

15.1 The key financial results of the Reserve Bank's operations during the year are presented in this Section.

INCOME AND EXPENDITURE

15.2 The gross income, expenditure, appropriations and net disposable income of the Reserve Bank have been evolving over the last five years (Table 15.1).

converted into marketable securities. The transfer on account of interest differential is intended to compensate the Government for the difference in interest expenditure, which the Government had to bear consequent on the conversion.

Income

15.4 The gross income of the Reserve Bank for the year 2003-04 was Rs.14,323.70 crore which was

Table 15.1: Trends in Gross Income, Expenditure and Net Disposable Income

(Rupees crore)

Item	2003-04	2002-03	2001-02	2000-01	1999-00
1	2	3	4	5	6
Total Income (Gross)	14,323.70	23,185.64	24,690.34	21,848.87	21,960.97
Less transfer to:					
(i) Contingency Reserve	969.47	6,733.92	6,996.04	6,202.57	6,554.50
(ii) Asset Development Reserve	188.09	890.31	827.91	704.78	711.55
Total (i + ii)	1,157.56	7,624.23	7,823.95	6,907.35	7,266.05
Total Income (Net)	13,166.14	15,561.41	16,866.39	14,941.52	14,694.92
Total Expenditure	7,762.14	6,723.41	6,542.39	5,587.52	5,340.92
Net Disposable Income	5,404.00	8,838.00	10,324.00	9,354.00	9,354.00
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Surplus transfer to the Government	5,400.00	8,834.00	10,320.00	9,350.00	9,350.00
of which :					
i) Normal Transfer	3,069.00	7,117.00	8,841.00	7,871.00	7,871.00
ii) Interest differential on account of conversion of special securities into marketable securities	2,331.00	1,717.00	1,479.00	1,479.00	1,479.00

* : An amount of Rupees one crore each transferred to the National Industrial Credit (Long Term Operations) Fund, National Rural Credit (Long Term Operations) Fund, National Rural Credit (Stabilisation) Fund and National Housing Credit (Long Term Operations) Fund during each of the five years.

Surplus Transferable to the Government of India

15.3 The surplus transferable to the Central Government for the year 2003-04 amounted to Rs.5,400.00 crore, inclusive of Rs.2,331.00 crore towards interest differential on special securities

lower by Rs.8,861.94 crore (38.2 per cent) as compared with the previous year's total income of Rs.23,185.64 crore. There was a decline in income from both domestic and foreign sources (Table 15.2 and Chart XV.1).

Table 15.2: Gross Income

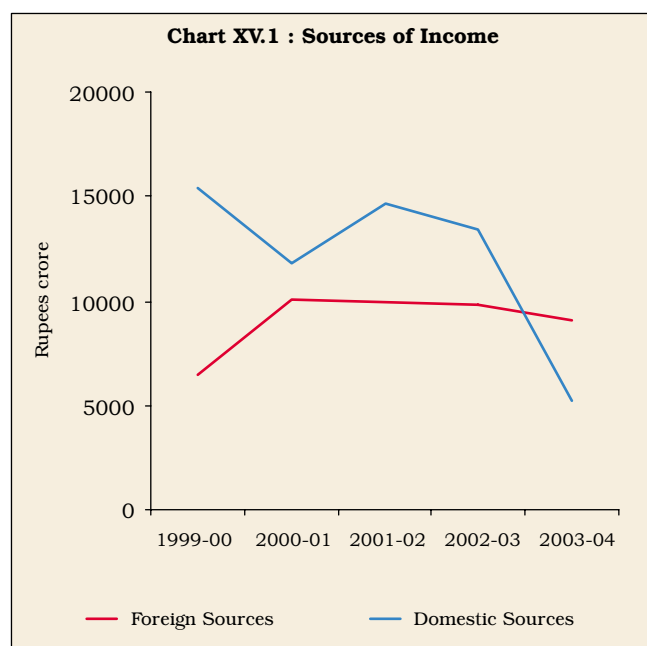
(Rupees crore)

