

**HIGHER DIVIDEND PAYMENTS MIGHT CONTINUE IN FY25 ALSO
INDICATING ADHERENCE TO FISCAL GLIDE PATH OF 4.5% BY FY26****Issue No. 05, FY25
Date: 30 May 2024**

There are 4 defining features in the RBI annual Report released today apart from the usual contours of discussion.

First, the RBI annual report 2023-24 has revealed that the RBI surplus evolved on unexpected lines and the Annual Report also shows that domestic income was flat for FY24 as expected. The sharpest increase in income was from foreign sources registering a growth of 71% from the level in FY23. On the expenses side, the major factor that decides the quantum of transferable surplus is the provision towards contingency funds (CF). An amount of ₹42,819.91 crore was also provided towards CF to maintain the Available Realised Equity at the level of 6.50 per cent of the size of the balance sheet. This provision towards CF was substantially lower than what was done last year. Since the transfer of surplus is dependent on meeting dual objective of maintaining contingency risk buffer between 5.5-6.5% and economic capital between 20.8-25.4% of total balance sheet, the required dual condition was comfortably met by making a provision of ₹42,819.91 crore in CF in FY24 leading to a higher transfer of surplus in FY24. **We expect that higher dividend payments could continue in FY25 also. This is because US yields continuing at above 4% will imply asset income boost for RBI as well as bolstering foreign exchange reserves through \$ buying. Thus there is a large probability of RBI dividend being healthy in FY25 as well and may even be closer to Rs 2.1 trillion. It may be noted that a rate cut by Fed towards September could fuel a rally in currency against the dollar.**

Second, during the last three years (2021-22 to 2023-24), **72 public consultations with the stakeholders were undertaken by RBI** in areas of regulation and supervision of banks and NBFCs, payment and settlement systems, financial markets, foreign exchange management and consumer protection. The comments/ feedback received on the proposed regulatory policies are analysed in-depth, and final guidelines are issued after incorporating suitable modifications, as appropriate. The participative and consultative approach, providing around 15-60 days for the feedback, facilitates in ironing out any inconsistencies or multiple interpretations of regulations under review; identifying potential gaps between evolving market practices and underlying regulations; and formulating an objective assessment of the stakeholders' concerns and expectations. **This clearly shows that RBI has been playing a more and more decisive approach towards making the Indian Banking system more fortified in terms of regulation and supervision.**

Third, is the RBI focus on customer centricity. Apart from being a full-service central bank, RBI has a diverse functional mandate. RBI's enduring concern for the quality of customer services in the Regulated Entities (REs) has led to continuing initiatives over decades, including setting up of various Committees on customer service. Over the years, RBI has put in place various institutional mechanisms aimed at improving the customer service. During the last three years (2021-22 to 2023-24), **130 customer centric measures were undertaken by RBI** with 56 measures taken in 2023-24 alone.

Fourth, the number of cases on frauds reported by banks increased at a CAGR of 32.8% to 36,075 in FY24 from 8707 in FY20. **However remarkably, the share of number of frauds in private banks has increased to 67.1% in FY24 from 35.2% in FY20, while PSBs share has declined significantly to 20.7% in FY24 from 50.7% in FY19.** However, in terms of amount, it has declined by a CAGR of 27.9% to Rs 13,930 crore in FY24 from Rs 1.85 lakh crore in FY20. **Again, Pvt Banks's share increased to 22.8% in FY24 from 18.4% in FY20.** While small value card/internet frauds contributed maximum to the number of frauds reported by the private sector banks, the frauds in public sector banks were mainly in loan portfolio. The share of card/internet frauds has increased to 80.6% in FY24.

