



drishti

Transfer of Surplus from RBI

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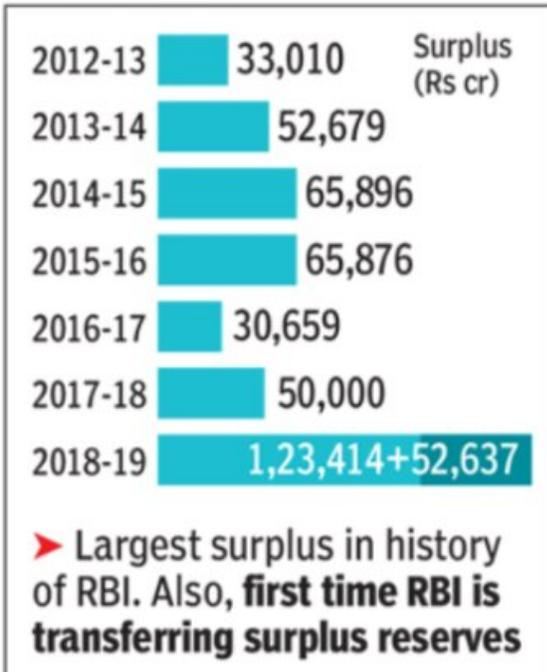
Recently, **the Reserve Bank of India (RBI)** has decided to **transfer Rs 1.76 lakh** crore to the Central government, which may help the government in **dealing with the economic slowdown**.

- The Rs 1.76 lakh crore includes the central bank's 2018-19 surplus of ₹1.23 lakh crore and Rs 52,637 crore of excess provisions identified as per the revised Economic Capital Framework (recommended by **Bimal Jalan Committee**).
- The government already had revised downward the fiscal deficit target to 3.4% from 3.3% and initiated a slew of measures that are being dubbed as **mini-budget**.

- **Economic Capital Framework**

- The RBI had formed a committee chaired by former Governor Bimal Jalan to **review its economic capital framework and suggest the quantum of excess provision to be transferred to the government.**
- The panel recommended a clear distinction between the two components of the economic capital of RBI i.e. **Realized equity and Revaluation balances.**
 - **Revaluation reserves** comprise of periodic marked-to-market unrealized/notional gains/losses in values of foreign currencies and gold, foreign securities and rupee securities, and a contingency fund.
 - **Realized equity**, which is a form of a contingency fund for meeting all risks/losses primarily built up from retained earnings. It is also called the **Contingent Risk Buffer (CBR).**
- The **Surplus Distribution Policy of RBI** that was finalized is in line with the recommendations of the **Bimal Jalan committee.**
 - The Jalan committee has given a **range of 5.5-6.5%** of RBI's balance sheet for Contingent Risk Buffer.
 - Adhering to the recommendations, the RBI has decided to set the CBR level at 5.5% of the balance sheet, while transferring the remaining excess reserves worth ₹52,637 crore to the government.
 - If CBR is below the lower bound of requirement, risk provisioning will be made to the extent necessary and only the residual net income (if any) transferred to the Government.
 - However keeping CBR at a lower range of 5.5%, will reduce RBI's space to manoeuvre monetary policy.

RECORD SURPLUS



- Rupee intervention and open market operations helped RBI generate record earnings
- Bimal Jalan committee recommended that RBI maintain 5.5% to 6.5% of its assets as surplus
- At 6.5%, surplus reserves would be Rs 11,608cr; at 5.5%, figure would be Rs 52,637cr
- Board decided to maintain surplus at the lower end of recommendations
- Transfer of surplus had been a bone of contention between RBI and govt in the past

Source: TH