Item	2003-04	2002-03	2001-02	2000-01	1999-2000
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange	9,103.50	9,826.65	9,986.46	10,086.08	6,514.73
B. Domestic Sources					
Interest	4,872.41	13,064.77	14,492.14	11,314.12	14,928.38
Discount	0.01	0.08	10.92	211.59	323.11
Exchange	0.07	0.09	0.08	0.85	0.14
Commission	335.05	279.42	189.51	210.37	185.62
Rent realised and others	12.66	14.63	11.23	25.86	8.99
Total: Domestic	5,220.20	13,358.99	14,703.88	11,762.79	15,446.24
C. Total Income (Gross) (A+B)	14,323.70	23,185.64	24,690.34	21,848.87	21,960.97

Table 15.3: Contingency and Asset Development Reserves and Surplus Transfer to the Government

(Rupees crore)

Item	2003-04	2002-03	2001-02	2000-01	1999-2000
1	2	3	4	5	6
Total Income (Gross)	14,323.70	23,185.64	24,690.34	21,848.87	21,960.97
Transfer to Contingency Reserve	969.47	6,733.92	6,996.04	6,202.57	6,554.50
	(6.8)	(29.0)	(28.3)	(28.4)	(29.9)
Asset Development Reserve	188.09	890.31	827.91	704.78	711.55
	(1.3)	(3.8)	(3.4)	(3.2)	(3.2)
Surplus transfer to the Government	5,400.00	8,834.00	10,320.00	9,350.00	9,350.00
	(37.7)	(38.1)	(41.8)	(42.8)	(42.6)

Note: Figures in parentheses indicate proportion to total income.

15.5 Transfer to Contingency Reserve, Asset Development Reserve and surplus transfer to the Central Government witnessed some decline in 2003-04 as a proportion to total income (Table 15.3).

Earnings from Foreign Sources

15.6 The Reserve Bank's earnings from the deployment of foreign currency assets and gold decreased by Rs.723.15 crore from Rs.9,826.65 crore in 2002-03 to Rs.9,103.50 crore in 2003-04 (Table 15.4). This was mainly on account of lower money market interest rates in major countries, on the one hand, and a fall in prices of securities due to rise in longer term yields, on the other. Before accounting for mark-to-market depreciation in securities, the rate of earnings on foreign currency assets and gold was 2.8 per cent in 2003-04 as against 3.2 per cent in 2002-03. The rate of earnings on foreign currency assets and gold, after accounting for depreciation, decreased from 3.1 per cent in 2002-03 to 2.1 per cent in 2003-04.

Table 15.4: Earnings from Foreign Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2004	June 30, 2003	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	5,24,865.01	3,65,000.98	1,59,864.03	43.8
Gold	18,655.48	17,182.40	1,473.08	8.6
Special Drawing Rights (SDR)	8.42	6.09	2.33	38.3
Reserve Position in the IMF	5,980.47 **	4,534.03	1,446.44	31.9
Total Foreign Exchange Reserves (FER)	5,49,509.38	3,86,723.50	1,62,785.88	42.1
Average FCA	4,38,958.40	3,17,297.00	1,21,661.40	38.3
Earnings (Interest, Discount, Exchange gain/loss, Capital gain / loss on Securities)	12,415.99	10,219.47	2,196.52	21.5
Depreciation on Securities	(-) 3,312.49	(-) 392.82	2,919.67	743.3
Earnings Net of Depreciation	9,103.50	9,826.65	(-) 723.15	(-) 7.4
<i>Memo Items:</i>				
Unrealised appreciation on Securities	330.31	1,888.12	(-) 1,557.81	(-) 82.5
Earnings as percentage of Average FCA	2.8	3.2		
Earnings (net of depreciation) as percentage of Average FCA	2.1	3.1		

** : Reserve Position in the International Monetary Fund (IMF), which was shown as a memo item from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004.

