

Central Bank Accounting Practices: The Reserve Bank of India and Global Approaches¹

Distinguished guests and my colleagues, Namaste and a very good morning!

2. It gives me immense pleasure to address this august gathering of distinguished central bankers from diverse regions, expert speakers associated with renowned international institutions and my fellow colleagues from Reserve Bank of India (RBI) at this first *International Conference on Central Bank Accounting Practices* organised by RBI jointly with the SEACEN Centre. I am glad that the topic of Accounting in Central Banks has attracted interest amongst central bankers across the globe and more than 20 countries are participating in this event.

3. The purpose of this conference is to collaborate and understand the diverse accounting practices across central banks, learn from each other, deliberate on certain globally accepted best practices, and improve the transparency and consistency in accounting practices. In my remarks today, I would briefly speak about the unique role played by central banks, importance of their balance sheet and certain accounting practices that influence central banks' financial statements while sharing RBI's approach to these aspects. I would also touch upon some emerging areas of discussion in central bank accounting.

Unique Role of Central Banks

4. Central banks are unique in two ways. First, they are public policy institutions that operate without any profit motive. Consequently, their balance sheets reflect the policy measures they undertake to address the prevailing economic conditions of the country during a given period. Second, since a central bank possesses the exclusive authority to create money, it cannot go bankrupt in the usual sense. In other words, even if its balance sheet shows losses or negative equity, it can still carry out its functions.

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5. Central bank mandates vary widely across jurisdictions, reflecting their historical and institutional contexts. Despite the differences in mandates, functions or roles across countries, at the heart of every central bank is monetary policy and financial stability. Central banks aim to maintain adequate capital and reserves/ risk buffers to be able to perform these critical functions effectively. The Reserve Bank of India has one of the broadest mandates, functioning as a full-service² central bank that undertakes a wide range of responsibilities typically associated with a central bank.

6. When it comes to central bank capitalisation, I believe adequate capitalisation is absolutely crucial, particularly for central banks of emerging and developing economies. These central banks not only pursue domestic monetary stability but also play a vital role in managing external sector stability amid volatile capital flows and the spill-over effects of monetary policy shifts in advanced economies. A well-capitalised central bank elevates a country's standing and supports the resilience of the financial sector.

7. In the absence of any internationally recognised risk capital framework for central banks, each central bank finds its own balance between the opportunity cost of central bank capital vis-à-vis the socio-economic cost and the negative consequences of under-capitalisation.

Accounting Standards for Central Banks

8. As widely understood, there is no single globally accepted accounting standard designed specifically for central banks and hence, their accounting and disclosure practices vary considerably in format, depth, and emphasis. While some central banks have adopted the principles set out in International Financial Reporting Standards (IFRS), either in full or with modifications to suit their specific needs, others continue to apply their own national accounting standards or use hybrid frameworks tailored specifically for the central bank.

9. The accounting policies chosen by central banks play a crucial role in shaping their balance sheets. Major areas of accounting policy that have a significant impact

² Monetary policy formulation, currency management, regulation and supervision of the financial system, payment and settlement systems, reserves management, banker to banks and the governments, debt manager of the governments, foreign exchange management, regulation and oversight of key segments of financial markets such as money markets, g-sec market and forex markets, developmental functions etc.

on the capital position and income recognition frameworks of central banks include, (i) Revaluation frequency of investments (ii) Treatment of unrealised revaluation gains/ losses (iii) Provisioning methodology/ maintenance of risk buffers and (iv) Surplus distribution policy. A review of publicly available information indicates that central banks represented at this conference follow a wide spectrum of approaches across these key accounting dimensions. These variations reflect differences in statutory mandates, institutional objectives, risk management philosophies, and the broader economic context within which each central bank operates.

