



## RBI Surplus Transfer

### Why in News?

The [Reserve Bank of India \(RBI\)](#) has approved a significant [transfer of surplus funds](#) to the Union Government, providing a major boost to the fiscal position.

- The surplus transfer for the accounting year 2022-23 amounts to Rs 87,416 crore, a 188% increase compared to the previous year.

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## REVENUE BOOST

Amt (₹ cr)

RBI's surplus transfer to govt in past years



The Vision



### What Factors Contributed and Implications to the Surge in Surplus Transfer?

- **Factors Contributed:**
  - **Higher dividends** from public sector banks and oil marketing companies.
  - Increased earnings on investments, **valuation changes on dollar holdings**, **revaluation of forex assets** and adjustments in reserves as per the **Bimal Jalan Committee** recommendations and currency printing fees.

- **Rupee depreciation** against the dollar impacting the surplus transfer.
- Higher rates on the surplus distribution framework contributing to increased payouts.
- Higher earnings on the sale of foreign exchange and investments in US treasuries.
- **Implications due to Surplus Transfer:**
  - **Fiscal relief for the government**, particularly in managing fiscal numbers amid uncertainties in the divestment program.
  - Helps **compensate for potential shortfalls in tax buoyancy** and other revenue sources.
    - When a tax is buoyant, its revenue increases without increasing the tax rate.
  - Provides a **fiscal buffer to support the budget targets**.
- **Surplus Transfer Impact on Disinvestment program:**
  - Assists in offsetting potential losses due to lower **disinvestment**, telecom pay-outs, or tax revenues.
  - Enhances the government's ability to manage **fiscal deficits** with relative ease.
- **Implications for Liquidity and Monetary Policy:**
  - **Frictional liquidity is expected to ease** in the near term due to dividend inflows and seasonal moderation in currency demand.
  - **Tight liquidity conditions may persist in the future**, requiring the RBI to conduct open market operations worth Rs 1.5 lakh crore in the second half of FY24.

## How does RBI Generate Surplus?

- **RBI's Income:**
  - Interest on holdings of domestic and foreign securities.
  - Fees and commissions from its services.
  - Profits from foreign exchange transactions.
  - Returns from subsidiaries and associates.
- **Expenditure of RBI:**
  - Printing of currency notes.
  - Payment of interest on deposits and borrowings.
  - Salaries and pensions of staff.
  - Operational expenses of offices and branches.
  - Provisions for contingencies and depreciation.
- **Surplus:**
  - The difference between RBI's income and expenditure is Surplus.
  - **RBI transfers the surplus to the government** after making provisions for reserves and retained earnings.
  - RBI transfers the surplus, in accordance with **Section 47** (Allocation of Surplus Profits) of the **Reserve Bank of India Act, 1934**.
    - A technical Committee of the RBI Board headed by Y H Malegam (2013), which reviewed the adequacy of reserves and surplus distribution policy, recommended a higher transfer to the government.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### Prelims

**Q1. 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)**

**Q2. With reference to Indian economy, consider the following: (2015)**

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

**Which of the above is/are component/ components of Monetary Policy?**

**(a)** 1 only

**(b)** 2, 3 and 4

**(c)** 1 and 2

**(d)** 1, 3 and 4

**Ans: (c)**

**Source: IE**

PDF Reference URL: <https://www.drishtias.com/printpdf/rbi-surplus-transfer-1>