FINANCIAL SAVINGS

- ◆ The net financial saving of the household sector – the most important source of funds for the two deficit sectors, namely, the general government sector and the non-financial corporations – moderated to 5.3% of GDP in FY23 from 7.3% in FY22 as households drew down excess saving accumulated during the pandemic to fund consumption and investment. In consonance with the global trend, India had experienced a spike in household financial saving the pandemic (11.7% of GDP) but with the ebbing of the pandemic and release of the pent-up demand, the stock of excess financial savings moderated.
- ◆ Based on current trends we estimate that the net financial savings may reach Rs 16 lakh crore (or 5.4% of GDP) in FY24.

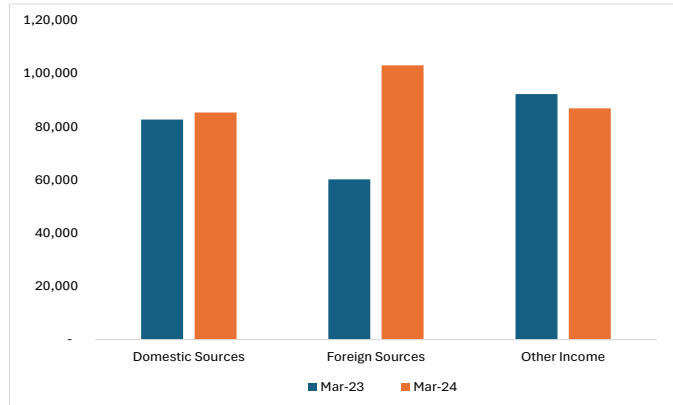
RBI SURPLUS DYNAMICS

- ◆ The RBI surplus evolved on expected line and the Annual Report shows that domestic income was flat for FY24 as expected. The sharpest increase in income was from foreign sources registering a growth of 71% from the level in FY23.
- ◆ On the expenses side, the major factor that decides the quantum of transferable surplus is the provision towards contingency funds (CF). An amount of ₹42,819.91 crore was also provided towards CF to maintain the Available Realised Equity at the level of 6.50 per cent of the size of the balance sheet. The provision towards CF was substantially lower than what was done last year.
- ◆ Since the transfer of surplus is dependent on meeting dual objective of maintaining contingency risk buffer between 5.5-6.5% and economic capital between 20.8-25.4% of total balance sheet, the required dual condition was comfortably met by making a provision of ₹42,819.91 crore in CF in FY24 leading to a higher transfer of surplus in FY24.

Financial Savings of the Household Sector					
	FY20	FY21	FY22	FY23	FY24P
In Rs Lakh Crore					
Household Financial savings(A+B+C-D)	38.5	45.1	47.4	49.6	54-56
A. Gross financial saving	23.2	30.7	26.1	29.7	32-34
<i>of which:</i>					
Currency	2.8	3.8	2.7	2.4	2.8
Deposits	8.9	12.5	8.3	11.1	12.5
Shares and Debentures	0.9	1.1	2.1	2.1	2.7
Claims on Government	2.7	2.7	2.6	2.5	3.6
Insurance Funds	3.4	5.7	4.9	5.5	4.9
Provident and Pension funds	4.5	5.0	5.5	6.3	6.7
B.Saving in physical assets	22.5	21.4	29.7	34.8	38-40
C.Saving in form of gold & silver ornaments	0.4	0.4	0.6	0.6	0.7
D. Financial Liabilities	7.7	7.4	9.0	15.6	16-18
Net Financial Saving (A-D)	15.5	23.3	17.1	14.2	16.0
% of GDP					
Household Financial savings(A+B+C-D)	19.1	22.7	20.1	18.4	19.0
A. Gross financial saving	11.6	15.4	11.1	11.0	11.2
<i>of which:</i>					
Currency	1.4	1.9	1.1	0.9	1.0
Deposits	4.4	6.3	3.5	4.1	4.3
Shares and Debentures	0.5	0.5	0.9	0.8	0.9
Claims on Government	1.3	1.3	1.1	0.9	1.2
Insurance Funds	1.7	2.9	2.1	2.0	1.7
Provident and Pension funds	2.3	2.5	2.3	2.3	2.3
B.Saving in physical assets	11.2	10.8	12.6	12.9	13.3
C.Saving in form of gold & silver ornaments	0.2	0.2	0.3	0.2	0.2
D. Financial Liabilities	3.9	3.7	3.8	5.8	5.8
Net Financial Saving (A-D)	7.7	11.7	7.3	5.3	5.4

