RBI Surplus Transfer to Government

Source: TH

Why in News?

The **Reserve Bank of India (RBI)** has approved a significant **surplus transfer of Rs 2.11 lakh crore to the Central Government** for the accounting year 2023-24.

- This transfer marks a substantial increase from the previous year's dividend, showcasing a notable rise in surplus income.

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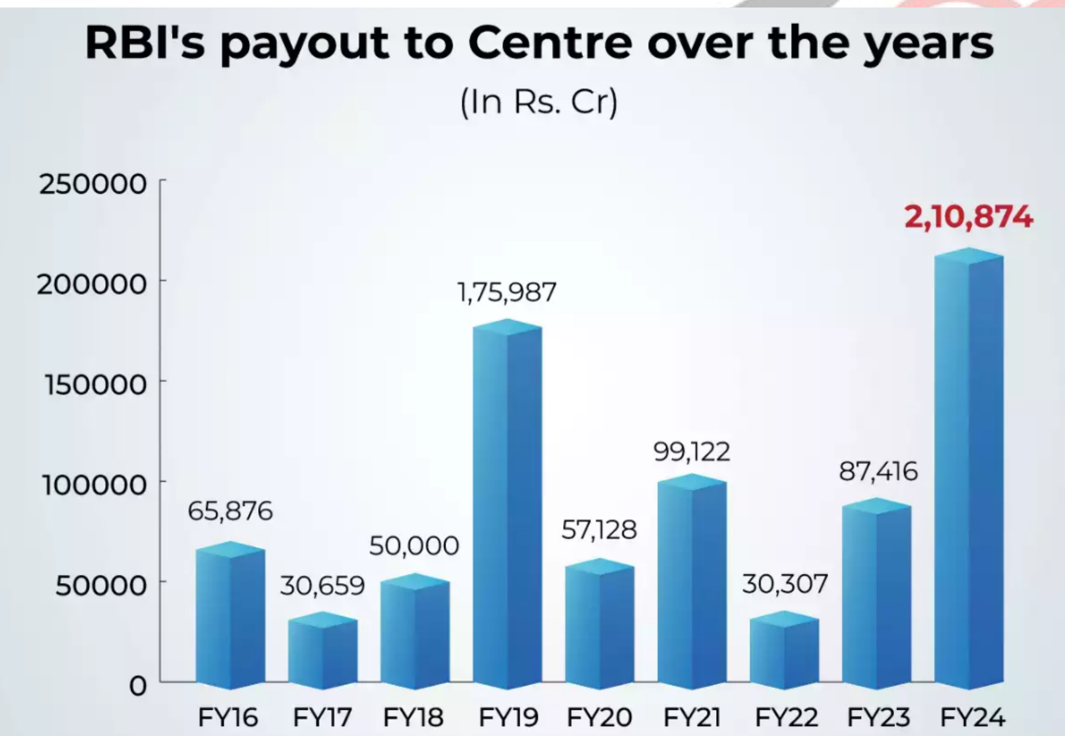

How does the RBI Determine the Allocation of Dividends?

- The surplus calculation was based on the Economic Capital Framework (ECF) **recommended by the** Bimal Jalan committee, which advised the RBI to maintain a **Contingent Risk Buffer (CRB)** between 5.5% and 6.5% of its balance sheet.
    - This risk provisioning is made primarily from retained earnings and **only then is the surplus income transferred to the government as dividends.**
    - This range includes provisions for **monetary and financial stability risks as well as credit and operational risks.**
    - RBI transfers its surplus, which is the excess of income over expenditure, to the government as per **Section 47 of the Reserve Bank of India Act, 1934.**
- **Reasons for the Increase in RBI's Surplus:** As of March 2024, the RBI had USD 646 billion

in **foreign exchange reserves,** with USD 409 billion parked in top-rated sovereign securities.
  - The RBI’s gross dollar sales were lower in FY24 (USD 153bn) compared to FY23 (USD 213 bn).
    - Despite lower dollar sales in FY24 compared to FY23, the RBI's management of foreign currency assets ensured continued high revenue.
  - Income from **Liquidity Adjustment Facility (LAF)** operations also contributed to the overall surplus.

Reserve Bank of India's Sources of Income	
Source of Income	▪ Interest from Government Securities ▪ **Open Market Operations (OMOs)** ▪ Foreign Exchange Operations ▪ Interest on Loans and Advances ▪ Income from **LAF**
Expenditure	▪ Operating Expenses ▪ Interest Paid on Deposits and Borrowings ▪ Currency Issue Expenses ▪ Provisioning for Contingencies and Reserves
Surplus	▪ Net income derived from the total income (sources of income) minus total expenditure (expenses). ▪ Reserve funds and contingency provisions for financial stability and emergencies.

Bimal Jalan Committee Recommendations

- **Formation:**
  - The RBI in 2018 constituted a six-member committee, **chaired by former governor Dr Bimal Jalan**, to review the current **economic capital framework (ECF),** after the Ministry of Finance asked the central bank to follow global practices.
- **Recommendations:**
  - The panel proposed a clear separation of **RBI's economic capital into two parts: Realised equity and Revaluation balances.**
    - Revaluation reserves include unrealised gains/losses in foreign currencies, gold, securities, and a contingency fund.
    - Realised equity, or CRB, is funded by retained earnings to cover risks and losses.
  - The committee suggested that the RBI should maintain a **CRB** within the range of **6.5% to 5.5% of the RBI's balance sheet.**
    - This would provide an adequate buffer against market risks, credit risks, and operational risks.
  - The committee recommended that the **RBI should transfer its surplus funds to the government only after maintaining the CRB** within the suggested range.
    - This would ensure that the RBI's financial resilience is not compromised while supporting the government's fiscal needs.
  - The panel also suggested that the **RBI’s ECF should be reviewed every five years.**

Note:

- The RBI Board's technical Committee, led by **Y H Malegam in 2013**, recommended a **higher transfer of reserves and surplus to the government**, which typically averages around **0.5% of the** Gross Domestic Product (GDP) with a few exceptions.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)? (2017)

1. It decides the RBI’s benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

(a) 1 only
(b) 1 and 2 only
(c) 3 only
(d) 2 and 3 only

Ans: A

Q. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

(a) 1 and 2 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: B