Accounting Practices Followed by RBI

10. Let me now briefly talk about the accounting practices followed by the Reserve Bank of India. Just to give a context, the entire ownership of RBI remains vested with Government of India. The way RBI prepares its financial statements and sets its accounting policies is guided mainly by the RBI Act of 1934 and the RBI General Regulations of 1949. Over time, within this legal framework, these policies have evolved to keep up with changing needs and practices.

11. I am pleased to say that the Reserve Bank of India has a strong and resilient balance sheet, with adequate level of risk provisioning. Over the years, RBI has consistently worked to align its accounting practices with global best practices, while staying true to core principles of prudence and conservatism.

12. I would like to highlight a few key aspects of RBI's accounting policy across five crucial areas: – a) Legal Framework, b) Prudence in Accounting, c) Surplus Distribution Policy, d) Strength of Balance Sheet, and e) Disclosures.

Legal Framework

13. The Reserve Bank of India Act of 1934³ lays down two key principles that define how RBI operates from an accounting standpoint. First, it mandates that the issuance of banknotes be handled by a distinct Issue Department, entirely separate from the Banking Department, with its assets used solely to meet its own liabilities. In other words, the assets and liabilities of the Issue Department are kept entirely separate from those of the Bank's other operations. Secondly, the Act specifies how the Bank's

³ [Section 33, 34 and 47 of the Reserve Bank of India Act, 1934](#)

surplus is to be managed. Once provisions have been made for bad and doubtful debts, depreciation, employee benefits, and other standard banking requirements, any remaining surplus must be transferred to the Government. Together, these provisions lay the foundation for how the RBI manages its balance sheet and upholds transparency in its financial operations.

Prudence in Accounting

14. Prudence in accounting reflects in revaluation of the assets at fair/market value, conservatism in treatment of unrealised gains/ losses and a consistent application for recognition of the realised exchange gains/ losses. Over the years, RBI has built provisions as Contingency Fund (CF) and Asset Development Fund (ADF) from realised profits. The Revaluation Accounts viz., Investment Revaluation Accounts, and Currency and Gold Revaluation Account (CGRA), reflect the unrealised gains/ losses from revaluation of investments and translation of foreign currency assets to Indian Rupee.

15. RBI revalues the entire forex reserves portfolio on a daily basis and does not carve out any portion for amortised valuation. All foreign currency assets and Gold are translated to Indian Rupee daily at market exchange rates prevailing on the day, which gets reflected under the CGRA. Domestic securities are mark-to-market on a weekly basis and also at end of each month.

16. As a prudent accounting practice, RBI does not recognise unrealised revaluation and translation gains on securities and gold as income but reflects them as revaluation balances on the balance sheet. On the other hand, any unrealised losses on revaluation of domestic/foreign securities are charged to the Contingency Fund at the end of the year when accounts are finalised. There is no fungibility between the various heads under revaluation, implying RBI prudently provides for any revaluation loss on account of investments and does not offset it with a positive CGRA balance and vice-versa.

17. International practices⁴ on these aspects are quite interesting. Some central banks revalue a portion of their portfolio at fair value, while keeping the rest at amortised cost. In some countries, unrealised gains and losses are recorded in the

⁴ As observed from published annual reports of various central banks

income statement, reflecting their impact on financial performance. This conference would be a good forum to understand diverse perspectives, rationale, and methodology for these classifications from fellow central bankers.

Surplus Distribution Policy

18. RBI has a transparent, publicly disclosed and rule-based surplus distribution policy under the Economic Capital Framework (ECF). This framework, introduced in 2018-19, is based on recommendations of an independent Expert Committee⁵. The ECF recognises that realised equity should cover the monetary and financial stability risks, credit, and operational risks while the revaluation balances should cover the market risk. After making the required provisions, the remaining surplus is transferred to Government. Since the introduction of the Economic Capital Framework, Reserve Bank of India has consistently maintained its risk buffers at the prescribed levels, even in the face of unprecedented challenges such as the Covid-19 pandemic and the subsequent global monetary tightening. As we strive for continuous improvement and refinement, the ECF was recently reviewed internally⁶, and risk assessment has been made more granular.