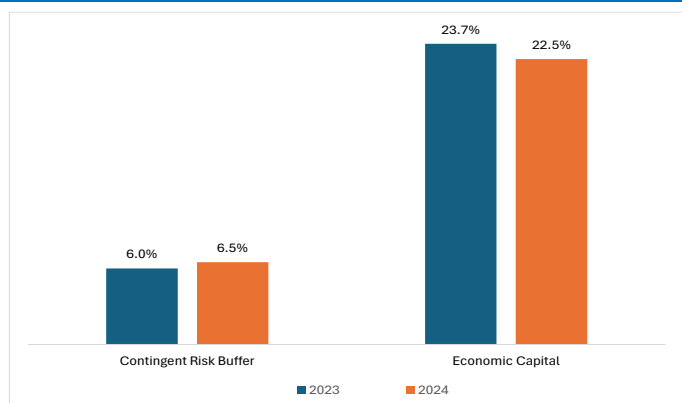
Source: RBI, SBI Research, FY24 is SBI Estimate

Variation in RBI's Sources of Income



Source: RBI, SBI Research

Economic Capital Position of RBI



Source: RBI, SBI Research

CURRENCY MANAGEMENT

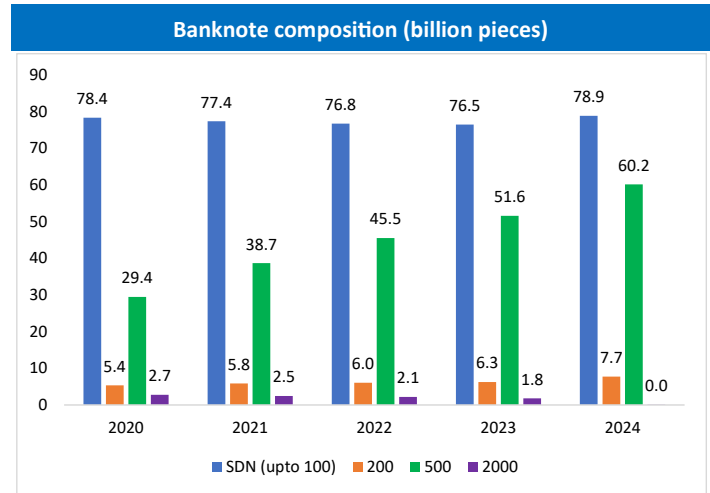
- ◆ **The number of banknotes has grown by 7.8% to 146.8 billion pieces as on Mar'24.** Rs 2000 denomination note which the RBI had decided to withdraw has been reduced to merely 41 million pieces as on Mar'24, from 1.8 billion pieces in Mar'23. The Rs 200 denomination notes have seen a yearly increase of 1.4 billion pieces to 7.7 billion pieces in Mar'24. Rs 500 denomination notes rose to 60.2 billion pieces as on Mar'24. Denomination-wise the biggest number of banknotes in circulation is Rs 500 (41% of total notes) followed by Rs 10 (17% of total notes). The number of small denomination notes (upto 100) has also increased to 78.9 billion pieces as on Mar'24 primarily due to 14% increase in Rs 100 denomination note.
- ◆ The % composition of bank notes in value terms shows that Rs 500 denomination notes have 86.5% share in the total value of bank notes in circulation.

