

## ECONOMIC CAPITAL FRAMEWORK OF RBI: ECONOMY

**NEWS:** RBI Board approves record dividend transfer of over Rs 2.68 lakh cr to Central govt for 2024-25 fiscal

### WHAT'S IN THE NEWS?

The RBI has approved a record ₹2.68 lakh crore surplus transfer to the Central Government for 2024–25 under the revised Economic Capital Framework, even with the Contingent Risk Buffer raised to 7.5%. This move supports government finances while ensuring RBI's financial stability amidst economic uncertainties.

#### Context: Record Surplus Transfer by RBI to Government (2024–25)

- The **Reserve Bank of India (RBI)** has approved a **record surplus transfer of ₹2.68 lakh crore** to the Central Government for the financial year 2024–25.
- This is the **highest-ever dividend transfer** made by the RBI, providing a significant boost to the Union Government's finances amid economic uncertainties.

#### About the Surplus Transfer

- The transfer is made **under the revised Economic Capital Framework (ECF)**.
- For FY 2024–25, the **Contingent Risk Buffer (CRB)** has been raised to **7.5%** of the RBI's balance sheet.
- A **higher CRB reduces the transferable surplus**, while a lower CRB increases the surplus amount.
- Despite the increased buffer, the surplus this year has surpassed all previous records.

#### What is the Economic Capital Framework (ECF)?

- The ECF is a mechanism that **guides how the RBI manages its capital reserves and determines the surplus** that can be transferred to the Government.
- It was adopted in **2019** based on the recommendations of the **Bimal Jalan Committee**.
- The ECF seeks to **balance two objectives**:
  1. **Financial resilience** of the central bank.
  2. **Predictable surplus transfer** to support government fiscal planning.

#### Bimal Jalan Committee and ECF Review

- Formed in **2018**, the Bimal Jalan Committee recommended that:
  - The ECF be **reviewed every five years** to ensure it remains aligned with evolving risks and economic contexts.

- The **2025 review** marks the first periodic review since the ECF's adoption in the RBI's **578th meeting**.

## Key Features of the Revised Economic Capital Framework

- **Continuity in Core Principles:**
  - Maintains the RBI's established methodologies for **risk assessment and capital allocation**.
- **Flexibility in Risk Buffer Maintenance:**
  - The **CRB range** is set at **5.5% to 7.5%** of the balance sheet.
  - This allows the **RBI's Central Board** to adjust the risk buffer annually, depending on economic conditions like inflation, currency volatility, or geopolitical risks.
- **Inter-temporal Smoothing of Transfers:**
  - Ensures **gradual and predictable surplus transfers** to avoid volatility in government receipts.
  - Helps the Government plan its **budget and public spending** more effectively.

## Why ECF is Important

- Ensures that RBI retains **sufficient capital** to maintain **monetary, financial, and currency stability**.
- Enhances **transparency and predictability** in RBI's surplus transfers to the Government.
- Shields RBI from **external economic shocks**, fluctuations in asset values, and policy shifts.
- Strengthens the **financial health of public finances** through reliable support.

## How RBI Earns Profit *(even though its primary aim is economic stability)*

- RBI's income streams arise as **by-products of its core functions**:
  1. **Interest on Government Bonds**: Income from sovereign bonds held in RBI's portfolio.
  2. **Lending to Banks**: Through **repo operations**, RBI earns interest.
  3. **Foreign Exchange Operations**: Gains from buying and selling foreign currencies (especially USD).
  4. **Seigniorage**: Profit from **printing currency**—the cost to print is lower than the face value.
  5. **Open Market Operations (OMOs)**: RBI earns through **interest income or capital gains** from market transactions while managing liquidity.

## Conclusion

- The record surplus transfer reflects **strong financial performance** and careful risk management by the RBI.
- It plays a critical role in **supporting fiscal space** for government expenditures, particularly during times of economic stress.
- The evolving **Economic Capital Framework** ensures this is done without compromising the central bank's core mandate of **macroeconomic stability**.

Source: <https://www.newsonair.gov.in/rbi-board-approves-record-dividend-transfer-of-over-rs-2-68-lakh-cr-to-central-govt-for-2024-25-fiscal/#:~:text=The%20surplus%20was%20calculated%20under,increased%20to%207.50%20per%20cent.>