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Contingency Risk Buffer (CRB)

***Prelims**: Indian Economy | Current events of national and international importance*

Why in News

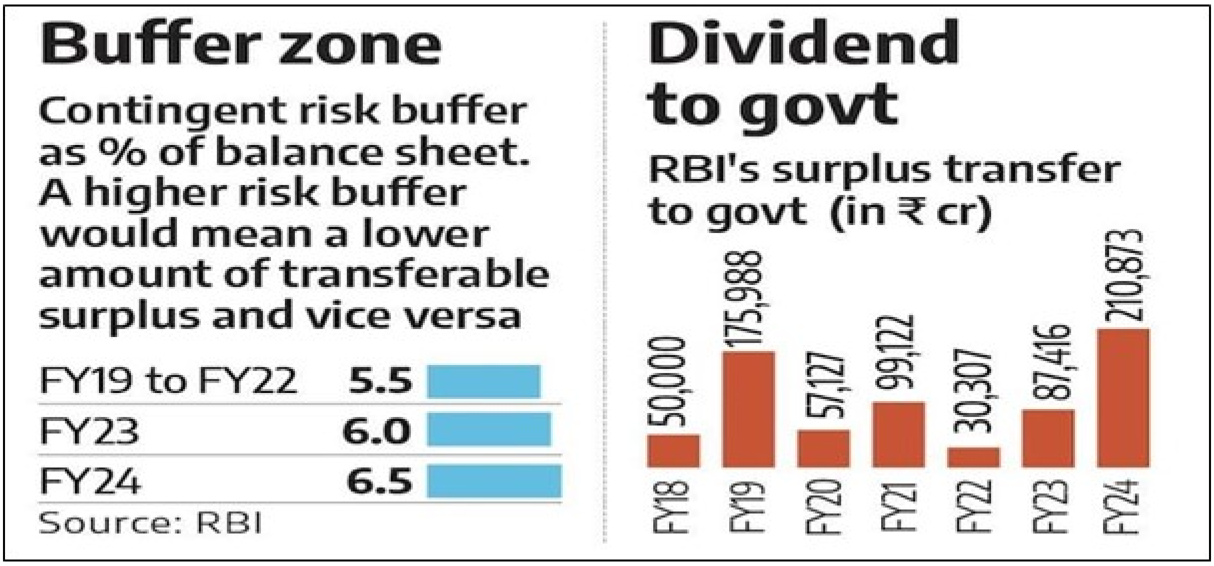
Recently, the Reserve Bank of India's (RBI's) central board has sought the government's approval to expand the range of the contingent risk buffer (CRB).

- **CRB** – It is a specific provision ***fund kept by the central bank*** primarily to be used during any *unexpected and unforeseen contingencies.*
    - **Unforeseen contingencies** – It could include depreciation of securities values, risks from monetary rate policy changes, systemic risks to the system, etc.
- The apex bank, for a fiscal year, has to keep the *buffer fund of a **certain % of its balance sheet**.*
- **Determined by** – RBI's Central Board.
- **Current CRB** – It is maintained at *5.5-6.5% of the RBI's balance sheet*, in accordance with the recommendations of the Bimal Jalan committee.

*The **Economic Capital Framework** adopted in 2019, based on the Bimal Jalan Committee's recommendations, stipulates that a specific portion of the Reserve Bank of India's (RBI) surplus earnings is allocated to a Contingency Risk Buffer (CRB), while the remaining surplus is transferred to the Government of India.*

Status of CRB in Recent Years
• **During accounting years 2018-19 to 2021-22** - Owing to the then prevailing macroeconomic conditions and the pandemic, CRB was *maintained at 5.50 % of the balance sheet* to support growth and overall economic activities. • **In 2022-23** - With revival in economic growth, the CRB was *increased to 6.00 %.* • **In 2023-24** – As the economy remains robust and resilient, the CRB was *increased further to 6.50 %.*

- **Significance** – The surplus, which the RBI transfers to the government, depends on how much risk buffer it wants to maintain.
- A *higher risk buffer would mean a lower amount of transferable surplus* and vice versa.



RBI's Central Board

- The Reserve Bank's affairs are governed by a central board of directors.
- **Appointment** - The board is *appointed by the Government of India* in keeping with the Reserve Bank of India Act of 1934.
- **Tenure** – They are appointed/nominated for a *period of 4 years*
- **Composition**
    - Official Directors - Full-time: Governor and not more than 4 Deputy Governors
    - Non-Official Directors - Nominated by Government: 10 Directors from various fields and 2 government officials
    - Others: 4 Directors - one each from four local boards
- **Functions** – General superintendence and direction of the Bank's affairs.

Reference

1. Business Standard| Decision on Contingent Risk Buffer
2. RBI| RBI's Central Board

Related News – RBI's Surplus Transfer to Government