Table 15.5: Earnings from Domestic Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2004	June 30, 2003	Absolute	Per cent
1	2	3	4	5
Domestic Assets	84,872.74	1,54,812.91	(-) 69,940.17	(-) 45.2
Weekly average of Domestic Assets	88,288.77	1,56,365.36	(-) 68,076.59	(-) 43.5
Earnings	5,220.20	13,358.99	(-) 8,138.79	(-) 60.9
	(2,744.69)	(642.81)		
<i>of which:</i>				
(i) Profit on Sale of Securities	2,322.62	4,798.03	(-) 2,475.41	(-) 51.6
(ii) Interest on Securities	1,938.28	7,100.29	(-) 5,162.01	(-) 72.7
(iii) Interest on Loans and Advances	376.64	1,013.63	(-) 636.99	(-) 62.8
(iv) Other Earnings	582.66	447.04	135.62	30.3
<i>Memo Items:</i>				
Earnings in percentage terms (on average domestic assets)	5.9	8.5		
Earnings in percentage terms (excluding profit on sale of securities)	3.3	5.5		

Note : Figures in parentheses are depreciation on securities.

Income from Domestic Sources

15.7 Domestic income decreased by Rs.8,138.79 crore (60.9 per cent) from Rs.13,358.99 crore in 2002-03 to Rs.5,220.20 crore in 2003-04. This decline in income was mainly due to (a) reduction in profit from sale of rupee securities under open market operations and booking of substantially higher depreciation in the value of rupee securities, (b) substantial rise in cost of monetary operations under the Liquidity Adjustment Facility (LAF), (c) reduction in interest income due to decline in the size of the portfolio and (d) investment of Government of India surplus balances in rupee securities held by the Reserve Bank (Table 15.5).

15.8 Profits booked on sale of securities amounted to Rs.2,322.62 crore in 2003-04, representing a decrease of Rs.2,475.41 crore over the previous year. The interest income on ways and means advances

declined by Rs.241.98 crore from Rs.612.50 crore in 2002-03 to Rs.370.52 crore in 2003-04, reflecting decreased recourse by the Central Government to this facility and also the lower Bank Rate. Interest earnings from loans and advances to banks/financial institutions declined by Rs.395.01 crore from Rs.401.13 crore in 2002-03 to Rs.6.12 crore in 2003-04 due to lower utilisation of the refinance facility by primary dealers/scheduled commercial banks combined with lower interest rates applicable on these advances.

Expenditure

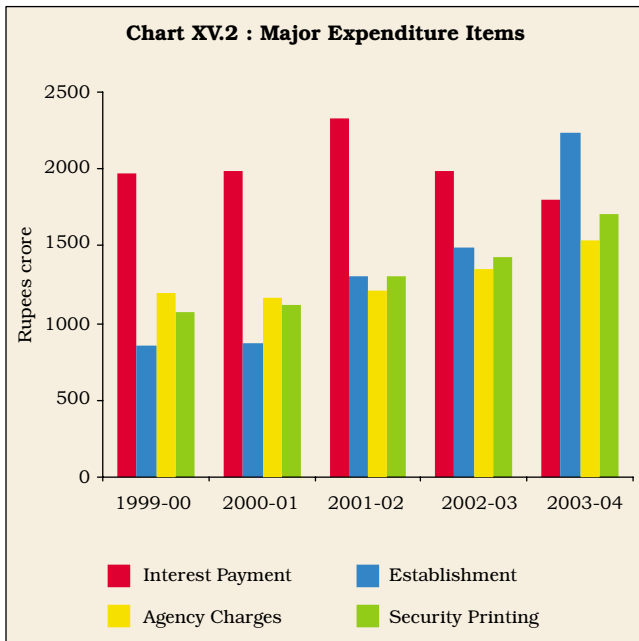
15.9 Total expenditure of the Reserve Bank increased by Rs.1,038.73 crore (15.5 per cent) from Rs.6,723.41 crore in 2002-03 to Rs.7,762.14 crore in 2003-04 (Table 15.6 and Chart XV.2).

