

**RBI ANNUAL REPORT SHOWS INCREASED PROVISIONING IN CONTINGENCY BUFFER FOR FUTURE RISK MANAGEMENT ARISING FROM UNCERTAINTIES: INITIAL TRENDS OF RS 2000 NOTES REVEAL LOADED PREFERENCE FOR DEPOSITING IN BANKS**

**Issue No. 08, FY24  
Date: 30 May 2023**

The RBI annual report 2022-23 released today underlines that the global economy after experiencing bouts of volatility amidst the successive waves of pandemic and the Ukraine-Russia war, is exhibiting fragile signs of recovery with a rebound in demand for contact intensive services providing the necessary support. Inflation surged across the globe; global trade slowed down and financial volatility increased manifold. Against this backdrop, India remains resilient with sustained buoyancy in contact-intensive services, the government's continued thrust on capex, higher capacity utilisation in manufacturing, double digit credit growth, easing inflationary pressures on account of softer global commodity and food prices and good rabi crop prospects and rising optimism among businesses and consumers sustaining the momentum in FY24.

The report shows moderation in net financial saving of the household sector to 7.6% of GNDI in FY22 from 11.3% in FY21, reflective of the release of pent-up demand, and the associated drawdown in precautionary saving as concerns relating to income flows in FY22. **Despite the moderation in financial savings, one interesting fact is that the per capita net financial saving has increased by ~RS 1500 to Rs 13,105 in FY22 as compared to pre-pandemic level of Rs 11,590 (FY20). Based on current trends we estimate that the net financial savings may have reached 8% of GNDI in FY23. The per capita net financial saving may have increased to ~Rs 15,700 in FY23.**

**The best thing is the value of frauds in FY23, has declined significantly, by as much as 83% since FY20, with decline most perceptible for PSBs at 85%.** The amount involved in frauds that occurred in previous financial years formed 93.7% of the frauds reported in FY22 in terms of value. Similarly, 94.5% of the frauds reported in FY23 by value occurred in previous financial years. It may be noted that the PSBs have already unveiled a comprehensive fraud risk management framework encompassing (i) better directions on frauds in the light of experience gained and big data analytics and (ii) comprehensive reviews to sensitise on fraud prevention, prompt/accurate reporting and follow up action.

**Meanwhile, out of 136.2 billion pieces, only 2.26 lakh pieces are counterfeit (0.0002%)!**

**The RBI balance sheet is a snapshot of the evolving future risk. The movements in capital and realized equity over time in balance sheet is good qualitative indicator of how key risks (interest rate risk and exchange rate risk) may evolve in next year.** The provisioning trends show the future perception of risk from RBIs perspective which may be suitably adjusted for other market participants. The trends in provisioning of risk since 2019 shows that RBI has maintained realized equity at 5.5% till 2022. **However, in 2023 the risk buffer has been increased to 6% indicating higher expected risk on account of market fluctuations in FY24.** The provisioning has been increased in contingency buffer (CF). An amount of Rs 1,30,875.75 crore was provided for towards CF in 2023 while all other funds were maintained at previous year's levels.

Interestingly, notes issued by RBI increased to Rs 33.48 lakh crore in FY23 from Rs 31.05 lakh crore in FY22. Correspondingly, as their backing, RBI increased (i) Gold to Rs 1.4 lakh crore in FY23 from Rs 1.25 lakh crore in FY22, (ii) Foreign Investments to Rs 32.07 lakh crore in FY23 from Rs 29.79 lakh crore in FY22.

**As per market trends, around 80% of the total Rs 2000 notes received are deposited and rest 20% are exchanged for smaller denominations. Even if a fraction of these trends are extrapolated at ASCB level, then the banking system liquidity is likely to increase significantly compared to our earlier estimates of ~Rs 1 trillion bulge in deposits. However, this is based on the current available information and might change depending on further data. The bottom line, however, is that the interest rate cycle might have peaked decisively.**

**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 7.6% of GNDI in FY22 from 11.3% in FY21. The moderation in household financial saving in India is reflective of the release of pent-up demand, and the associated drawdown in precautionary saving as concerns relating to income flows subsided in FY22. The decline is more visible in deposits as compared to other asset classes. Savings in shares and debentures witnessed increase of more than 2x in FY22 as compared to FY21.
- ◆ Despite the moderation in financial savings, one interesting fact is that the per capita net financial saving has increased by ~RS 1500 to Rs 13,105 in FY22 as compared to per-pandemic (FY20).
- ◆ Based on current trends we estimate that the net financial savings may reach Rs 21.7 lakh crore (or 8% of GNDI) in FY23. The per capita net financial saving may increased to ~Rs 15,700 in FY23.

