme planned for unorganised-sector workers. The prospects of massive non-tax revenue mop-up don't look good yet, as disinvestment of debt-laden Air India hasn't taken off and strategic sell-off of two dozen public-sector units (PSUs), proposed by NITI Aayog, has remained a non-starter.

A recent report by Bank of America Merrill Lynch said the Jalan committee could identify an excess buffer of up to Rs 3 lakh crore (or roughly 1.5% of the GDP), including the excess capital in contingency reserves and revaluation reserves. Halving of the contingency reserves of the RBI will release Rs 1.28 lakh crore, the report said, adding the level would still be 50% higher than what central banks of the BRICS nations have. Similarly, halving the yield cover hike will release another Rs 1.17 lakh crore, it added.



The ECF, which determines the central bank's surplus transfer to the government, was one of the contentious issues in the much-hyped tussle late last year between the finance ministry and former

RBI governor Urjit Patel. During Patel's tenure, RBI's surplus transfer (as % of its net disposable income) dropped to 70-78%, against 100% during [Raghuram Rajan's](#) period.

Last year, the finance ministry held that the buffer of 28% of gross assets maintained by the central bank was much higher than the global practice of around 14%. Following this, the RBI central board, in its meeting on November 19, 2018, had decided to set up a panel to examine the ECF. The ECF panel was mandated to submit its report to the RBI within 90 days of its first meeting which took place on January 8. Following this, the panel was given a three-month extension.

Brokerage firm UBS last week said: "A staggered dividend of \$10 billion a year, rather than a one-shot \$30 billion, is our base case." Any such extra transfer should help the government trim public debt and recapitalise public-sector banks and position them well to drive the credit cycle, it added.

In February, RBI decided to offer an interim dividend of Rs 28,000 crore to the Centre, driving up its total transfer in the last fiscal to Rs 68,000 crore, as estimated by the Interim Budget for FY19. The elevated transfer under new governor Shaktikanta Das seems like a departure from the RBI's policy during the Patel era. In 2017-18, the RBI had transferred Rs 40,659 crore (including an interim dividend of Rs10,000 crore in March 2018).

The Economic Survey 2015-16 had suggested that the RBI's capital ('excess capital') could be redeployed to infuse funds into state-owned banks and help them provide more for bad assets and step up lending.

Also read: [Jalan panel report on RBI's capital size to be finalised by June-end: Governor Shaktikanta Das](#)

Many have, however, disagreed with this and said the perception that the RBI capital is in excess of what generally other central banks have is because of the amounts held in Currency and Gold Revaluation Account (CGRA). These analysts, including former central bankers, have pointed out that foreign currency assets — which are being held for precautionary purposes and without a commercial intent — are a major part of the central bank's total balance sheet assets. While these assets are periodically revalued at market rates and the gains and losses are accounted for, any gains from such exercises are unrealised and only notional. These, they reckon, cannot be counted as profits generated by RBI.

The other members of the Jalan panel include Rakesh Mohan, former deputy governor of RBI as the vice-chairman, finance secretary Subhash Chandra Garg, RBI deputy governor NS