Table 15.6: Expenditure

(Rupees crore)

Item	2003-04	2002-03	2001-02	2000-01	1999-2000
1	2	3	4	5	6
I. Interest Payment	1,808.48	1,990.09	2,334.99	1,994.80	1,971.88
<i>of which:</i>					
a) Scheduled Banks	1,323.23	1,483.02	1,838.57	1,660.83	1,656.18
b) Payment in lieu of service charges on borrowings from IMF payable to Government of India	—	—	—	—	7.82
II. Establishment	2,232.99	1,488.86	1,304.36	870.85	846.75
III Non-Establishment	3,720.67	3,244.46	2,903.04	2,721.87	2,522.29
<i>of which:</i>					
a) Agency charges	1,539.12	1,352.41	1,207.84	1,160.70	1,193.62
b) Security printing	1,709.56	1,433.09	1,304.49	1,122.78	1,068.44
Total [I+II+III]	7,762.14	6,723.41	6,542.39	5,587.52	5,340.92

Chart XV.2 : Major Expenditure Items



Interest Payment

15.10 Interest payment decreased by Rs.181.61 crore (9.1 per cent) from Rs.1,990.09 crore in 2002-03 to Rs.1,808.48 crore in 2003-04 due to a reduction in the cash reserve ratio and lower interest rates payable on eligible CRR balances.

Establishment Expenditure

15.11 Establishment expenditure increased by Rs.744.13 crore (49.9 per cent) from Rs.1,488.86 crore in 2002-03 to Rs.2,232.99 crore in 2003-04 as a result of increased provisioning in respect of gratuity and superannuation funds and payment of *ex-gratia* of Rs.408.00 crore to staff who opted for Optional Early Retirement Scheme (OERS). As per the actuarial valuation, the appropriation to the Gratuity and Superannuation Fund was to the extent of Rs.1,010.00 crore during 2003-04 as against Rs.616.67 crore during the previous year. The establishment expenditure during 2003-04 comprised of salary (14.5 per cent), allowances (25.7 per cent), funds (47.2 per cent) and miscellaneous expenditures (12.6 per cent).

Non-Establishment Expenditure

15.12 Expenditure on security printing comprising, *inter alia*, cost of printing currency notes and cheque forms, increased by Rs.276.47 crore (19.3 per cent) from Rs.1,433.09 crore in 2002-03 to Rs.1,709.56 crore in 2003-04 mainly due to higher indent and supply of notes by more than 150 crore pieces.

BALANCE SHEET

Liabilities

National Industrial Credit (Long Term Operations) Fund

15.13 There were no operations in the National Industrial Credit (Long Term Operations) Fund (established under Section 46C of the Reserve Bank of India Act, 1934) during 2003-04 except the credit of Rs.1.00 crore to the Fund out of the Reserve Bank's income.

National Housing Credit (Long Term Operations) Fund

15.14 The National Housing Credit (Long Term Operations) Fund was established by the Reserve Bank in terms of Section 46 D(I) of the Reserve Bank of India Act, 1934 in January 1989. A token contribution of Rs.1.00 crore was made to the Fund out of the Reserve Bank's income during 2003-04.

Deposits - Banks

15.15 'Deposits - Banks' represent balances maintained by banks in current accounts with the Reserve Bank mainly for maintaining Cash Reserve Ratio (CRR) and as working funds for clearing adjustments.

Deposits - Others

15.16 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits.

Other Liabilities

15.17 'Other Liabilities' include the internal reserves and provisions of the Reserve Bank and net credit balance in the RBI General Account. These liabilities have increased by Rs.11,573.48 crore (9.8 per cent) from Rs.1,18,356.01 crore as on June 30, 2003 to Rs.1,29,929.49 crore as on June 30, 2004 mainly on account of increase in the levels of the Currency and Gold Revaluation Account (CGRA).

