

RBI BOARD CLEARS RECORD SURPLUS TRANSFER – ECONOMY

NEWS: The RBI Central Board approved a record surplus transfer of ₹2.69 lakh crore to the Central Government for the financial year 2024–25.

- The surplus was approved based on the revised **Economic Capital Framework (ECF)**.
- The **Contingent Risk Buffer (CRB)** was **raised to 7.5%** from 6.5% of the RBI's balance sheet.
- The dividend is **27% higher** than last year's transfer of **₹2.11 lakh crore**.
- The Transfer has been made under the provisions of RBI act 1934.

Section 47 of the RBI Act, 1934 mandates that **any profits made by the RBI** from its operations be **sent to the Centre**.

WHAT'S IN THE NEWS?

RBI Central Board – Structure and Role

a. Apex Decision-Making Body

- The **Central Board of the Reserve Bank of India (RBI)** is the **highest authority** within the central bank.
- It is responsible for **formulating overall policy**, overseeing operations, and ensuring that RBI's decisions align with **national economic priorities**.

b. Composition of the Board

- The Board consists of **21 members** with diverse backgrounds.
 - **RBI Governor** acts as the Chairperson of the Board.
 - **Up to four Deputy Governors**, who oversee different RBI departments.
 - **Ten non-official directors** nominated by the Central Government from various fields such as finance, economics, and industry.
 - **Two government officials** from the Ministry of Finance nominated by the Centre.
 - **Four regional directors** representing different RBI local boards across Indian regions.

c. Key Functions

- Formulates policies related to:
 - **Monetary stability,**
 - **Currency issuance,** and
 - **Financial sector regulation.**
- Approves:
 - **RBI's annual budget,**
 - **Dividend and surplus transfer** to the Government.

- Provides guidance on strategic issues, including **crisis response**, **liquidity management**, and **risk oversight**.

RBI Surplus Transfer – Overview and Mechanics

a. Definition

- RBI's **surplus transfer** refers to the **transfer of its net income (after expenses and provisions)** to the Government of India.
- This forms part of the Centre's **non-tax revenue**.

b. Sources of Surplus

- Arises from:
 - **Earnings on foreign currency assets**,
 - **Interest income on government securities**,
 - **Profits from foreign exchange operations**, and
 - **Fees, commissions, and investment gains**.

c. Provisioning before Transfer

- Before transferring the surplus, the RBI sets aside provisions to cover **various risks**, including:
 - **Currency depreciation**,
 - **Interest rate fluctuations**, and
 - **Operational losses**.

RBI's Income and Expenditure – Breakup

a. Income Sources

- **Interest income** from holdings in domestic and foreign government securities.
- **Gains from forex transactions**, especially large-scale dollar sales or purchases.
- **Revaluation gains** from appreciation of foreign assets due to exchange rate movements.
- **Interest from deposits** with foreign central banks and BIS.
- **Returns from short-term lending** through repo/LAF (Liquidity Adjustment Facility).
- **Commission and fees** for managing public debt and handling government accounts.

b. Expenditure Heads

- **Interest paid** on reverse repo operations and Market Stabilisation Scheme (MSS) bonds.
- **Currency printing costs** and logistics related to circulation of notes.
- **Salaries, pensions, and administration costs** (establishment costs).
- **Depreciation** on assets such as buildings and digital systems.
- **Allocations to the Contingent Risk Buffer (CRB)** and other internal reserves.

Significance of Surplus Transfer

a. Strengthens Government Finances

- The recent **₹2.69 lakh crore transfer** from RBI enhances the **Centre's fiscal space**.
- It could reduce the **fiscal deficit by about 20 basis points**, from the budgeted **4.4% to nearly 4.2% of GDP**.

b. Alternative Utilisation

- Instead of reducing deficit, the government may use this windfall to **increase capital expenditure or social sector spending** by an estimated **₹70,000 crore**.

c. Positive Impact on Economy

- **Enhances liquidity**, enabling timely execution of infrastructure, subsidy, and welfare schemes.
- Reduces need for **additional market borrowing**, thus:
 - Easing **bond yields**,
 - Lowering **interest rate pressures** in the market.
- Boosts **macroeconomic confidence**, possibly leading to:
 - Improved **credit ratings**,
 - Higher **investor confidence**,
 - Strengthened **external perception of fiscal discipline**.

Economic Capital Framework (ECF)

a. Purpose and Scope

- The ECF is a formal **risk assessment and capital allocation framework** that determines:
 - The amount of **reserves RBI must retain**, and
 - The **quantum of surplus** that can be safely transferred to the Government.

b. Origins and Evolution

- Originally proposed in **2014–15**, operationalized in **2015–16**.
- The framework was **revised in 2019** after the Bimal Jalan Committee's recommendations to resolve the government-RBI dispute over reserve levels.

c. Balance Between Risk and Return

- ECF seeks to **strike a balance** between:
 - Maintaining adequate capital for **contingencies and financial stability**, and
 - Ensuring **surplus income flows to the government** as per the RBI Act.

Contingent Risk Buffer (CRB)

a. Definition and Purpose

- The CRB is a **special reserve fund** created by the RBI to handle **unexpected financial risks** and shocks.

- It acts as a **financial cushion** to:
 - Offset **losses from revaluation of assets**,
 - Cover **losses from monetary policy operations**, and
 - Manage **market disruptions or systemic banking crises**.

b. CRB Maintenance

- The **Central Board of RBI** determines the appropriate CRB level each fiscal year.
- For **FY 2024–25**, the CRB has been set at **7.5% of the RBI's total balance sheet**.
- This is aimed at **ensuring greater resilience**, especially amid global economic uncertainty.

RBI and BIS – International Engagement

a. Bank for International Settlements (BIS)

- The BIS is an **international financial institution** established in **1930**, headquartered in **Basel, Switzerland**.
- It serves as a **bank for central banks** and promotes **international monetary and financial cooperation**.

b. RBI's Foreign Asset Holdings

- **64.4% of RBI's total assets** are held in foreign currency, mainly:
 - In **sovereign securities**,
 - **Deposits with foreign central banks**, and
 - **Accounts with the BIS**.

c. Forex Sales and Record Surplus

- In FY 2024–25, record forex sales worth **\$399 billion** were used to **defend the rupee**.
- Simultaneously, **higher global interest rates** improved returns on foreign securities, contributing to the **robust surplus**.

Source: https://www.business-standard.com/finance/news/rbi-approves-record-rs-2-69-trillion-surplus-transfer-to-govt-125052301266_1.html