COUNTERFEIT NOTES

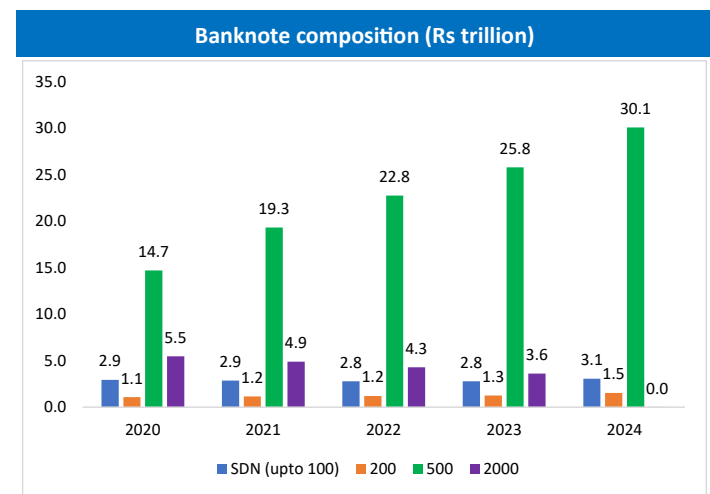
- ◆ The total number of counterfeit notes detected in the banking system has declined by 1.4% to 2.23 lakh pieces. The Rs 200 denomination has witnessed a slight increase of 5.2% to 28,672 pieces (value of Rs 57 lakh only). On account of the ongoing withdrawal of Rs 2000 banknotes from circulation and processing of these notes in large numbers, counterfeit notes detected in this denomination has increased by 165% to 26,035 pieces (value of Rs 5.2 crore).

PUBLIC CONSULTATIONS FOR REGULATORY MEASURES BY RBI

- ◆ During the last three years (2021-22 to 2023-24), **72 public consultations with the stakeholders were undertaken by RBI** in areas of regulation and supervision of banks and NBFCs, payment and settlement systems, financial markets, foreign exchange management and consumer protection. The comments/ feedback received on the proposed regulatory policies are analysed in-depth, and final guidelines are issued after incorporating suitable modifications, as appropriate. The participative and consultative approach, providing around 15-60 days for the feedback, facilitates in ironing out any inconsistencies or multiple interpretations of regulations under review; identifying potential gaps between evolving market practices and underlying regulations; and formulating an objective assessment of the stakeholders' concerns and expectations.



Source: SBI Research



Source: SBI Research

Denomination (Rs)	Number of pieces			% YoY	
	FY22	FY23	FY24	FY22	FY23
2 & 5	1	3	1	200.0	-66.7
10	354	313	235	-11.6	-24.9
20	311	337	297	8.4	-11.9
50	17,696	17,755	15,366	0.3	-13.5
100	92,237	78,699	66,310	-14.7	-15.7
200	27,074	27,258	28,672	0.7	5.2
500	79,669	91,110	85,711	14.4	-5.9
2000	13,604	9,806	26,035	-27.9	165.5
Total	2,30,971	2,25,769	2,22,639	-2.3	-1.4

Source: RBI; SBI Research

Department	2021-22	2022-23	2023-24	Total
Financial Markets Regulation Department	6	3	3	12
Foreign Exchange Department	-	1	1	2
Department of Regulation	5	6	21	32
FinTech Department	-	-	1	1
Department of Supervision	-	1	4	5
Department of Payment and Settlement Systems	5	5	10	20
Total	16	16	40	72

Source: RBI; SBI Research

CUSTOMER CENTRIC POLICIES OF RBI

- ◆ Apart from being a full-service central bank, RBI has a diverse functional mandate. RBI’s enduring concern for the quality of customer services in the Regulated Entities (REs) has led to continuing initiatives over decades, including setting up of various Committees on customer service. Over the years, RBI has put in place various institutional mechanisms aimed at improving the customer service in the REs. During the last three years (2021-22 to 2023-24), **130 customer centric measures were undertaken by RBI** with 56 measures taken in 2023-24 only.