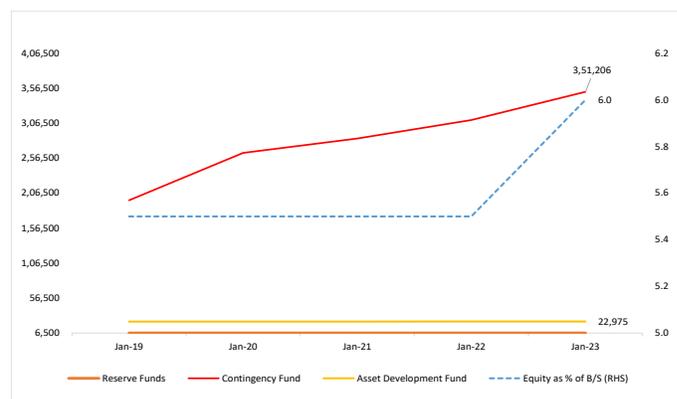
**FUTURE RISK PERCEPTION THROUGH RBI BALANCE SHEET**

- ◆ The RBI balance sheet is a snapshot of the evolving future risk. The movements in capital and realized equity over time in balance sheet is good qualitative indicator of how key risks (interest rate risk and exchange rate risk) may evolve in next year.
- ◆ The provisioning trends show the future perception of risk from RBIs perspective which may be suitably adjusted for other market participants.
- ◆ The trends in provisioning of risk since 2019 shows that RBI has maintained realized equity at 5.5% till 2022. However, in 2023 the risk buffer has been increased to 6% indicating higher expected risk on account of market fluctuations in FY24.

| Financial Savings of the Household Sector    |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
|  | FY19         | FY20         | FY21         | FY22         | FY23 P       |
| <b>In Rs Lakh Crore</b>                      |              |              |              |              |              |
| A. Gross financial saving                    | 22.6         | 23.3         | 30.6         | 26.0         | 30.3         |
| <i>of which:</i>                             |              |              |              |              |              |
| Currency                                     | 2.7          | 2.9          | 3.8          | 2.6          | 3.6          |
| Deposits                                     | 8.1          | 8.8          | 12.5         | 8.3          | 9.4          |
| Shares and Debentures                        | 1.7          | 1.0          | 1.0          | 2.1          | 2.9          |
| Claims on Government                         | 2.1          | 2.7          | 2.6          | 2.8          | 3.2          |
| Insurance Funds                              | 3.8          | 3.5          | 5.6          | 4.5          | 5.0          |
| Provident and Pension funds                  | 4.0          | 4.5          | 4.8          | 5.7          | 6.2          |
| B. Financial Liabilities                     | 7.7          | 7.8          | 7.8          | 8.0          | 8.6          |
| <b>Net Financial Saving (A-B)</b>            | <b>15.0</b>  | <b>15.5</b>  | <b>22.7</b>  | <b>17.9</b>  | <b>21.7</b>  |
| <b>% of GNDI</b>                             |              |              |              |              |              |
| A. Gross financial saving                    | 11.8         | 11.4         | 15.2         | 11.0         | 11.1         |
| <i>of which:</i>                             |              |              |              |              |              |
| Currency                                     | 1.4          | 1.4          | 1.9          | 1.1          | 1.3          |
| Deposits                                     | 4.2          | 4.3          | 6.2          | 3.5          | 3.4          |
| Shares and Debentures                        | 0.9          | 0.5          | 0.5          | 0.9          | 1.1          |
| Claims on Government                         | 1.1          | 1.3          | 1.3          | 1.2          | 1.2          |
| Insurance Funds                              | 2            | 1.7          | 2.8          | 1.9          | 1.8          |
| Provident and Pension funds                  | 2.1          | 2.2          | 2.4          | 2.4          | 2.3          |
| B. Financial Liabilities                     | 4            | 3.8          | 3.9          | 3.4          | 3.1          |
| <b>Net Financial Saving (A-B)</b>            | <b>7.8</b>   | <b>7.6</b>   | <b>11.3</b>  | <b>7.6</b>   | <b>8.0</b>   |
| <b>Memo: Per Capita Net Financial Saving</b> |              |              |              |              |              |
| <b>in Rs</b>                                 | <b>11280</b> | <b>11590</b> | <b>16775</b> | <b>13105</b> | <b>15719</b> |

