

Demonetisation effect: RBI's payout to Centre falls by more than half

Our Bureau



Drops to ₹30,659 cr from previous year's ₹65,876 cr; will impact fiscal deficit numbers, say experts

Mumbai, August 10:

Demonetisation coupled with reverse-repo auctions undertaken to suck out excess liquidity in the banking system seem to have taken a heavy toll on the Reserve Bank of India's payout to the government.

The RBI's Central Board, at its meeting held on Thursday, approved the transfer of surplus to the Government of India amounting to ₹30,659 crore for the year ended June 30, 2017 (RBI follows July 1 to June 30 financial year). This is less than half of the surplus transfer amounting to ₹65,876 crore in the previous year.

Madan Sabnavis, Chief Economist, CARE Ratings, said the lower amount will be a concern since the government's non-tax receipts will be affected.

In the Union Budget 2017-18, it was assumed that around ₹75,000 crore would come from the RBI, public sector banks (PSBs) and financial institutions compared with a little over ₹76,000 crore in FY17, he added.

Sabnavis observed that as PSBs are unlikely to do better than last year and the RBI will be transferring a smaller amount, this will impact the fiscal deficit numbers. If other conditions remain unchanged, the fiscal deficit can increase from 3.2 per cent to 3.4 per cent this year.

Economists say the RBI's expenses would have gone up on account of the demonetisation exercise, whereby ₹500 and ₹1,000 denomination notes were sucked out of the economy; new bank notes of ₹500 and ₹2,000 denominations were circulated; and reverse-repo auctions conducted to drain surplus liquidity with the banking system post demonetisation.

The central bank would have paid, on an average, 6 per cent interest to drain the excess liquidity.

There was a huge liquidity overhang in the banking system, post demonetisation. According to the RBI, the surplus liquidity in the banking system declined from a peak of ₹7.95 lakh crore on January 4, 2017, to an average of ₹6.01 lakh crore in February and further down to ₹4.80 lakh crore in March.

It conducted variable rate reverse-repo auctions of different tenors which took in the remaining surplus liquidity averaging ₹3.8 lakh crore in April and ₹3.4 lakh crore in May.

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