Chaitanya Kalbag

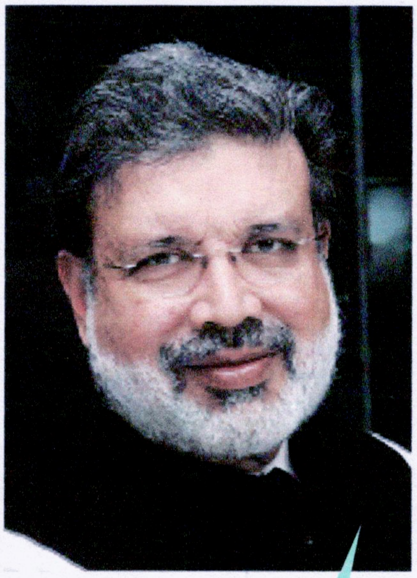
BANK THE RESERVE

The government must resist the temptation to dip its hand in the till

THE RESERVE BANK OF INDIA (RBI) IS the best-run company in India: transparent, diligent, accountable, and (ostensibly) independent. Its official capital is a paltry Rs 5 crore, yet year after year it rewards its sole shareholder, the government, with mind-boggling dividends.

In 2012-13 (the RBI's fiscal year ends on June 30) the central bank 'transferred' its surplus of Rs 33,010 crore to the government. This was 53.4 per cent of its net disposable income. Two chunks totalling over Rs 55,000 crore were set aside for a Contingency Fund and an Asset Development Fund. Then, after sophisticated risk analysis, the RBI Board (nominated by the government) decided that, to continue to enable the central bank to undertake international transactions, it needed to maintain an 'equity position' of capital plus reserves of Rs 10 trillion. Anything above that could go to the government.

Starting in 2013-14 the RBI paid out 99.99 per cent of its surplus to the government. In the three years to 2015-16 RBI dividends totalled Rs 184,451 crore ($28.5 billion). So when the Finance Minister boasts of fiscal prudence, he ought to genuflect towards Mint Street. "This is of the order of magnitude of the dividends paid by the entire public sector to the government," Raghuram Rajan said in his final speech as governor on September 3, 2016.



Given its high indebtedness where will the government find more money?

In 2016-17, too, the RBI transferred a dividend of 99.99 per cent of its surplus, but the amount, Rs 30,659 crore, was less than half the previous year's pay-out. This was because the RBI Board transferred about Rs 13,200 crore to contingency funds; it drove total expenditure to Rs 31,156 crore, more than double the previous year's level. The board did not explain why it was salting away money again. Some of the higher bills came from printing new currency notes after demonetisation (Rs 7,965 crore, a 132 per cent jump over the Rs 3,421 crore in 2015-16).

"Yet some suggest we should pay more, a special dividend over and above the surplus we generate," Rajan said in his valedictory speech, adding this would not be wise. Still, like Oliver Twist, the government wants some more. As I wrote in my last column, there is a limit to how much the Finance Ministry can scrape out of its public-sector undertakings in the form of dividends. The ministry is fighting to meet its fiscal-deficit target of 3.2 per cent of gross domestic product (GDP).

When Moody's Investors Service upgraded India's sovereign bond rating to Baa2 from Baa3 on November 16, the agency praised the government's ongoing reforms, even though it saw GDP growth slipping to 6.7 per cent in 2017-18. Government debt stood at 68 per cent of GDP in 2016, Moody's noted, far higher than the average 44 per cent among India's peers – and likely to be nudged higher by the high cost of recapitalising stressed state-owned banks. However, Moody's warned, "A material deterioration in fiscal metrics and the outlook for general government fiscal consolidation would put negative pressure on the rating."

Given its high indebtedness where will the government find more money? One suggestion has been to tap our very comfortable foreign-exchange reserves, which stand at nearly $400 billion. But with oil prices at their highest in two years, and exports growing anaemically, that would be foolhardy. BW

(Thanks to Rakesh Bhalla for his inputs)

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