15.18 The reserves, *viz.* Contingency Reserve, Asset Development Reserve, Currency and Gold Revaluation Account and Exchange Equalisation Account reflected in 'Other Liabilities' are in addition to the 'Reserve Fund' of Rs.6,500.00 crore held by the Reserve Bank as a distinct balance sheet head.

Currency and Gold Revaluation Account (CGRA) and Exchange Equalisation Account

15.19 Gains/losses on valuation of foreign currency assets and gold due to movements in the exchange rates and/or prices of gold are not taken to the Profit and Loss Account but instead booked under a balance sheet head named as CGRA. The balance represents accumulated net gain on valuation of foreign currency assets and gold. During 2003-04, there was an accretion of Rs 11,006.63 crore to the CGRA, thus increasing its balance from Rs.51,276.41 crore as on June 30, 2003 to Rs.62,283.04 crore as on June 30, 2004. The balance in the CGRA at the end of June 2004 was equivalent to 11.5 per cent of foreign currency assets and gold holdings of the Reserve Bank, as compared with 13.4 per cent at the end of June 2003. The decline was mainly on account of increase in the level of foreign currency assets on the one hand, and appreciation of the rupee against the US dollar during 2003-04, on the other. The balance in the Exchange Equalisation Account (EEA) represents provision made for exchange losses arising out of forward commitments. The balance in the EEA as on June 30, 2004 stood at Rs 5.65 crore. The balances in the CGRA and the EEA are grouped under 'Other Liabilities' in the balance sheet (Table 15.7).

Contingency Reserve and Asset Development Reserve

15.20 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. The Reserve Bank has set an indicative target for the CR at 12 per cent of the Reserve Bank's total assets to be achieved in phases by the year 2005, subject to review if considered necessary. The balance in the CR has increased from Rs.55,249.29 crore as on June 30, 2003 to Rs.56,218.76 crore as on June 30, 2004. A transfer

Table 15.7: Balances in Currency and Gold Revaluation Account and Exchange Equalisation Account

(Rupees crore)

As on June 30	Currency and Gold Revaluation Account	Exchange Equalisation Account
1	2	3
2000	27,608.43	791.27
2001	29,124.44	49.46
2002	51,010.77	51.50
2003	51,276.41	567.25
2004	62,283.04	5.65

of Rs.969.47 crore was made to the CR during 2003-04 from the Reserve Bank's income. The balance in the CR is sufficient to meet contingent liabilities.

15.21 In order to meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Reserve Bank had created a separate Asset Development Reserve (ADR) in 1997-98, with the aim of reaching one per cent of the Reserve Bank's total assets within the overall target of 12 per cent set for the CR. In the year 2003-04, an amount of Rs.188.09 crore was transferred from income to the ADR raising its level from Rs.5,590.85 crore as on June 30, 2003 to Rs.5,778.94 crore as on June 30, 2004. The CR and ADR together constituted 10.2 per cent of total assets of the Reserve Bank as on June 30, 2004 (Table 15.8).

Table 15.8: Balances in Contingency Reserve and Asset Development Reserve

(Rupees crore)

As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1	2	3	4	5
2000	29,911.56	3,167.85	33,079.41	9.2
2001	36,514.13	3,872.63	40,386.76	9.9
2002	48,434.17	4,700.54	53,134.71	11.7
2003	55,249.29	5,590.85	60,840.14	11.7
2004	56,218.76	5,778.94	61,997.70	10.2

CR : Contingency Reserve. ADR : Asset Development Reserve.

Assets

Foreign Currency Assets

15.22 The foreign currency assets comprise foreign securities held in the Issue Department and balances held abroad and investments in foreign securities held in the Banking Department. Such assets rose from Rs.3,65,000.98 crore as on June 30, 2003 to Rs.5,24,865.01 crore as on June 30, 2004. The increase in the level of foreign currency assets was mainly on account of net purchases of US dollars from the market, interest and discount received and revaluation gains.

