RBI dividend likely stayed strong at ~INR 1000 Bn

10th May 2024

RBI likely to repeat a strong dividend number in FY25

- We expect the RBI to transfer a surplus of c.INR 1000bn to the government in FY25, a marginal pickup from INR 874bn clocked last year.
- The government has budgeted the FY25 dividend for RBI and PSU banks & financial institutions at INR 1020bn, vis-à-vis INR 1044bn in FY24. In our view, a positive surprise is likely, similar to last year when initial budget estimate for overall dividend was only INR 480bn.
- While there are many moving parts in the RBI dividend calculation, our assessment shows a likely repeat of a strong dividend number.

Interest earnings remained elevated while lower FX gains capped income impact

- RBI primarily holds c.70% of its balance sheet (c.INR 70trn as of 29th March 2024) in the form of Foreign Currency (FCY) assets and another 20% in domestic government bonds. The interest earnings on these securities likely remained significant and estimated at c.INR 1.5-1.7trn.
- Interest from liquidity operations also supported RBI's earnings as banking system switched back into deficit mode from September 2023, after a gap of three years.
- Income gains from (gross) FX sales, which totaled INR 1033bn last year likely slipped on account of need for lower sales at an estimated USD 150-170bn, down 25% y/y. Meanwhile, it is still likely to be significant despite a rise in weighted average cost of reserves, which limits the income impact of FX sales.

Drop in provisions likely helped boost RBI dividend

- The RBI is required to provision for the reserves as per Economic Capital framework (ECF) outlined by the Jalan committee, which came into effect in FY19. ECF requires the contingency and revaluation reserve buffers at 5.5-6.5% and 15.3-18.9% of the Balance sheet (B/S).
- The provision for Contingency Fund likely rose on higher Balance sheet growth at c.11.5% vis-a-vis 2.5% last year on the back of spike in FCY assets. This is attributed to a spike in the balance of payments surplus to an estimated USD 60bn in FY24 vs USD 9bn outflow in FY23.
- The provision for revaluation reserves likely eased from c.INR 900bn seen last year. The key driver for the shortfall in reserves was the spike in interest rates (both global and domestic). With the extent of up move in interest rates relatively lower rise in FY24, as markets started pricing for rate cut(s) in the second half of the year, we expect a drop in reserve provisioning requirements. Meanwhile, Rupee depreciation and rise in gold prices continued to boost the Currency and Gold revaluation account (CGRA).

Market impact may be limited in near term yet *Positive* for fixed income

- RBI dividend typically boosts the government balance, and the liquidity impact is contingent on the timeline of government spending of the surplus.
- Government spending may be delayed this year given elections are underway. Consequently, expectations are that impact of RBI dividend announcement on markets may be limited.
- However, if the surplus balance is used for a repeat of a G-Sec buyback (similar to the one conducted on 9th May), it would help support the shorter end of the G-Sec curve.
- From a full year perspective, we remain *Positive* on longer duration G-Secs on the back of favourable demand-supply dynamics.

Fig 1: RBI's surplus transfer likely edged up in FY24 on lower provision requirements

RBI's Income statement							
INR Bn	FY18*	FY19	FY20	FY21	FY22	FY23	FY24 (E)
Dividend	499	1760	571	991	303	880	900-1100
Income	782	1930	1497	1332	1601	2360	2000-2200
Expenditure	283	170	925	342	1298	1480	1000-1200
O/w Provisions	*156*	*15*	*754*	*221*	*1146*	*1308*	*900-1000*

**as per RBI fiscal year while surplus is transferred to the government in next financial year; Source: RBI, UBI research*

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Kanhaiya Jha
kanhaiya.jha@unionbankofindia.bank

Fig 2: Balance sheet growth likely picked up in FY24 on spike in FCY assets

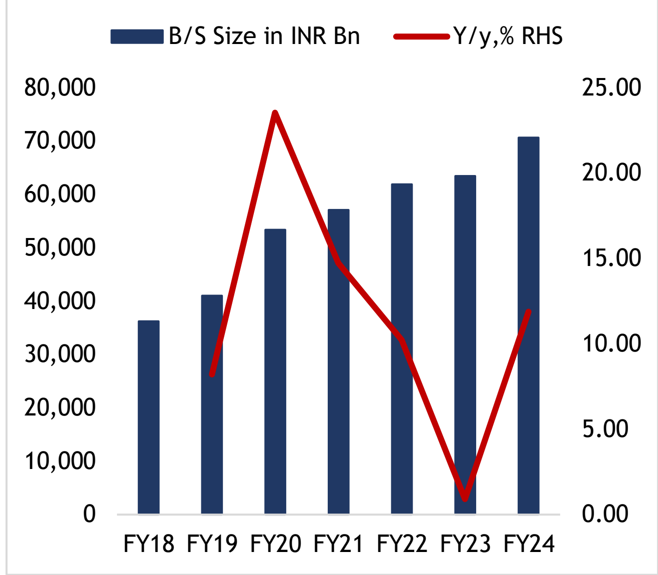

Fig 3: RBI surplus transfer to government likely edged up to c.INR 1trn, last seen in FY21

