Bimal Jalan Panel On Economic Capital Framework

The Reserve Bank of India (RBI), in consultation with the government, has set up a **six-member committee** headed by the former RBI Governor Bimal Jalan to review the economic capital framework of the Reserve Bank of India.

- Composition:
  - Former RBI Governor Bimal Jalan (Chairman)
  - Former Deputy Governor of RBI Rakesh Mohan (deputy chairman)
  - Economic Affairs Secretary Subash Chandra Garg (member),
  - RBI Deputy Governor N.S. Vishwanathan (member)
  - RBI board member Bharat Doshi (member)
  - RBI board member Sudhir Mankad (member)
- The committee would submit its report **within 90 days** from the date of its first meeting.
- The mandate of Committee:
  - Review status, need and justification of various provisions, **reserves and buffers presently provided for by the RBI.**
  - To review **best practices followed by the central banks globally** in making assessment and provisions for risks, to which central bank balance sheets are subjected.
  - Suggest an **adequate level of risk provisioning** that the RBI needs to maintain, and to determine whether it is holding provisions, reserves and buffers in surplus or deficit of the required level.
  - Propose a **suitable profit distribution policy** taking into account all the likely situations of the RBI, including holding more provisions than required and the RBI holding less provisions than required.

Background

- The government and the central bank have been at loggerheads over issues including **relaxation of prompt corrective action norms on weak banks, special liquidity window for Non-Banking Financial Companies (NBFC), and the transfer of surplus reserves to the government.**
- The government has been insisting that the central bank hand over its **surplus reserves amid a shortfall in revenue collections.**
- This will allow the government to meet **deficit targets, infuse capital into weak banks to boost lending and fund welfare programmes.**
- There are two components to **RBI's reserves:**
  - A **Contingency Fund** of Rs 2.5 lakh crore.
  - A **Currency and Gold Revaluation Reserve** of Rs 6.91 lakh crore.
- The core reserve —contingency fund—is only **around 7% of its total assets** and the rest of it is largely in revaluation reserves, which fluctuate with corresponding changes in currency and gold valuations. In 2017-18, the central bank's contingency funds and revaluation reserves stood at ₹2.32 trillion and ₹6.92 trillion respectively.
- The transfer from the unrealised gains in the currency and gold revaluation reserve is not possible without a sale of gold or foreign currency assets.
- Hence, the debate is centered around whether the **central bank is holding excess contingency reserves** and whether it should transfer any more funds to it in the future.
- The **RBI Act** makes it clear that **all the profits of the Reserve Bank** must be **transferred to the government**. However, the issue is **what are the profits** based on the accounting method used.
- It can be noted that earlier in 2013-14 RBI had referred the same issue (to review the level and adequacy of internal reserves and surplus distribution policy of the RBI) to a technical committee headed **by Mr. Y H Malegam.**
  - Following this, the draft Economic Capital Framework was formulated which highlighted the reasons why the RBI needs resources.
  - The needs included-
    - **market intervention** operations,
    - carrying out the functioning of the **lender of last resort,**
    - to **de-risk the financial system.**
  - It also highlighted the fact that if the central banks suffer losses and do not have adequate buffers they would have to **depend on the government for recapitalization.**
  - This dependence had **implications on the autonomy** of the Central Bank as well as the concern that the government **might not have the fiscal space in a crisis situation.**