Strength of the Balance Sheet

19. The prudent accounting policies over the years have ensured that RBI has a strong and resilient balance sheet with risk provisions in form of Realised Equity and Revaluation Balances, currently at 7.5% and 17.4% of the balance sheet, respectively. Hence, with an economic capital of about 25% of balance sheet, RBI is in a formidable position to effectively fulfill its public policy mandates while ensuring monetary and financial stability.

Disclosures

20. The central bank disclosures need to strike a fine balance between transparency and confidentiality. They need to be transparent enough to effectively communicate the central bank policy operations and their financial implications, while maintaining reasonable confidentiality of market sensitive information. RBI provides

⁵ [Report of the Expert Committee to Review the Extant Economic Capital Framework of the RBI, August 2019](#)

⁶ [Economic Capital Framework of the RBI – Internal Review of the Framework, May 2025](#)

comprehensive and detailed information for each accounting head, along with significant accounting policies, in its Annual Report. Additionally, a weekly snapshot of RBI's balance sheet, foreign exchange reserves, liquidity operations, and variations in reserve money components and sources is also published. This regular flow of information ensures transparency in communication about our policy actions and the evolving trends in the economy.

Emerging Areas in Central Bank Accounting and Disclosures

21. Before concluding, I would like to highlight a few emerging areas in central bank accounting and disclosures which are likely to gain more prominence in coming days. Let me begin with the recent sharp rise in gold prices which has garnered a lot of attention and discussions globally with respect to its impact on the central bank balance sheets. RBI conservatively revalues the gold holdings at 90% of the London Bullion Market Association (LBMA) gold price. However, gold revaluation practices vary across countries and the impact of high movement in gold prices on central bank balance sheets and income needs wider discussion.

22. The issue of potential impact of Central Bank Digital Currency (CBDC) on central bank balance sheets has also been attracting lot of international research and discussions. Some research papers⁷ have tried to explore how the design choices for CBDCs adopted by central banks may shape people's behaviour with respect to adoption of CBDC and potential substitution of banknotes and/or bank deposits with CBDC. It is also being discussed and debated globally whether and how this may impact central bank balance sheet structures and the need for liquidity operations.

23. These emerging aspects would require ongoing engagement and collaboration in future as central banks learn from their respective experiences. We should work closely in these areas and share our experiences and research with each other, which will help all of us in making better decisions.

Conclusion

⁷ [IMF Working Paper: Central Bank Digital Currencies and Financial Stability: Balance Sheet Analysis and Policy Choices, October 11, 2024](#) ; [ECB Occasional Paper Series: The impact of central bank digital currency on central bank profitability, risk-taking and capital, November 14, 2024](#)

24. As I end my address, I must say that this conference is being organised at a very opportune time as central banks worldwide are navigating the VUCA world (Volatile, Uncertain, Complex and Ambiguous). The diverse and wide-ranging policy actions during the pandemic coupled with differing accounting practices have resulted in variations in reported incomes and balance sheets of central banks. Central bank disclosures have assumed an even more important role in being able to effectively communicate to the larger public the rationale of the policy actions and the accounting policies adopted. In such an environment, prudence and transparency in accounting are not just buzzwords but the pillars which central banks must safeguard.

25. The diversity in the accounting practices across jurisdictions presents enough scope for dialogue and knowledge sharing amongst the central banks on certain common accounting principles/practices which are prudent and can further enhance transparency. This may facilitate better disclosures across central banks within the legal framework of the respective countries. I am confident that this conference marks the beginning of a constructive and collaborative journey towards achieving prudent and consistent central bank accounting practices. Let this be the first step in fostering continued engagement and deeper cooperation among central banks in the years ahead.

Wish you all successful deliberations and fruitful outcomes during the conference.

Thank you.