Investment in Government of India Rupee Securities

15.23 Investment in Government of India Rupee Securities which stood at Rs.1,05,144.04 crore as on June 30, 2003 decreased by Rs.64,964.30 crore (61.8 per cent) to Rs.40,179.74 crore as on June 30, 2004 (Table 15.9 and Chart XV.3).

Table 15.9: Outstanding Foreign Currency and Domestic Assets

(Rupees crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
2000	1,50,901.13	2,09,065.64
2001	1,91,226.06	2,16,246.37
2002	2,67,333.18	1,86,226.62
2003	3,65,000.98	1,54,812.91
2004	5,24,865.01	84,872.74

Investments in Shares of Subsidiaries and Associate Institutions

15.24 There was no change in the Reserve Bank's investments in the shares of its subsidiaries and associate institutions during 2003-04 (Table 15.10).

Other Assets

15.25 'Other Assets' comprise mainly fixed assets, gold holdings in the Banking Department, amounts

Table 15.10: Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institution	Book value of shares held as on	
	June 30, 2004	June 30, 2003
1	2	3
1. Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2. National Bank for Agriculture and Rural Development	1,450.00	1,450.00
3. State Bank of India	1,222.73	1,222.73
4. National Housing Bank	450.00	450.00
5. Bharatiya Reserve Bank Note Mudran (Pvt.) Ltd.	800.00	800.00
6. Infrastructure Development Finance Co. Ltd.	150.00	150.00
Total	4,122.73	4,122.73

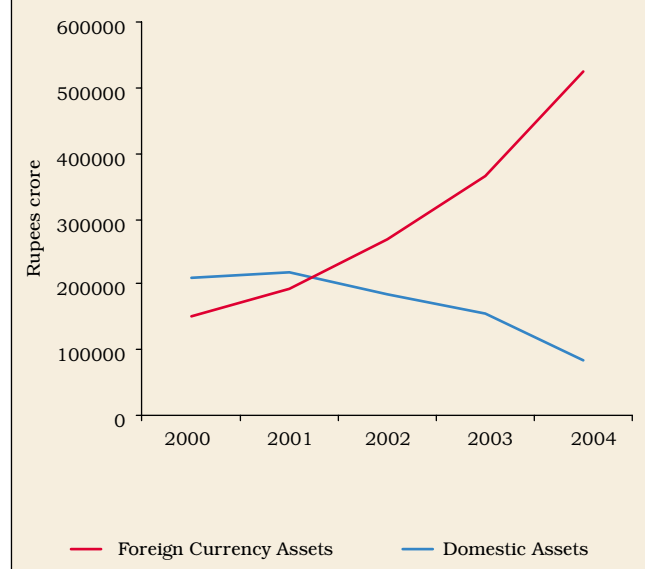
spent on projects pending completion and staff advances. The level of 'Other Assets' increased by Rs.2,035.21 crore (16.4 per cent) from Rs.12,424.56 crore as on June 30, 2003 to Rs.14,459.77 crore as on June 30, 2004.

Financial Sector Reforms and the Reserve Bank's Balance Sheet

15.26 The process of financial sector reforms has impacted the Reserve Bank's balance sheet in terms of size, composition and sources of income (Box XV.1).

Auditors

15.27 The accounts of the Reserve Bank for the year 2003-04 were audited by M/s. P.B.Vijayaraghavan & Co., Chennai, M/s. Khimji Kunverji & Co., Mumbai, M/s. J.L. Sengupta & Co., Kolkata, M/s. S.N. Nanda & Co., New Delhi, M/s Rajendra K. Goel & Co., New Delhi and M/s. Ford, Rhodes, Parks & Co., Mumbai appointed by the Central Government.

