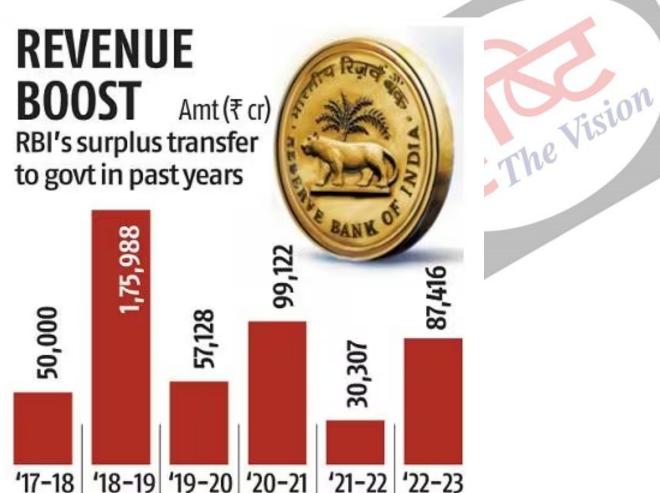


RBI Surplus Transfer

Why in News?

The <u>Reserve Bank of India (RBI)</u> has approved a significant <u>transfer of surplus funds</u> 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.



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 <u>forex assets</u> 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 <u>disinvestment</u>, 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.

The Vision

UPSC Civil Services Examination, Previous Year Questions (PYQs)

<u>Prelims</u>

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

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