Source: RBI, SBI Research, P: SBI Estimate

**Balances in Reserve Funds and Risk Provisions of RBI**



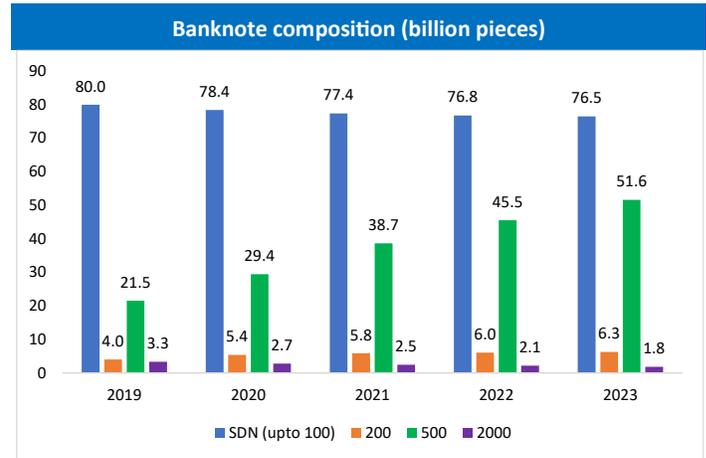
Source: RBI, SBI Research

**CURRENCY MANAGEMENT**

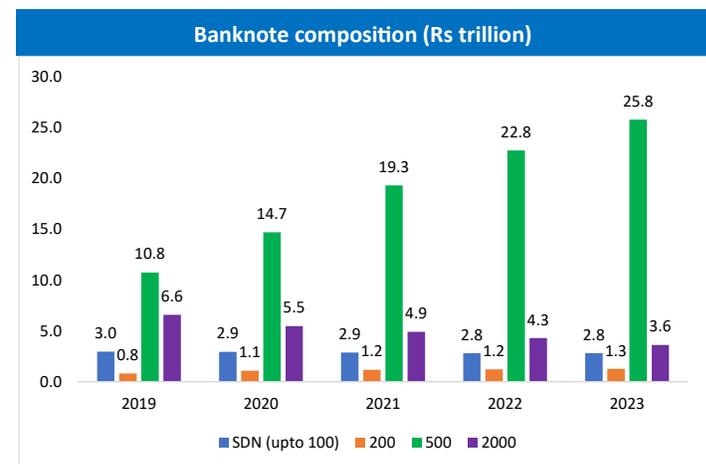
- ◆ **The number of banknotes has grown by 4.3% to 136.2 billion pieces as on Mar'23.** The 2000 denomination note which the RBI had stopped printing since 2018 has been reduced to 1.8 billion pieces as on Mar'23, from 2.1 billion pieces in Mar'22. The biggest increase is in the printing of 500 denomination notes, which rose to 51.6 billion pieces as on Mar'23, from 45.5 billion pieces in Mar'22. The number of small denomination notes (upto 100) has remained almost stable at 76.5 billion pieces as on Mar'23 compared to 76.8 billion pieces as on Mar'22.
- ◆ **Meanwhile, the 200 denomination notes have seen a yearly increase of 0.3 billion pieces to 6.3 billion pieces in Mar'23. Denomination-wise the biggest number of banknotes in circulation is Rs 500 (38% of total notes) followed by Rs 10 (19% of total notes).**
- ◆ The % composition of bank notes in value terms shows that 500 denomination notes have 77.1% share in the total value of bank notes in circulation, which is 33,482 billion (y-o-y increase: 7.8%). The share of 2000 denomination notes is at 10.8%, while the share of small denomination notes has come down further to 8.3% as on Mar'23 from 9.0% as on Mar'22.
- ◆ Interestingly, lower amount of Rs 2000 notes shows that the recent announcement of withdrawal of Rs 2000 denomination currency note is not likely to impact the payment ecosystem in India. The massive increase in the UPI payments, which has emerged as one of the most popular tools in the country for carrying out hundreds of millions of digital transactions will also help in this direction.

