THE RBI ON RBI - A COMMENT

The annual report of the Reserve Bank of India for the year ended June 30, 1997 was published recently. Much of the public discussion on the Report has been concentrated on the RBI's review and prescriptions on the Indian economy. A few comments are now called for on what the RBI says about itself in this Report.

(I) The RBI has a paid-up capital of Rs.5 crores wholly held by the Government of India. But it functions under the RBI Act, 1934; and not under the Companies Act. It is required to submit to the Government of India every year (a) its annual accounts, and (b) a report by its Central Board of Directors on its working for the year. These precisely are the obligatory function of the RBI's annual report.

In fact, RBI's 1996-97 Report is of 223 pages of which 'The Working and Operations of the Reserve Bank of India' [(b) above] is explained in 15 pages, and the annual accounts [(a) above] take another ll pages. Apart from complying with the obligatory function in 26 pages, RBI engages itself for a full 197 pages in a review of the Indian economy and the supporting statistical data.

One drawback in the present arrangement is that this Report is of the Board of Directors of the RBI, submitted to the Finance Secretary of the Government of India (presently Dr.Montek Singh Ahluwalia). But Dr.Ahluwalia is also a member of the Board of the RBI, and therefore a signatory to the Report. Under this arrangement, there are definite limits as to how frankly the RBI, can in its Annual Report express any views critical of any Finance Ministry policies, even if the RBI management would have liked to do so. As long as the Finance Secretary is on the Board, the RBI Annual Report for all practical purposes will be broadly a restatement, if not a defence, of the economic policies pursued by the Finance Ministry. [I am of course not accusing the RBI at all that they would like to be seen as being critical of any such policies].

Interestingly, the RBI also publishes annually a Currency & Finance Report [CFR]. It is really a continuation, in a somewhat extended form, of the Currency Reports, which used to be published by the Controller of Currency, prior to the establishment of the Reserve Bank of India. Over the years, the CFR has expanded in size and content and now is no more restricted to matters relating to currency and finance, but covers every aspect of the economic situation and in a much more detailed manner than does the Annual Report. Its publication time is not very precise. It comes between, say two to four months after the RBI annual report. I understand this year it will be a forbidding four volume affair - a delight for some of the academic economists, but a despair for everyone else.

Are two such voluminous reviews of the Indian economy coming from the same building really necessary? More so, because (a) neither of them can or do any critical assessment in any case; and (b) neither of them can or do express any view different from one another, or very much different from those of the Finance Ministry. True, technically, the RBI and the CFR are different. The first expresses views of the RBI Board, the second is a Staff Report. Is it not all a sheer duplciation of work and a waste of talent, energy and funds for the RBI to produce two such comprehensive Reports in succession, covering identical ground regarding the Indian economy?

I suggest for consideration of the following:

(i) The RBI Annual Report should concentrate itself only on the two subjects for which it is meant. [(a) & (b) mentioned earlier.] The economic review can best be omitted altogether for the Annual Report.

(ii) The Currency & Finance Report should be the principal RBI document reviewing and assessing the Indian economy. The Ministry of Finance does not have to subscribe to the views expressed in the CFR; so the RBI can afford to be more explicit and frank (if it wanted), in the CFR, and they indeed should be elevated to the policy level. The RBI should be more punctual about targetting the publication date for the CFR.

(iii) If the CFR is going to be very long or very technical or both, the RBI should publish an executive summary, orff a synopsis of the summary, and also a Press Release. (At least the Press Release should be less than ten pages please!).

(II) SUBTLE:

I suspect that the RBI has an immense urge to say something different, but in view of this structural limitation, it has to adopt a very roundabout or 'subtle' way to say it. Three illustrations:

(i) The Report has a 'box' discussing the, still rather academic, concept of 'core inflation'. Quite often the core inflation is likely to be lower than the 'general' inflation (as reflected in the WPI or CPI). I will not be surprised if the 'authorities' are toying with the idea of shifting focus to 'core inflation' - if not for any other purpose, at least with the hope of being able to publish a lower rate of price increases!

(ii) The Report says that in 1997-98 'the growth rate could be between 6 and 7 per cent'. Until the Report was published RBI spokesmen, talked (and even now, the GOI spokesmen talk) of '6.5 to 7%' or just, 'about 7%'. Is the RBI statement regarding 'between 6 and 7%' to be taken as RBI's confession at long last, (a) that industry is slowing down, (b) that agriculture cannot possibly better its performance of last year and (c) that therefore the 1997-98 outlook for GDP growth will be distinctly less favourable than in 1996-97?