Chart XV.3: Trends in Foreign Currency and Domestic Assets

Box XV. 1

Financial Sector Reforms and the Reserve Bank's Balance Sheet

The financial sector reforms initiated in the early 1990s have influenced the Reserve Bank's Annual Financial Statements and accounting policies in terms of size and composition of assets and sources of income and expenditure. The last 14 years have also witnessed a shift in the Reserve Bank's policy towards transparency and disclosure in accounting. The Committee on Financial Sector Reforms (Chairman : Shri M. Narasimham) gave a further impetus to the reform process. Liberalisation in trade and foreign investment policies, exchange control liberalisation and other reforms have strengthened the country's balance of payments. Foreign exchange reserves have accordingly increased substantially over this period, which have had a significant impact on the nature of the Reserve Bank's balance sheet.

The salient features of financial sector reforms and their impact on the Reserve Bank's Balance Sheet are as under:

- Since 1990 'Interest Income' and 'Interest Expenditure' are being furnished in the Profit and Loss Account as against 'Net Income' reported earlier. The break-up of 'Income' into 'Income from Domestic Sources' and 'Income from Foreign Sources' is being provided since 1994. Allocation to statutory funds is being disclosed as an item of appropriation of surplus funds. A detailed break-up of major items of Annual Financial Statements is now available in the Annual Report.
- The 'Significant Accounting Policies' and 'Notes to the Accounts' are disclosed every year from 1992 onwards.
- Several Accounting Standards, both Indian and international, were adopted with suitable modifications during the last decade. The RBI General Regulation 23 was amended in 1996 to carry out the valuation of rupee securities and foreign securities at monthly intervals and foreign currency assets at weekly intervals. Section 33(4) of the RBI Act, 1934 was amended in 1991 to provide for valuation of gold at rates not exceeding international market rates at the end of every month.
- A substantial part of income was earmarked every year to meet exchange losses / exchange guarantee on account of schemes such as the FCNRA scheme and India Development Bonds. It was decided that the exchange risk liability on account of these schemes would be met by the Central Government which resulted in easing of pressure on the Exchange Equalisation Account.
- The practice of transferring large sums to the Statutory Developmental Funds out of surplus income was discontinued from 1993; instead a token amount of Rupees one crore each is being contributed to the funds.
- It was decided that no further loans and advances would be made from the Development Funds to development finance institutions and the repayments made by them will not be redeployed for fresh lending to them. The balance in statutory funds consequently increased substantially and it was decided in 1998 to transfer these unutilised balances to the Contingency Reserve, resulting in the strengthening of the Reserve Bank's internal reserves.
- The outstanding loan balances of development finance institutions with the Reserve Bank were transferred to the Central Government in March 2002 in exchange for Government securities of an equal amount. While the loans and advances on the asset side of the balance sheet were, thus, replaced by Government securities, the balances in the Statutory Funds on the liability side were transferred to the Contingency Reserve.
- In the recent past, the composition of assets of the Reserve Bank has undergone a major change. Foreign currency assets and gold which stood at 41.9 per cent of total assets as on June 1997 increased to 89.1 per cent as on June 30, 2004. Over the same period, the share of domestic assets in total assets declined from 58.1 per cent as on June 30, 1997 to 10.9 per cent as on June 30, 2004. The substantial change in the asset composition was mainly on account of the absorption of external inflows into foreign exchange reserves and sterilisation of the incremental liquidity through sale of domestic securities.
- Corresponding to the changes in the asset composition of the balance sheet, the Reserve Bank's income profile has also undergone changes. The gross income increased from Rs. 11,931.7 crore during the year 1995-96 to Rs. 24,690.3 crore during 2001-02, mainly due to factors such as reduced interest expense on CRR balances of banks, discontinuance of issuance of exchange guarantees, shifting of exchange loss of FCNRA deposits to the Government and increase in the domestic interest rates during the period. The gross income, however, has been showing a decline since 2001-02, which could be attributed to high-yielding Government securities getting replaced by low-yielding foreign currency assets, fall in both domestic and international interest rates, lower demand for refinance from the Reserve Bank due to adequate liquidity in the market and reduction in the Bank Rate.