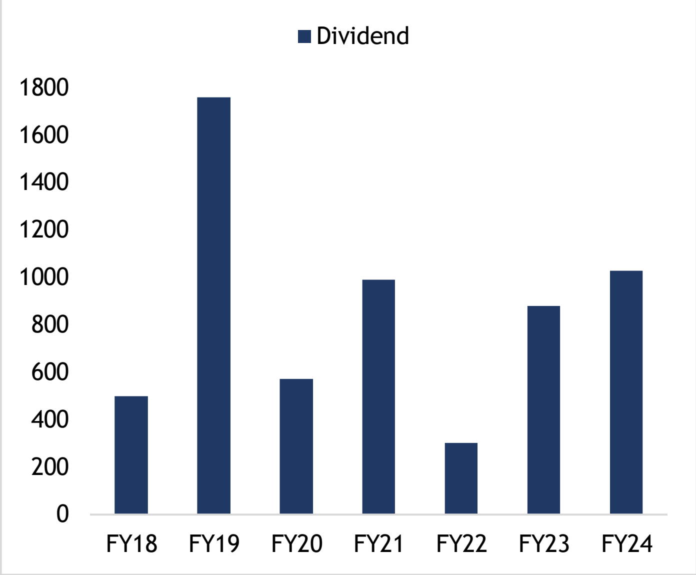

Fig 4: Lower provision requirements likely boosted overall RBI dividend

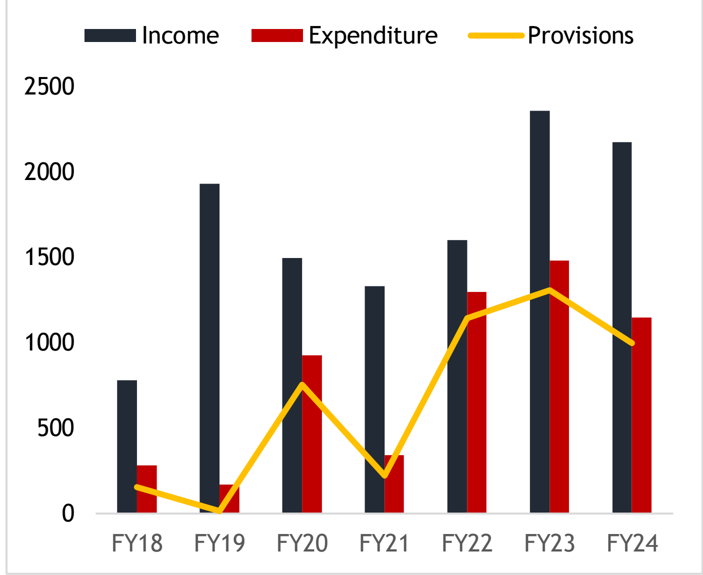

Fig 5: FX-led earnings likely dropped in FY24 on fall in gross FX sales

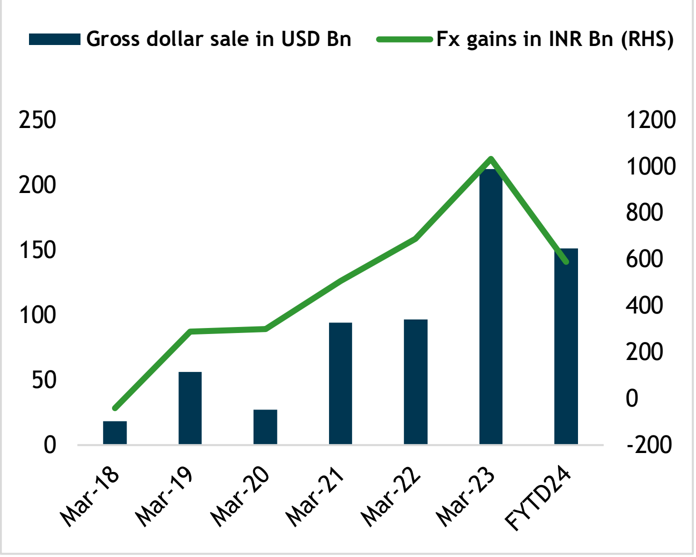

Fig 6: Interest earnings on liquidity operations turned positive on switch in liquidity to deficit

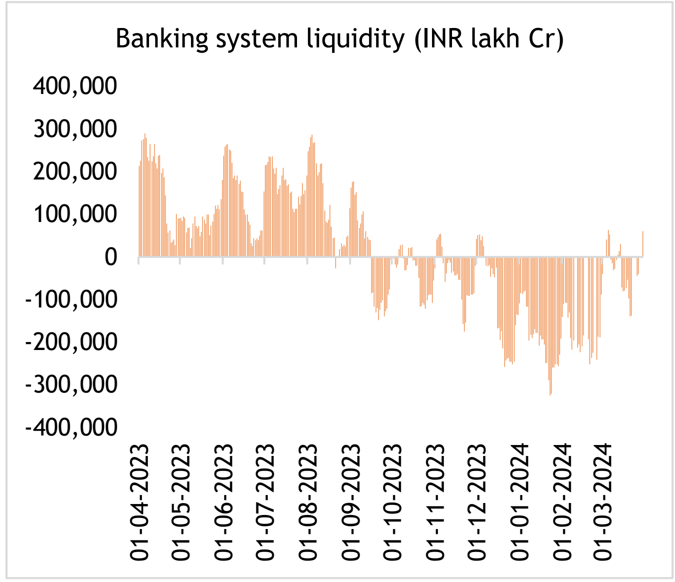

Fig 7: ECF requires contingency and revaluation reserve buffers at 5.5-6.5% & 15.3-18.9% of B/S

% of B/S	Contingency reserve	Revaluation reserve buffer	Total ECF
FY18	7.2	19.6	26.8
FY19	5.5	17.8	23.3
FY20	5.5	21.2	26.7
FY21	5.5	16.3	21.8
FY22	5.5	15.1	20.6
FY23	6.0	17.7	23.7
FY24	6.0	18.0	24.0

FY24 data is UBI estimate; Source: RBI, Bloomberg, CEIC and UBI research

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Ashish D Dhok	ashish.dd@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Ajinkya Tawde	ajinkya.tawde@unionbankofindia.bank
Kanhaiya Jha	kanhaiya.jha@unionbankofindia.bank
Maneesh Gupta	maneesh.gupta@unionbankofindia.bank