(iii) Regarding capital account covertibility, the Report emphasizes, 'it is not essential that any liberalisation of capital account transactions should wait until all the pre-conditions (proposed by the Tarapore Committee) are met'. I am inclined to interpret this 'bold' statement as evidence to show that pressure of (interested) public opinion is mounting on the RBI (or the Government?) to expedite the declaration of the capital account convertibility. This is interesting because even Mr.Tarapore seems now to have come round to the more sober view that the Committee's pre-conditions may not be fulfilled within the time frame proposed by his Committee.

May be, structurally, the RBI is not able to or historically, the RBI experts are not trained to, say things more directly or explicitly.

(III) MORE, PLEASE;

In quality and depth of analysis, and in their presentation the RBI Annual Reports have been improving over the years. This year the Report has even become colourful, has several 'boxes' and a much larger statistical sections. [If the World Bank can do it, why should the RBI be far behind?].

More interestingly, it tells us a wee bit more about itself. About ten years ago, the RBI Report devoted barely one or two pages to its own affairs. Even now, the accounts could do with far more transparancy and a more purposeful narration. For example, its entire expenditure of Rs.1912.60 crores is explained in just a few cursory paragraphs. They are largely, an elaboration in words of what the table shows in figures.

Granted, the RBI may not be required by law to disclose what companies under the Companies Act. But the cause of good corporate governance would benefit if the RBI were to tell the country more about itself. How much does the RBI spend on its 33,000 strong staff's salary, travelling and other allowances? Who are all paid more than, say, Rs.10,000/- per month? etc. Why should the RBI Report not publish what are 'schedules' commonly published in the Annual Reports of several companies, giving details about incomes and expenditure items; as well as regarding sources and application of funds?

(IV) RBI Profits:

Finally, a couple of observations regarding RBI profits. The Report says that the Government of India had agreed to bear the exchange risk liabilities relating to the FCNRA deposits with effect from July 1, 1993. Even then the RBI routinely transfers huge amounts (Rs.2763 crores in 1996-97) huge amounts to the GOI specifically to enable the Government to meet these liabilites! In fact RBI thus paid to the Government a hefty dividend of Rs.5263.43 crores [and not Rs.2500 crores as we are told], on its paid-up capital of Rs.5 crores. Why does it go in a roundabout way to say it transferred Rs.2500 crores as 'surplus' to the Government, and transferred another Rs.2763 crores as to help the Government to meet the exchange risk losses [which the Government is supposed to have agreed to bear].

The practice is all the more paradoxical, because the Government of India's Budget papers [Receipts Budget 1997-98] clearly show this amount under the head 'Dividends & Profits' as receipts from 'surplus profits from the Reserve Bank of India'.

The Budget papers make no distinction whatsoever in 'Dividend and Profits' received from the RBI and those received either from, say, the IDBI and other financial institutions or from other public sector enterprises. If anything the message comes out loud and clear that the RBI is the best yielding milch cow in the Government's stable.

The Government of India expects to receive Dividends & Profits as follows:

From	Budget 1997-98 (Rs.crores)
(1) The RBI	6000
of which	
(a) Net profits	2500
(b) Contribution to FCNR Exchange loss	3500
(2) Nationalised Banks	324
(3) LIC	160
(4) GIC & Subsidiaries	53
(5) IDBI & Other FIs	255
(6) Public Sector Enterprises & Other Investments	2719

	9513

Thus, even the RBI's net profit [Rs.2500 crores] are thus almost equals the dividends received from all public enterprises put together [Rs.2719 crores].

But a nagging question remains. Corporations and Companies make profits because they produce and sell goods and/or provide and sell services. What goods does the RBI produce or what services does it provide? In other words, where does its income come from? The largest single source of income is 'interest on domestic investments' [Rs.69 crores]. Most of this [Rs.6545 crores] was interest received on Government securities including the ad hoc treasury bills.

Many economists would agree that the RBI credit to the Government is the chief source of monetisation of the fiscal deficit; or, in layman's language, of inflation. Thus, for no fault of anybody, our present scheme is such that the greater the deficit financing and the consequent inflationary pressures in the economy to which citizens are exposed, the more prosperous does the country's central bank becomes. Its income increased from Rs.1461 crores in 1986-87 to Rs.9051 crores in 1996-97. So, it can let its expenditure increase merrily from Rs.511 crores to Rs.3784 crores; and still pay on the same capital base of Rs.5 crores [may we call it, 'inflation-dividend?' to the Government which can comfortably rise from Rs.210 crores to Rs.2500 crores i.e. from 4200% to 50000%! I know this present scheme of things is technically correct and it must be perfectly legitimate. I do not know what happens in other countries; but I dare say I do not feel comfortable. Moreover, now that the Government and the RBI have entered into an agreement to phase out the Ad hoc Treasury Bills, will the bottom line of the RBI be not adversely affected? I wonder!

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