**COUNTERFEIT NOTES**

- ◆ While the total number of counterfeit notes detected in the banking system has declined by 2.3% to 2.26 lakh pieces, the Rs 500 denomination has witnessed an increase of 14.4% to 91,110 pieces. In value terms the Rs 500 denomination counterfeit notes has share of 57% in total counterfeit notes value of Rs 7.9 crore.



Source: SBI Research



Source: SBI Research

| Denomination (Rs) | Number of pieces |                 |                 | % YoY       |             |
|-------------------|------------------|-----------------|-----------------|-------------|-------------|
|                   | FY21             | FY22            | FY23            | FY22        | FY23        |
| 2                 | 9                | 1               | 3               | -88.9       | 200.0       |
| 10                | 304              | 354             | 313             | 16.4        | -11.6       |
| 20                | 267              | 311             | 337             | 16.5        | 8.4         |
| 50                | 24,802           | 17,696          | 17,755          | -28.7       | 0.3         |
| 100               | 1,10,736         | 92,237          | 78,699          | -16.7       | -14.7       |
| 200               | 24,245           | 27,074          | 27,258          | 11.7        | 0.7         |
| 500               | 39,453           | 79,669          | 91,110          | 101.9       | 14.4        |
| 2000              | 8,798            | 13,604          | 9,806           | 54.6        | -27.9       |
| <b>Total</b>      | <b>2,08,625</b>  | <b>2,30,971</b> | <b>2,25,769</b> | <b>10.7</b> | <b>-2.3</b> |

Source: RBI; SBI Research

**RBI BALANCE SHEET**

- RBI's Balance Sheet increased by 2.5% in FY23 to Rs 63.44 Lakh crore. Gross Income increased by 47.06% in FY23 to Rs 2.35 Lakh crore. RBI's Expenditure increased from Rs 1.29 Lakh crore in FY22 to Rs 1.48 Lakh crore in FY23, majorly due to provisions which increased from Rs 1.14 Lakh crores in FY22 to Rs 1.3 Lakh crores in FY23.
- Notes Issued by RBI has increased to Rs 33.48 Lakh crore in FY23 from Rs 31.05 Lakh crore in FY22. Correspondingly, as their backing, RBI has increased (i) Gold to Rs 1.4 Lakh crore in FY23 from Rs 1.25 Lakh crore in FY22, (ii) Foreign Investments to Rs 32.07 Lakh crore in FY23 from Rs 29.79 Lakh crore in FY22. There is no domestic investment by RBI in FY23, same as FY22, corresponding to the backing of Notes Issued.
- Out of Rs 33.48 Lakh crore notes Issued, Rs 10.69 Crores worth CBDC-Wholesale, and Rs 5.7 Crores worth CBDC-Retail has been issued by RBI in FY23.

**FRAUDS HAVE SIGNIFICANTLY DECLINED IN FY23 IN TERMS OF VALUE FOR PUBLIC SECTOR BANKS**

- The number of cases on frauds reported by banks were generally hovering at around 4500 in the last 10 years till FY17. However, after that the number has increased to 5916 in FY18, 6799 in FY19, 8707 in FY20. There was a decline in FY21 to 7338 but there after it has increased to 9097 in FY22 and 13507 in FY23.

| RBI Income Statement (In Rs Crore) |          |          |            |
|------------------------------------|----------|----------|------------|
| Item                               | FY22     | FY23     | Growth (%) |
| Gross Income                       | 1,60,112 | 2,35,457 | 47.1       |
| Expenditure                        | 1,29,801 | 1,48,037 | 14.0       |
| Net Income                         | 30,311   | 87,420   | 188.4      |
| Transfer to Funds                  | 4        | 4        | 0          |
| Surplus Transferred to Govt        | 30,307   | 87,416   | 188.4      |
| Source: RBI                        |          |          |            |

