Revised Economic Capital Framework for RBI

Recently, **the Reserve Bank of India (RBI)** accepted the **Bimal Jalan panel recommendations,** set up to review the Reserve Bank of India's (RBI's) **economic capital framework.**

- Following these recommendations, RBI decided to **transfer Rs 1.76 lakh crore** in dividend and surplus reserves to the government.
- The objective of the economic capital framework is to **build harmony between the central bank's need for autonomy and the Government's objectives of the development.**
- The Bimal Jalan-led panel recommended **holistic risk capital frameworks** to assess the adequacy of RBI reserves.
- **Some recommendations of the committee:**
    - RBI to maintain the **Contingency Risk Buffer (CRB)**, which is the country's fund to handle financial stability within the **range of 5.5% to 6.5% of the RBI's balance sheet.**
    - It recommended a **review** of the Reserve Banks Economic Capital Framework (ECF) **every five years.**
        - If there is a significant change in the RBI's risks and operating environment, an intermediate review may be considered.
    - It also said the **RBI's accounting year of July-June** can be brought in **sync** with the **fiscal year of April-March** from the financial year 2020-21.
        - It would also bring about a greater cohesiveness in the **monetary policy** projections and reports published by the RBI.
    - The report has also **removed the interim payout structure** in general circumstances.
        - The payment of an interim dividend may then be **restricted to extraordinary circumstances.**
- All the recommendations of the panel have been accepted by the RBI.

Source: TH