FRAUDS HAVE INCREASED, DUE TO RISE IN CARD/INTERNET FRAUDS

- ◆ The number of cases on frauds reported by banks increased a CAGR of 32.8% to 36,075 in FY24 from 8707 in FY20. The share of number of frauds in private banks has increased to 67.1% in FY24 from 35.2% in FY20, while PSBs share has declined to 20.7% in FY24 from 50.7% in FY19.
- ◆ However, in terms of amount, it has declined by a CAGR 27.9% to RS 13,930 crore in FY24 from Rs 1.85 lakh crore in FY20. Pvt banks’s share increased to 22.8% in FY24 from 18.4% in FY20, while PSBs share has declined to 75.3% from 79.9%.
- ◆ The amount involved in frauds that occurred in previous financial years formed 94.0% of the frauds reported in FY23 in terms of value. Similarly, 89.2% of the frauds reported in FY24 by value occurred in previous financial years.
- ◆ While small value card/internet frauds contributed maximum to the number of frauds reported by the private sector banks, the frauds in public sector banks were mainly in loan portfolio. The share of card/internet frauds has increased to 80.6% in FY24.

Customer Centric Measures: April 2021 to March 2024				
Department	2021-22	2022-23	2023-24	Total
Financial Inclusion and Development Department	2	2	2	6
Financial Markets Regulation Department	3	3	3	9
Foreign Exchange Department	2	9	9	20
Department of Regulation	6	6	13	25
FinTech Department	3	5	3	11
Department of Supervision	-	-	2	2
Consumer Education and Protection Department	6	6	8	20
Internal Debt Management Department	1	1	1	3
Department of Currency Management	3	3	4	10
Department of Payment and Settlement Systems	7	6	11	24
Total	33	41	56	130

Source: RBI, SBI Research

Bank Group	No. of Frauds						Amount Involved (Rs crore)					
	FY20	FY21	FY22	FY23	FY24	CAGR %	FY20	FY21	FY22	FY23	FY24	CAGR %
PSBs	4,413	2,888	3044	3392	7472	11.1	1,48,400	77,879	32,288	18,750	10,507	-41.1
% Share	50.7	39.4	33.7	25.0	20.7		79.9	58.8	71.1	71.8	75.3	
Pvt Banks	3,066	3705	5312	8979	24210	51.2	34,211	45,515	10,653	6,159	3,170	-37.9
% Share	35.2	50.5	58.7	66.2	67.1		18.4	34.4	23.5	23.6	22.8	
FBs	1026	519	494	804	2899	23.1	972	3110	1206	292	154	-30.8
% Share	11.8	7.1	5.5	5.9	8.1		0.5	2.4	2.7	1.1	1.1	
Others	202	226	196	389	1,494	49.2	2,061	5,885	1,211	926	99	-45.5
% Share	2.3	3.1	2.2	2.9	4.1		1.1	4.4	2.7	3.5	0.7	
Total	8,707	7,338	9,046	13,564	36,075	32.9	1,85,644	1,32,389	45,358	26,127	13,930	-40.4

Source: RBI, SBI Research

Card/Internet Frauds Has Increased Substantially								
	No. of Frauds				Amount Involved (Rs crore)			
	FY22	FY23	FY24	CAGR	FY22	FY23	FY24	CAGR
Advances	3,782	4,090	4,133	4.5	43,272	24,685	11,772	-47.8
Share %	41.8	30.2	11.5	-	95.4	94.5	84.5	-
Card/Internet	3,596	6,699	29,082	184.4	155	277	1,457	206.6
Share %	39.8	49.4	80.6	-	0.3	1.1	10.4	-
Others	1,668	2,775	2,860	30.9	1,931	1,165	701	-39.7
Share %	18.4	20.5	7.9	-	4.3	4.5	5.0	-
Total	9,046	13,564	36,075	99.7	45,358	26,127	13,930	-44.6

Source: RBI, SBI Research

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