- The best thing is the value of frauds in FY23, has declined significantly, by as much as 83% since FY20, with decline most perceptible for PSBs at 85%. The amount involved in frauds that occurred in previous financial years formed 93.7% of the frauds reported in FY22 in terms of value. Similarly, 94.5% of the frauds reported in FY23 by value occurred in previous financial years.
- In terms of area of operations, frauds related to advances constituted the preponderant share in number and total amount involved in frauds over the 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.
- It may be noted that the PSBs have already unveiled a comprehensive fraud risk management framework encompassing (i) better directions on frauds in the light of experience gained and big data analytics and (ii) comprehensive reviews to sensitise on fraud prevention, prompt/accurate reporting and follow up action.

| Fraud Cases - Bank Group-wise |               |              |              |              |               |                            |                 |                 |               |               |                        |             |             |            |
|-------------------------------|---------------|--------------|--------------|--------------|---------------|----------------------------|-----------------|-----------------|---------------|---------------|------------------------|-------------|-------------|------------|
| Bank Group                    | No. of Frauds |              |              |              |               | Amount Involved (Rs crore) |                 |                 |               |               | Ticket Size (Rs crore) |             |             |            |
|                               | FY19          | FY20         | FY21         | FY22         | FY23          | FY19                       | FY20            | FY21            | FY22          | FY23          | FY19                   | FY20        | FY21        | FY22       |
| PSBs                          | 3,568         | 4,413        | 2,888        | 3075         | 3405          | 63,283                     | 1,48,400        | 77,879          | 40,015        | 21,125        | 17.7                   | 33.6        | 27.0        | 13.0       |
| % Share                       | 52.5          | 50.7         | 39.4         | 33.8         | 25.2          | 88.5                       | 79.9            | 58.8            | 66.9          | 69.8          | -                      | -           | -           | -          |
| Pvt Banks                     | 2,286         | 3,066        | 3705         | 5332         | 8932          | 6,742                      | 34,211          | 45,515          | 17,387        | 8,727         | 2.9                    | 11.2        | 12.3        | 3.3        |
| % Share                       | 33.6          | 35.2         | 50.5         | 58.6         | 66            | 9.4                        | 18.4            | 34.4            | 29.1          | 28.9          | -                      | -           | -           | -          |
| FBs                           | 762           | 1026         | 519          | 494          | 804           | 955                        | 972             | 3110            | 1206          | 292           | 1.3                    | 0.9         | 6.0         | 2.4        |
| % Share                       | 11.2          | 11.8         | 7.1          | 5.5          | 5.9           | 1.3                        | 0.5             | 2.4             | 2.0           | 1.0           | -                      | -           | -           | -          |
| Others                        | 183           | 202          | 226          | 196          | 389           | 563                        | 2,061           | 5,885           | 1,211         | 108           | 3.1                    | 10.2        | 26.0        | 6.2        |
| % Share                       | 2.7           | 2.3          | 3.1          | 2.2          | 2.9           | 0.8                        | 1.2             | 4.4             | 2.0           | 0.4           | -                      | -           | -           | -          |
| <b>Total</b>                  | <b>6,799</b>  | <b>8,707</b> | <b>7,338</b> | <b>9,097</b> | <b>13,530</b> | <b>71,543</b>              | <b>1,85,644</b> | <b>1,32,389</b> | <b>59,819</b> | <b>30,252</b> | <b>10.5</b>            | <b>21.3</b> | <b>18.0</b> | <b>6.6</b> |
| Source: RBI, SBI Research     |               |              |              |              |               |                            |                 |                 |               |               |                        |             |             |            |

**Disclaimer:** The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

**Contact Details:**

Dr. Soumya Kanti Ghosh  
Group Chief Economic Adviser  
State Bank of India, Corporate Centre  
M C Road, Nariman Point, Mumbai - 400021  
Email: soumya.ghosh@sbi.co.in, gcea.erd@sbi.co.in  
Phone:022-22742440  
🐦 : kantisoumya